

A Study on the Formation Mechanism of Corporate Profitability Improvement under Revenue Decline: Evidence from Jiangxi Huangshanghuang Group Food Co., Ltd.

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Abstract. In recent years, amid slowing consumer market growth and intensifying competition in the marinated food industry, some firms have reported declining revenue alongside rising profit—a pattern that contradicts traditional financial theory, which links profit growth to revenue expansion. This paper investigates Jiangxi Huangshanghuang Group Food Co., Ltd. using its 2020-2025 financial data. Applying financial statement analysis, trend analysis, DuPont analysis, and case study methods, this study identifies the drivers of improving profitability despite failing revenue. Key factors examined include revenue changes, cost control, operating expense management, asset utilization efficiency, and merger and acquisition integration. Results show that Huangshanghuang improved profitability by restructuring its product structure, reducing raw material procurement costs, strengthening expense control, and integrating resources, despite weak top-line growth and soft industry demand. The "revenue-down, profit-up" phenomenon thus stems not from a single lever, but from coordinated strategic and financial management improvement. This study contributes to a more profound understanding of corporate earnings quality and provides practical implications for food manufacturing enterprises seeking to enhance operational efficiency in an era of intensified competition within existing markets.

Keywords: Revenue Decline, Profit Growth, Financial Performance, DuPont Analysis, Huangshanghuang

1. Introduction

Amid slowing consumer demand and intensifying competition in the marinated food industry, some enterprises—including Jiangxi Huangshanghuang Group Food Co., Ltd. ("Huangshanghuang")—have experienced declining revenue alongside rising net profit. This "revenue-down, profit-up" pattern contradicts the traditional view that profit growth depends on top-line expansion. While prior research has examined drivers of profitability—such as cost control, expense management, and asset turnover—in isolation, few studies integrate them into a unified framework to explain how profitability improves despite falling revenue. Micro-level financial analyses of this phenomenon in food manufacturing remain especially insufficient.

This paper investigates Huangshanghuang's 2020-2025 performance, during which operating revenue fell continuously while net profit rebounded sharply. The study addresses three key questions: (1) What factors drive profitability improvement under revenue decline? (2) How do cost control, operating expense reduction, asset utilization efficiency, and non-recurring items individually contribute ? (3) How do these factors interact to jointly influence corporate performance?

To answer these questions, this study applies financial statement analysis, trend analysis, DuPont analysis, and case study methods. It quantitatively evaluates the contribution of different driving factors and further examines the sustainability of this profitability improvement model. The findings advance understanding of earnings quality, offer practical implications for food manufacturers navigating mature, competitive markets, and provide investors with a framework to evaluate the reliability and durability of corporate earnings.

2. Literature review

Existing studies generally suggest that operating revenue growth serves as an important foundation for corporate profit growth. Revenue expansion can generate economies of scale and enhance firm value; therefore, revenue decline is often regarded as a key indicator of deteriorating business performance [1]. However, in recent years, some enterprises have seen declining operating revenue alongside increasing net profit, suggesting that profit generation does not entirely depend on revenue growth. Therefore, how enterprises can achieve profitability improvement despite declining revenue has become an issue worthy of further investigation.

Existing research has mainly offered two explanations for this phenomenon. The first stream of literature emphasizes the role of cost control, suggesting that enterprises can achieve profit growth by optimizing procurement management, implementing lean production, and strengthening expense control [2, 3]. The second stream focuses on improvements in operational efficiency, arguing that value chain coordination, resource allocation optimization, and digital transformation can enhance business performance and enable profitability improvement even under conditions of slowing revenue growth [4-6]. In addition, academic research has not yet reached a consensus regarding the relative importance of different mechanisms. Some studies argue that cost reduction is the primary source of profit growth, while others emphasize that long-term profitability depends more on improvements in operational efficiency and organizational capabilities [7, 8]. Furthermore, this phenomenon varies significantly across industries, as different sectors may adopt distinct pathways to improve profitability [2, 4, 5].

Furthermore, existing research focuses mainly on manufacturing, financial services, and high-tech industries, with much less attention paid to food manufacturing enterprises, particularly the marinated food industry [4, 5]. The food industry is characterized by a high proportion of raw material costs, intense market competition, and significant fluctuations in consumer demand. Consequently, profits in this sector are therefore more dependent on cost control, product mix, and supply chain management. Therefore, existing studies have not yet fully explained the mechanisms through which food enterprises achieve profitability improvement under conditions of declining revenue.

To address this gap, this paper takes Jiangxi Huangshanghuang Group Food Co., Ltd. as the research subject and uses financial data from 2020 to 2025 to investigate how it achieved profit growth despite declining revenue. By analyzing multiple dimensions, including revenue changes, cost control, expense management, and asset utilization efficiency, this study aims to enrich existing

research on profitability improvement mechanisms and provide practical insights for food manufacturing enterprises seeking to enhance operational performance.

3. Theoretical foundation

Cost control theory is rooted in transaction cost economics, which suggests that enterprises can reduce market transaction costs through internal coordination and thereby optimize their cost structures [4]. However, accurate cost information is essential for effective cost control. Inappropriate design of employee incentive systems may result in distorted cost information, thereby weakening the quality of decision-making in expense management [7]. Meanwhile, self-control cost theory shows, from a behavioral standpoint, that how strongly firms' internal controls limit unnecessary spending has a direct effect on fluctuations in operating expenses [9]. These theories indicate that cost control is not merely a process of reducing expenditures but rather a pathway for improving profitability through the integration of governance optimization, information quality enhancement, and strategic discipline [5].

Fine management theory comes from scientific management and emphasizes efficiency and cost savings through standardization, detailed optimization, and precise process control. In contemporary business environments, its connotation has expanded into systematic and comprehensive process management. Tetteh et al. argue that the integration of lean methods and Industry 4.0 technologies requires fine management as a supporting foundation, with top management commitment and precise process control being critical factors for successful implementation. Although such practices may not directly translate into short-term profitability, they establish the organizational foundation for long-term competitiveness [2]. From the perspective of the entire value chain, Tu demonstrates that structural cost improvements can be achieved through detailed analysis of manufacturing process data and coordinated management of hidden costs and value-added relationships [3]. Carreiro et al. further develop an integrated framework consisting of four carefully designed dimensions—capability development, authentic contexts, assessment and feedback, and industry-academia integration—to bridge the gap between theory and practice, providing an operational pathway for establishing fine management systems [8]. This theory suggests that fine management is not just about cutting costs but a way to improve profits through precise management, detailed process control, and systematic coordination.

DuPont analysis theory takes return on equity (ROE) as the core indicator and decomposes it into three major driving factors: net profit margin, total asset turnover, and equity multiplier, thereby establishing a systematic framework for diagnosing corporate profitability. Jitmaneeroj and Ogowang find that these DuPont components demonstrate significant firm-level heterogeneity in explaining bank performance, with their impacts being substantially stronger than time effects [1]. Benedek et al. further extend the DuPont framework to evaluate the financial effects of digital investment and find that improvements in asset turnover efficiency resulting from digitalization appear immediately, while the positive impact on ROE becomes significant only after a two-year lag [6]. Anderson et al. reveal through DuPont decomposition that the performance advantages driven by executive compensation structures mainly originate from improvements in profit margins rather than increases in asset turnover or financial leverage expansion [10]. This theory shows that profitability improvement is not about any single driver but comes from the interplay of profit margins, asset efficiency, and leverage. Therefore, DuPont analysis provides a structured analytical tool for exploring the formation mechanism behind the phenomenon of declining revenue but increasing profit.

4. Analysis of Huangshanghuang's business operations and financial performance

4.1. Company overview and industry development background

Jiangxi Huangshanghuang Group Food Co., Ltd. (Stock Code: 002695) is the first A-share listed company in China's marinated meat products industry. The company mainly engages in the production and sales of marinated meat products, ready-to-eat side dishes, and rice-based products. Relying on a business model combining directly operated stores and franchised stores, Huangshanghuang has established a nationwide sales network and has become one of the representative enterprises in China's leisure marinated food industry. In recent years, as competition has intensified and consumer demand has changed, the company's focus has shifted from scale expansion to operational efficiency.

From the perspective of industry development, China's leisure marinated food industry has moved from rapid growth to a more competitive, stable phase. Low market concentration, diversified sales channels, and fluctuations in raw material costs have become major challenges for industry participants. Meanwhile, fluctuating prices for duck by-products, falling store traffic, and fiercer brand competition have squeezed profit margins. Against this background, companies have placed greater emphasis on cost control, operational efficiency enhancement, and resource allocation optimization. As a result, a divergence between revenue performance and profitability has gradually emerged, providing the practical context for this study of Huangshanghuang's phenomenon of declining revenue but increasing profit.

4.2. Characteristics of the phenomenon of declining revenue but increasing profit

Judging by operating revenue and net profit trends (Figure 1), Huangshanghuang saw both metrics fall together between 2020 and 2022, with its total net profit slumping 88.9%. After 2022, the two trends diverged sharply: operating revenue fell another 13.8%, yet net profit rebounded over 200%. This formed a typical phenomenon of declining revenue but increasing profit.

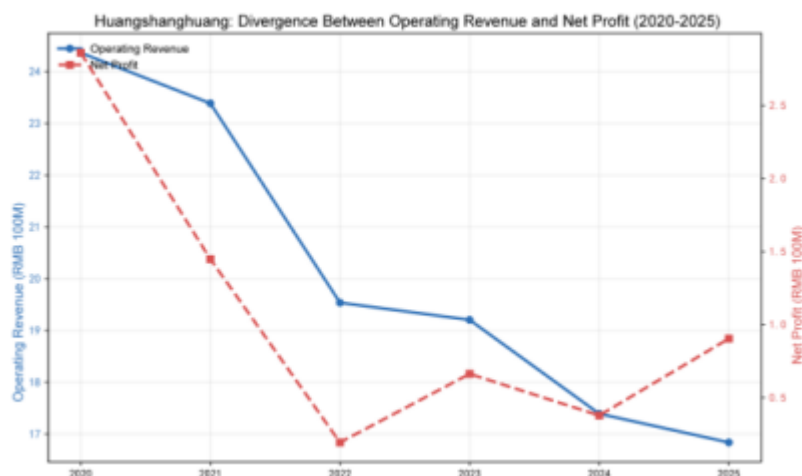


Figure 1. Diverging trends between operating revenue and net profit

In terms of year-on-year growth rates (Figure 2), the growth rate of operating revenue remained in negative territory for five consecutive years, whereas net profit growth showed substantial fluctuations. In 2023 and 2025, net profit growth rebounded to 243% and 140%, respectively,

creating a divergence of more than 140 percentage points compared with revenue growth. It is worth noting that the rapid growth in profit was achieved on the basis of an extremely low level in 2022. In absolute terms, net profit recovered to only approximately 25%–35% of its historical peak level.

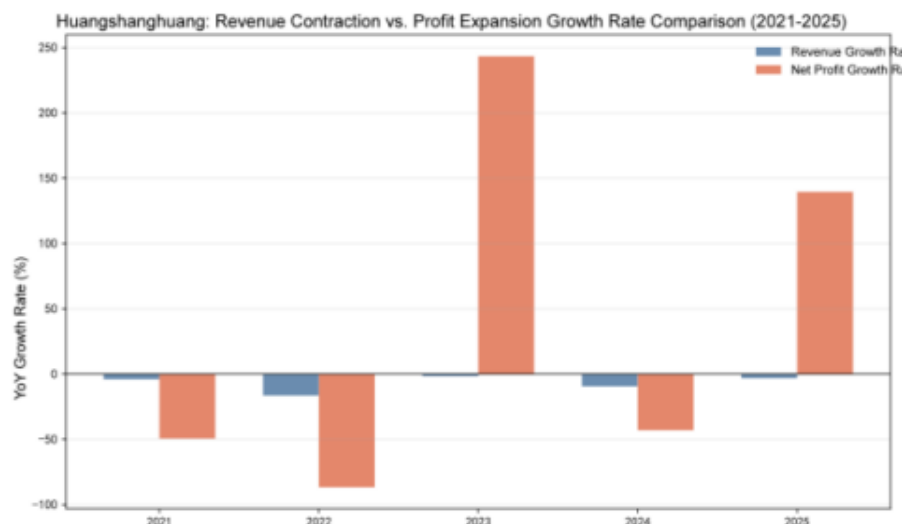


Figure 2. Comparison of revenue contraction and profit expansion growth rates

Overall, the phenomenon of declining revenue but increasing profit at Huangshanghuang demonstrates three core characteristics. First, operating revenue experienced a continuous one-sided decline, with no positive growth recorded over the five-year period. Second, net profit followed a V-shaped trajectory of a sharp decline, bottoming out, and a strong recovery, becoming completely decoupled from the trend of operating revenue. Third, the high growth rate of profit was significantly influenced by the low base effect, and the absolute level of profit has not yet recovered to its historical peak.

Therefore, the profit improvement did not come from revenue recovery. It came from internal cost and expense control and from better operational efficiency.

5. Analysis of the formation mechanism of the phenomenon of declining revenue but increasing profit

5.1. Formation of "revenue decline": internal and external causes of operating revenue reduction

From 2020 to 2025, Huangshanghuang's operating revenue continuously declined from RMB 2.436 billion to RMB 1.684 billion, representing a cumulative decrease of 30.9%. Over those five years, the company saw no positive revenue growth. This contraction in revenue resulted from the combined effects of external environmental pressures and internal strategic adjustments.

Externally, the leisure-marinated food sector has moved from rapid growth to a more competitive, stable phase, with market growth slowing to around 6–8% a year. Traditional offline store traffic has continued to decline, while emerging channels such as livestream e-commerce have significantly diverted consumer demand. However, Huangshanghuang's online channel development has been relatively slower, limiting its ability to offset the decline in offline customer traffic. Meanwhile, leading competitors like Juwei expanded their scale advantage, and newer brands gained traction

with hit products. As a result, intensified price competition within the industry has further reduced average revenue per store.

From the perspective of internal factors, the strategic contraction of the store network was a direct driver of revenue decline. The company proactively closed inefficient and loss-making stores, while the reduction in franchisee numbers resulted in a decrease in sales outlets. Existing stores were also affected by declining customer traffic, leading to a continuous decline in average sales per store. On the product side, higher-margin items haven't yet made up for the drop in traditional product sales. At the brand level, younger consumers have increasingly preferred functional and low-fat marinated food products, while Huangshanghuang's brand image remains relatively traditional. The company's product innovation and brand rejuvenation have progressed relatively slowly, weakening its attractiveness to emerging consumer groups.

Overall, sustained revenue drops stemmed from two sides: fierce market competition and shifting consumption channels externally, plus the firm's voluntary overhaul of store layout and business strategies internally. It is worth noting that although these strategic adjustments resulted in short-term revenue contraction, they laid the foundation for subsequent profitability improvement.

5.2. Foundation of "profit growth": cost reduction and gross margin improvement

The operating revenue drop did not bring a comparable fall in profits, largely because the company improved its cost structure.

As shown in Table 1, from 2020 to 2025, operating revenue decreased by 30.9%, while operating costs declined by 24.8% over the same period. Particularly after 2022, operating costs declined at an accelerated rate despite continued revenue reduction, causing the cost-to-revenue ratio to decrease from 71.84% to 67.71%. As a result, the gross profit margin increased from 28.16% to 32.29%.

Meanwhile, gross profit stayed around RMB 550 million after bottoming out in 2022, instead of falling further with revenue. This indicates that the company effectively mitigated the negative impact of revenue contraction on profitability through measures such as product structure optimization, strengthened procurement management, and the divestment of inefficient businesses. In addition, the gradual recovery of the purchase recovery rate reflected improvements in procurement management and cash flow conditions, providing financial support for further cost control.

Table 1. Financial performance indicators (unit: RMB billion)

Year	Revenue	Costs	Gross Profit	GPM (%)	C/R (%)	CPP (%)	Net Profit
2020	24.36	15.15	9.21	37.8	62.2	77	2.86
2021	23.39	15.67	7.72	33	67	64.47	1.45
2022	19.54	14.04	5.5	28.16	71.84	54.64	0.19
2023	19.21	13.63	5.58	29.06	70.94	73.27	0.66
2024	17.39	11.69	5.7	32.76	67.24	64.19	0.38
2025	16.84	11.4	5.44	32.29	67.71	65.73	0.9

Notes: GPM = Gross Profit Margin; C/R = Cost-to-Revenue Ratio; CPP = Cash Payment Ratio for Procurement.

Therefore, cost cuts and wider gross margins formed the core driver behind Huangshanghuang's profit upturn. However, the fact that gross profit remained stable at approximately RMB 550 million

for three consecutive years also indicates that the potential for further improvement through cost reduction alone has gradually become limited.

5.3. Enhancement of "profit growth": the transmission effect of operating expense control on net profit

Building upon cost improvements, operating expense control further amplified the recovery effect of profitability. Figure 3 demonstrates that the overall operating expense ratio and net profit margin showed an inverse trend from 2020 to 2025. During the period from 2020 to 2022, the operating expense ratio continued to increase, while the net profit margin declined rapidly. By 2025, the operating expense ratio had fallen to 23.45%, while net profit margin recovered to 5.34%. This indicates that expense control became an important source of profit growth.

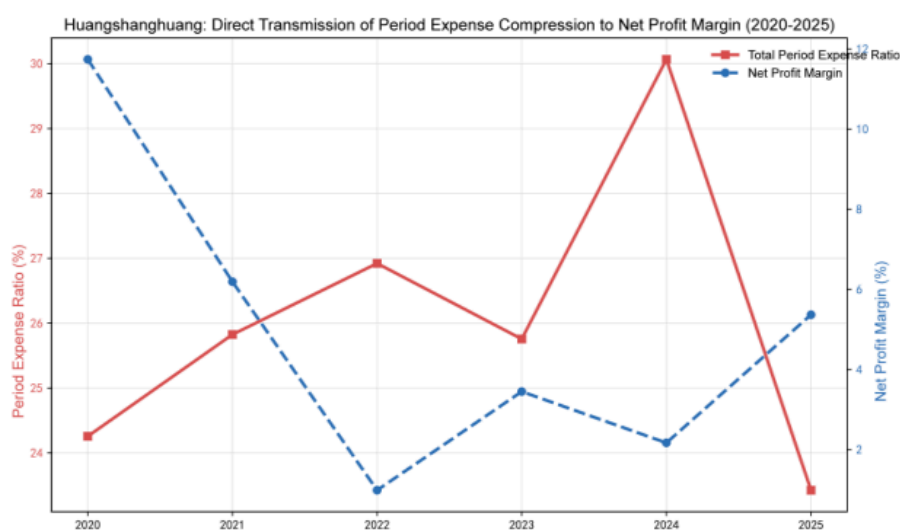


Figure 3. Direct transmission effect of expense reduction on net profit

Further analysis based on Table 2 reveals significant differences among various expense categories. Among them, the reduction in selling expenses served as the primary driver of profit growth. In 2022, selling expense savings contributed 259.21% to profit growth — and stayed at 45.97% and 63.24% in 2023 and 2025, respectively. This indicates that channel optimization and marketing expense control played a decisive role in improving profitability.

In contrast, administrative expenses made limited contributions to profit improvement during the early period and did not generate a positive contribution until 2025 (20.59%), reflecting a certain lag in the improvement of internal management efficiency. The contributions of research and development expenses and financial expenses were relatively small, indicating limited impacts on profit growth.

Table 2. Contribution of operating expense control to profit growth (%)

Year	Selling	Administrative	R&D	Contribution of Financial
2021	-9.72	3.71	5.34	-6.59
2022	259.21	-43	27.1	21.2
2023	45.97	-9.04	0.9	6.05

Table 2. (continued)

2024	-14.25	-39.51	-12.95	3.46
2025	63.24	20.59	8.73	-0.45

Overall, Huangshanghuang's profit recovery came from two sides: gross margin improvement and expense reduction—with selling expense control as the core. However, the decline in expense ratios is subject to certain limitations, and the potential for further improvement through cost-saving measures alone is gradually narrowing.

5.4. Supplementary drivers of "profit growth": the stage-based contribution of non-recurring gains and losses and M&A integration

In addition to the improvement of core business operations, non-recurring items also offer a temporary boost to profit recovery. As shown in Table 3, the proportion of non-recurring gains and losses in net profit reached 204.50% in 2022. This indicates that the company's profitability in that year relied heavily on non-recurring income, such as government subsidies. After excluding non-recurring gains and losses, the company's core operating business remained in a loss-making position. As business operations improved, the share of non-recurring items fell steadily from 2023 to 2025, down to 17.49%. During the same period, net profit after deducting non-recurring gains and losses improved significantly, indicating that the source of corporate profitability gradually shifted from non-recurring income toward the company's core operating business.

Table 3. Contribution of non-recurring items and M&A integration to net profit (%)

Year	Non-Recurring Gains and Losses	Investment Income	Other Income
2020	13.85	0.23	10.11
2021	23.24	1.56	19.63
2022	204.5	18.19	126.28
2023	41.57	6.95	36.48
2024	62.06	9.68	56.58
2025	17.49	1.77	22.7

Overall, non-recurring gains and losses played a dual role in Huangshanghuang's profitability recovery. When the core business was under pressure, they acted as a stabilizer, preventing reported losses. After the recovery of core operations, their contribution naturally declined. However, the company has historically shown a relatively high dependence on government subsidies, and future adjustments in related policies may pose risks to profit stability. The stable level of net goodwill indicates that M&A integration has not yet triggered significant impairment risks.

5.5. Comprehensive explanation: the formation path of declining revenue but increasing profit based on DuPont analysis

Under the DuPont decomposition framework, return on equity (ROE) breaks down into three core drivers: net profit margin, total asset turnover and equity multiplier. This framework quantifies how each factor shifts a firm's overall profitability. As shown in Figure 4, from 2020 to 2025, net profit

margin was the only dominant factor driving changes in ROE, and its direction of contribution was largely consistent with the actual movement of ROE. In contrast, asset turnover kept falling and pulled ROE down—a sign that lower revenue weakened asset efficiency. The impact of the equity multiplier remained close to zero throughout the period, suggesting that the company did not maintain capital returns through increased financial leverage.

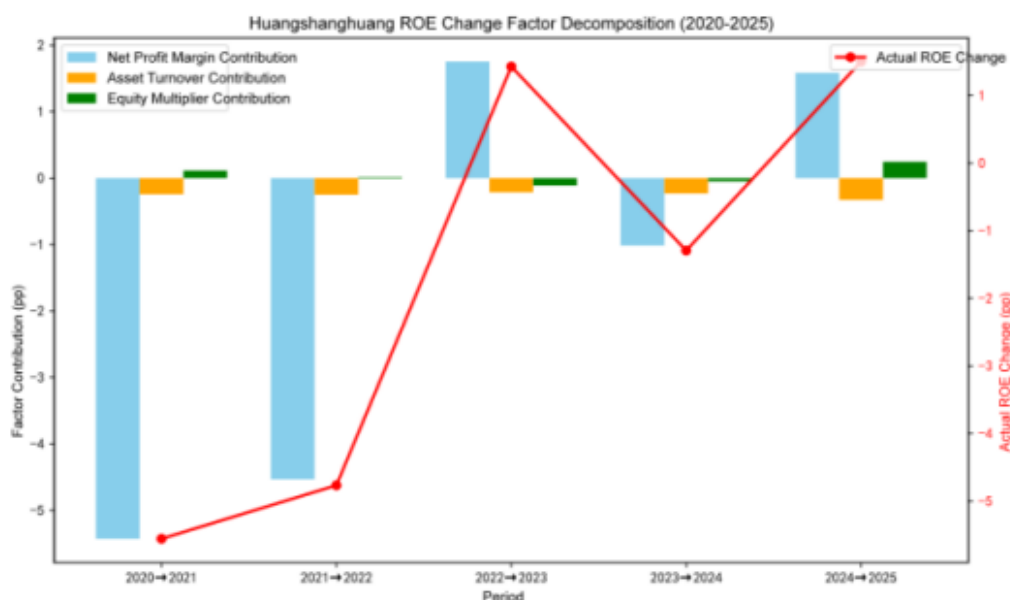


Figure 4. Decomposition of ROE changes

In short, Huangshanghuang's case can be explained this way: cost and expense cuts drove a strong rebound in net profit margin, which became the main engine behind ROE stabilization and improvement—offsetting the drag from falling asset turnover. However, the recovery of ROE relied entirely on a single factor—profit margin improvement. The persistent deterioration in asset efficiency has not been reversed, indicating that the sustainability of profitability improvement remains subject to structural constraints.

6. Conclusion

This paper examines Huangshanghuang's 2020-2025 financial performance to uncover how profitability improved despite a >30% cumulative decline in operating revenue. Using financial statement analysis, trend analysis, and DuPont decomposition, three interlocking drivers are uncovered:

First, revenue decline resulted from industry headwinds—slowing growth and fiercer competition—as well as strategic retrenchment: store network contraction and declining revenue per store. Second, profit recovery followed a tiered mechanism. (1) Cost discipline: operating costs fell faster than revenue, lifting gross margin from 28.16% to 32.29%, laying the foundation for profitability recovery. (2) Expense control: Selling expense reduction was the core engine; administrative expenses turned net-positive in 2025, the first time in the period. (3) Non-recurring items: Provided critical short-term stabilization during operational stress, contributing 204.50% of net profit in 2022 but declining to 17.49% by 2025, indicating a shift toward core-earnings-driven profitability.

Third, DuPont analysis reveals net profit margin drove >90% of the ROE change. Yet this gain merely offset the drag from falling asset turnover—ROE recovery rested entirely on one lever,

exposing structural vulnerability and limiting sustainability.

Limitations include single-case generalizability and data constraints on granular cost breakdowns. Future work could incorporate comparative analyses of peer companies in the same industry, such as Juewei Food and Zhouheiya, and combine field research data to examine the long-term effects of expense reduction strategies, thereby further testing the sustainability of the "declining revenue but increasing profit" model.

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