

Strategic Analysis of the Catering Industry under Covid-19: Haidilao

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Abstract: In the usual course of events, the restaurant industry's strategic planning and future development trends are various, making it tough to pick. Existing literature does not give appropriate guidelines for implementing COVID-19 strategy plans in the catering business. Using Haidilao restaurant as an example, this study utilized a way of integrating qualitative and quantitative methodologies to investigate the challenges that restaurants are now experiencing. This study clarifies that, at the strategic level, private restaurants' belief in their ability to survive COVID-19 must be based on identifying their deficiencies to establish a cost strategy and differentiation strategy, which includes emphasizing the future development trends of intelligent use and "customized" services. This research has two contributions. First and foremost, this research presents a typical municipal infrastructure framework for the investigation of private eateries. Furthermore, this study examined the literature on strategic analysis of the catering industry from the perspective of COVID-19, discussing the impact of the spread of the new pneumonia epidemic on China and the global restaurant industry, combining the specific epidemic prevention situation to analyze the catering industry's development situation.

1. Introduction

COVID-19, a novel virus capable of human-to-human transmission, was identified in January 2020. Due to the quick and widespread spread of COVID-19, China's real economy industry has been severely impacted. To halt the spread of the pandemic, China temporarily stopped highways, buses, and entertainment places. Covid-19 has not only resulted in the closure of Chinese companies and the loss of trillions of dollars in retail, catering, and hotel tourism but has also resulted in substantial increases in the price of vegetables and a scarcity of basic materials. As a result of the epidemic, the operating profit of the restaurant industry for the whole year of 2020 has been cut drastically, and the restaurant market has suffered a major setback in all the development targets set at the beginning of the year.

Western economics and management circles promote the development and innovation of enterprise competitive strategy theory via competitive strategy theory, which provides enterprises or groups with an international competitive advantage and establishes the academic position of enterprise competitive strategy theory. With the expansion of the economic system, the demand for competitive tactics by businesses continues to grow daily. Since the 1980s, the theory of competitive strategic management of enterprises has steadily developed three primary schools: the configuration school, the competency school, and the resources school [1].

To summarize, Andrew Andrews, the inventor of SWOT analysis, represents the structural school. Additionally, Professor Michael Porter of Harvard Business School, a renowned American strategic manager, has a long history of relevant study about new business competitive strategy [2]. He has emphasized on several occasions that "structural analysis is the bedrock of competitive strategy" Porter's five factors competitiveness influences an industry's competitive intensity and eventual profit potential, as well as how industrial decisions are made through competitive tactics.

Furthermore, Porter provided another critical part of business war strategy theory - a model for analyzing rivals, including identifying and evaluating competitors and understanding competitors' market action signals [3]. These analytical abilities are highly operationally relevant and practical.

The competency school emerged because of Porter's competitive strategy theory's inadequacies. The industrial structure is a critical component of an enterprise's competitive environment. While Porter's approach begins with the industrial structure and conducts a detailed study of what an organization may accomplish, it does not explicitly embrace what an enterprise may do. The competitive strategy and theory of the competence school, which are founded on the company's production and operation behavior and its distinctive ability in the process, transform the enterprise into a capability-based competitor [4]. The core competence view represented by Hamel and Prahalad and the overall competence view represented by Stack, Evans, and Shulman are the most representative. Both perspectives stress the enterprise's distinctive strengths as expressed in its internal behaviors and procedures. The former focuses on the enterprise value chain's specific main benefits, whereas the latter emphasizes the value chain's overall advantages [5].

In the mid-1980s, a portion of the resource school's theoretical perspectives became public. It has essentially become the primary school of thinking in business competitive strategy study after two decades of fast progress. Emphasizing the critical nature of the resource problem serves as the beginning point and basis for the resource school's theory. To achieve success, a firm must design a set of distinct competitive resources and assign them to the planned competitive strategy. Collins and Montgomery, the two leading theoretical representatives, believe that valuing resources should not be limited to the enterprise itself but should consider the enterprise's help in the context of the industrial environment in which it operates and evaluate the enterprise's advantages and disadvantages in comparison to those of its competitors [6]. British researchers Faulkner and Bowman elaborated upon the theoretical framework and analytical model of resource-based competitive strategy [6]. What they created: the Customer matrix, a two-dimensional matrix composed of perceived variables such as price and perceived use-value, and the Producer matrix, in which the vertical axis represents an enterprise's effective capacity to generate value and the horizontal axis represents relative unit cost, provide a reasonably accurate picture of an enterprise's competitive position in the market.

To summarize, existing theories are geared at analyzing and making decisions for popular industry, which leaves catering businesses in the dark. Furthermore, no strategic analysis of COVID-19 has been conducted in relation to an irresistible external cause. As such, this article will use Haidilao as the study object, perform a thorough analysis of the company's internal and external environments, and evaluate the company's development benefits and disadvantages. Consequently, reflects the overall business situation of the catering industry under the impact of COVID-19. To assist catering industry in taking effective steps in response to COVID-19, planning the industry's growth orientation, and ultimately meeting the requirements of the strategic development objective - to ensure the development of catering industry under this particular situation.

2. Data

Haidilao International Holding Ltd., doing business as Haidilao, is a hot pot restaurant company started in 1994 in Jianyang, Sichuan, China. Its eateries are often known as Haidilao Hot Pot. Haidilao is China's largest hotpot chain, known for its fiery broths and specialized services. With the expansion of Haidilao, there are now many chain restaurants established in places like London and New York. Their yearly income is expected to exceed ten billion yuan. Zhang Yong is the creator of Haidilao, and in March 1994, he and three other founders invested 8,000 Yuan to create the first Haidilao hot pot restaurant in Jianyang, Sichuan Province. Sichuan is a hotpot-loving region, hence there are a plethora of hotpot restaurants in the region. Haidilao, on the other hand, is competitive in a different sense. Haidilao's competitive advantage is not based on the flavor and perfection of the cuisine; rather, the chain's competitive advantage is centered on their customer service. Haidilao Hot Pot has over 36 million VIP members and 60,000+ employees. As now, Haidilao's operation mode is still dominated by offline apps, and a series of online operation activities, such as launching the restaurant and meals, are still in the early stages. Online trade has grown up in response to current demand and development since the start of the pandemic. Combination of public comment, hungry (China's leading local life information and trading platform, to provide users with preferential merchant information, reviews,

and consumption such as information service, while also offering deals, restaurant reservations, takeout, and trading services such as an electronic card) to build from offline part transfer online marketing strategy, as far as possible transferring the line loss of traffic to online integrates online.

Key partners

Hai Di Lao outsources food and condiment goods from an integrated firm Yihai to focus on their primary activity of managing a hot pot restaurant with a high degree of customer care (Hai DI lao website, 2019). Yihai, which was created in 2013, is managed by Zhang Yong and develops, manufactures, and distributes Hai Di Lao spices as well as other culinary goods such as soup bases, packed fish, sauces, and so on (Yihai website, 2020).

3. Methods

For the three reasons listed below, the qualitative research approach is ideal for this study. First and foremost, the goal of this research is to provide a response to the subject of strategic planning for the catering sector in the framework of COVID19, which falls under the area of "how." Second, this work examines and studies a specific instance to describe and comprehend it. Then, rather of stressing operational variables or answering questions with a verification hypothesis, it converts the study into views, feelings, and experiences. Consequently, rather of utilizing quantitative approaches, it is more acceptable to gather data, evaluate results, and examine problems by studying the organizational environment. Third, because there are too many uncertainties, the present challenges confronting the catering sector in the context of COVID-19, the future direction of growth, and the actions that must be done are new problems. In response to this phenomenon, it is most acceptable to apply systematic techniques to create inductive leads to theory.

The following three criteria were used to choose Haidilao as the subject of the case study. First and foremost, the enterprise is a one-of-a-kind and representative principle. Haidilao is a publicly traded firm with features comparable to those of most restaurants experiencing difficulties because of COVID-19, hence it is utilized as a case study to illustrate this specific group. Furthermore, Haidilao has significant support from Yihai International Holdings Limited, and with Hotpot as a basic supply chain, Haidilao has a plastic future. As a result, the choice of Haidilao as the subject of the case study adheres to the concept of case selection originality and representativeness. The second is the theoretical sampling principle. Rather than statistical sampling, the case study technique picks instances based on the need to fill current theoretical gaps or establish new ideas. Although previous studies considered the importance of the catering industry's sustainable development, many early scholars proposed many possibilities for the catering industry's future, but many of them were theoretical explanations under normal phenomena, and there was a lack of analysis under the COVID-19. This study uses Haidilao's strategic planning under the COVID-19 as the research object and attempts to unlock the "black box" to enhance the operation level and strategic planning of companies under the COVID-19, which is useful in improving relevant theories. Finally, many people employ a quantitative research approach in the competitive strategy examined in this work. However, China has its own peculiarity in terms of Chinese firms — various areas have distinct implementation strategies. Haidilao can directly acquire first-hand data, thus the case study technique is more beneficial for the research's depth and growth. To summarize, this study used the case study approach, selected research questions, conducted theoretical reviews, collected data, and analyzed data. The emphasis of the research is maintained through theoretical analysis and data analysis to get fresh ideas and viewpoints.

4. Results

PEST Analysis may aid a company in recognizing and capitalizing on possibilities presented by existing business conditions. It may also be used to detect present or potential future difficulties, enabling better planning to handle these challenges effectively. PEST Analysis may also be used to evaluate an organization's internal structure to identify strengths and weaknesses in its internal politics, economic outlook, social environment, and technological basis. The findings of this research can help

to enable adjustments or improvements in areas identified as lacking. For a more specific conclusion, combine PEST Analysis with other types of strategic business analysis, such as the SWOT (strengths, weaknesses, opportunities, and threats) model. A comparison of these completed assessments can give a rock-solid foundation for informed decision-making. SWOT Analysis employs internal and external data to lead firms toward more likely-to-be-successful strategies and away from those that have been or are likely to be less successful. In addition, independent SWOT analysts, investors, or rivals can advise them on whether a firm, product line or industry is strong or weak and why.

4.1 PEST analysis

PEST is a fundamental and practical macro environment analysis methodology that analyzes the microenvironment and efficiently identifies numerous macro impact factors influencing the catering industry based on its unique features and operational requirements.

4.1.1 Political factors:

At the start of 2020, a rapid epidemic of the disease created an unexpected collision for the catering industry. China's rigorous preventive and control policies ensured that the pandemic was soon managed. As a result of being forced to shut to make way for later scattered dining, the restaurant sector has recovered quickly. The government has implemented measures such as tax cuts and fee reductions to revitalize the stagnating economy.

4.1.2 Economic factors:

According to the Evergrande research institute, the outbreak cost the catering industry over 500 billion yuan in retail sales within seven days of the Chinese New Year. Ninety-three percent of catering businesses chose to close during the pandemic. Seventy-three percent of the businesses shuttered all their stores; 8 percent closed more than 80 percent of their stores, and 7 percent closed less than half of their stores. Only 7 percent of catering businesses retain all their stores due to group meals or stand-alone eateries. Haidilao should actively monitor consumer disposable income, household debt, and the efficiency of local financial markets at this moment.

4.1.3 Social factors:

Small and medium-sized eateries were disproportionately affected throughout the epidemic prevention and control period because of their limited risk-avoidance capacity. The pandemic situation has been well contained via the formulation of policies. Retaliatory consumption in the catering business is possible at any time.

4.1.4 Technical considerations:

The COVID-19 epidemic has boosted the takeout and fresh food e-commerce markets significantly. While the quality of food sold by diners in second-and third-tier cities remains suspect, it cannot be disputed that the pandemic has hastened the development of food market resources, processes, and supporting infrastructure. Additionally, food and beverage options, supply chain management, and menus will become more health-conscious, with nutrition and health care taking precedence.

4.2 SWOT analysis

SWOT analysis is comprised of four critical components: Strengths, Weaknesses, Opportunities, and Threats. Haidilao can utilize its strengths to establish a niche position in the market, work to reduce and eliminate weaknesses to compete more effectively with competitors and finally make provisions and develop strategies to mitigate threats that could undermine Haidilao's business model post-COVID-19.

4.2.1 Strengths

Superior product and service quality can help Haidilao expand its market share further, as its existing customers are incredibly loyal. There is sufficient proof that Haidilao can compete with other global businesses worldwide with such high-quality products and services.

(1) Excellent relationships with current suppliers:

As an industry incumbent, Haidilao has developed strong relationships with its suppliers and other supply chain participants. By using the talents of its suppliers and supply chain partners, Haidilao may expand its product line.

(2) Haidilao's Diverse Product Portfolio:

Haidilao's diverse product and brand portfolio enable it to target many domestic market sectors simultaneously. This has allowed Haidilao to diversify its income streams and profit margins.

(3) Proven To Go Market Track Record:

Haidilao has a proven track record of introducing new goods in the home market and catering to a variety of markets based on customer insights. Haidilao has successfully tested several concepts in a variety of markets and developed effective Strategy & Execution solutions.

4.2.2 Weaknesses

Weaknesses are areas, qualities, or skills where Haidilao falls short. Weaknesses result from financial resources, customer satisfaction, and supply chain management. It impairs the firm's capacity to develop a lasting competitive edge.

(1) Low Return on Investment:

While Haidilao's financial sheet is stable, one statistic that requires consideration is "Return on Invested Capital." In competitive strategy, customer service, and employee motivation where Haidilao works, the most dependable profitability metric is Return on Invested Capital. On March 1, 2021, Haidilao released its 2020 financial results, showing that revenue in 2020 was 28.614 billion yuan, up 7.75% year-on-year, with revenue growth in single digits for the first time; net profit was only 309 million yuan, a sharp decline of 86.81% year-on-year, with a net profit margin of only 1.1%, a record low. As Haidilao has opened more new stores in the past year, the related expenses have increased. However, reaching the first break-even and cash return on investment for the newly opened stores takes longer than in previous periods. In addition, overseas store operations continued to be impacted by the novel coronavirus outbreak in different countries and regions.

(2) Low customer satisfaction:

While product demand has not decreased, there is a simmering feeling of dissatisfaction among Haidilao's customers. It is reflected in the reviews on a variety of online review sites. Haidilao should prioritize areas where it can enhance the buy and post-purchase experience of customers. The financial report also shows that the overall table turn rate in 2020 was 3.5 times/day, compared to an average overall turn rate of over five times/day in 2017-2019, which means that the number of times each table was used in 2020 are 30% lower than in previous years.

(3) Inventory and food safety Management:

Haidilao does not manage its inventory or cash cycle properly. Inventory management has much room for improvement. The latest performance forecast released on July 25 shows that from January to June this year, Haidilao will double its revenue to about 20 billion yuan, and net profit will be 80 million yuan to 100 million yuan, compared to the company's net loss of about 965 million yuan in the same period last year.

(4) High cost of raw materials during Covid-19:

According to the financial report, in 2020, the cost of raw materials and consumables of Haidilao increased by 9.1% year-on-year to 12.262 billion yuan; the price of employees increased by 21.1% year-on-year to 9.677 billion yuan, and the cost of finance increased by 88.2% year-on-year to 446 million yuan. In addition, various non-current assets such as property, plant, and equipment also increased rapidly, rising from \$7.69 billion in 2019 to \$12.064 billion in 2020. Unfortunately, the rise on the cost side could not be fully transmitted to the consumption side, so Haidilao has aggravated

again. The overly dense store distribution also diluted Haidilao's single-store profit severely. From 2017 to 2020, Haidilao's single-store net profit was 4.374 million yuan, 3.539 million yuan, 3.056 million yuan, and 239,000 yuan, respectively. Thus, the restaurant industry was hit by the Covid-19 epidemic, forming a precipitous decline in the restaurant industry. Due to the significant drop in consumer demand, the restaurant chain industry faced many store closures; some restaurants shortened their operating hours and were unable to de-stock, resulting in a waste of materials and a significant impact on revenue compared to previous years.

4.2.3 Opportunities

Opportunities are macroeconomic conditions and changes that Haidilao may utilize to either consolidate or expand its market position. Numerous causes can provide opportunities, including increased consumer disposable income, economic development, and changes in consumer tastes.

(1) Limited Access to International Talent in the Global Market:

Haidilao is now facing a lack of access to the market for high-level talent due to a limited budget. Expansion into overseas markets may enable Haidilao to access the global talent pool. Globalization has created international market opportunities. Haidilao is well-positioned to capitalize on those prospects and expand its market share. International expansion may also assist Haidilao in risk diversification since it will be less reliant on the home market for revenue.

(2) Advances in Big data:

Haidilao can leverage advances in artificial intelligence to improve its ability to forecast customer demand, cater to specialized sectors, and build more effective recommendation engines.

(3) Increasing standardization:

Haidilao can take advantage of this trend to consolidate the market's offers and concentrate marketing efforts on the most profitable goods, especially after the outbreak of Covid-19.

4.2.4 Threats

(1) Developing Protectionism:

Haidilao could mitigate the risk of growing protectionism in various ways, including storing data in foreign markets and diversifying risk by operating in countries with varying economic cycles.

(2) Industry-wide culture of sticky prices:

Haidilao works in an industry characterized by a sticky-price culture. This might result in the organization's inability to boost prices to the levels that its premium pricing warrant.

(3) Threats from New Entrants because of Cost Reduction and Efficiencies:

Just as Haidilao can use low-cost client acquisition via social media and e-commerce, so can domestic and foreign rival.

4.3 VRIO Analysis

The resource-based strategic analysis is predicated on the premise that strategic resources can enable Haidilao to establish a durable competitive advantage over its industry rivals. This long-term competitive edge may enable Haidilao to earn above-average earnings and withstand competitive challenges (Table.1).

Table 1. VRIO Analysis.

Resources	Value	Rare	Imitation	Organization	Competitive Advantage
Track Record of Leadership Team at company name	✓	✓	✗	✓	Providing Strong Competitive Advantage
Ability to Attract Talent in Various Local & Global Markets	✓ Haidilao's strategy is built on successful innovation and localization of products	✓	Difficult to imitate	✓	Providing Strong Competitive Advantage
Financial Resources	✓	✗	✓	has sustainable financial position	Temporary Competitive Advantage
Talent to Manage Regulatory and Legal Obligations	✓	✗	✓	✓	Not critical factor
Opportunities in the Adjacent Industries & New Resources Required to Enter those Industries	✓ Can be valuable as they will create new revenue streams	✗	✓	✗	potential
Brand Positioning in Comparison to the Competitors	✓	✗	✓ require big marketing budget	✓ Haidilao has positioned its brands based on consumer behavior	Temporary Competitive Advantage
Customer Network and Loyalty	✓ 23% of the customers contribute to more than 84% of the sales revenue	✓ Haidilao has invested to build a strong customer loyalty	None of the competitor succeeded	Company is leveraging the customer loyalty to good effect	Medium term competitive advantage
Access to Cheap Capital	✓	✗	✓	Not been totally exploited	Not significant in creating competitive advantage

Customer Community	✓ customers are co-creating products	✓ Haidilao has able to build a special relationship with its customers	✓ difficult	still a lot of upsides	Providing Strong Competitive Advantage
Distribution and Logistics Costs Competitiveness	✓ helps in delivering lower costs	✗	✓ difficult	✓	Medium to Long Term Competitive Advantage

5. Conclusion

The case study results reveal that Haidilao's financial risk is rather significant, meaning that the restaurant would most likely fail. The catering industry is a source of income; in addition to the issue of employment, it is supported by an industrial chain that covers numerous disciplines such as food supplies and beverages.

In the face of Covid-19, a force majeure external environment, the government should assist the catering industry. The government may give appropriate financial subsidies to restaurants; if a catering business is in financial difficulty and cannot pay taxes on time, it may apply to the government for tax deferral in line with the legislation. Furthermore, the government may divide the cost of water and electricity to assist the catering industry as much as feasible. It is better to choose a cost plan and a differentiation strategy for the restaurant. To begin with, using intelligent robots to replace human resources has the potential to reduce labor costs dramatically. Intelligence will gradually penetrate the catering industry. There are several robot food delivery services in China. Many restaurants have begun to install cutting-edge technology in their operations, achieving automation in everything from ordering meals to delivering food to receiving electronic payments. The company can spend much money to buy an automatic oven, an automatic cooking noodle machine, an automatic cooking machine, and other advanced kitchen equipment, allowing the kitchen to gradually develop into the stage of modernization, mechanization, and intellectual growth. These not only save kitchen and service staff expenses, solve the issue of uneven production quality, and provide the restaurant more space for front-of-house operations, but they also attract customers while improving marketing.

Furthermore, in this day and age of digitization and refinement, the catering industry's future trend will be integrated with the Internet and e-commerce sector. The collecting, recording, and analyzing consumer behavior data from catering firms over the Internet will enable the Internet to play an essential supporting role in the catering industry. As customers develop Internet consuming habits, caterers see an increase in online sales orders. Consumers' predisposition to avoid going out and regulations imposed by large cities in various nations to prohibit eating in restaurants and allow only packaged and take-out operations have significantly influenced China's catering sector. However, the Chinese restaurant business confronts some fresh prospects for expansion and specific opportunities in jeopardy. Following the outbreak, several caterers upped their take-out efforts and planned for internet take-out. In the wake of the crisis, take-out delivery has also become a "self-help" move for some of the nation's branded catering enterprises. Some catering firms are also retailing their products, marketing and selling them through short films and online live streaming, which has significantly raised brand recognition and opened new online consumption channels. Consumers have steadily established the habit of online consumption, which has increased catering firms' online income. Customers are increasingly looking for a more personalized experience, and they want more fashionable, specialized, and pleasurable catering services. Businesses can provide "customized" services depending on the topic, purpose, grade, and other qualities desired by clients using Internet data, allowing them to adjust to their requests as much as feasible. Using the Haidilao as an example,

this paper aims to address a theoretical vacuum in the catering industry strategy under COVID-19, point out the route of economic entities, and make some policy Suggestions for the catering sector under COVID-19.

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