Case Study of Haidilao (HDL) International Holding Co. Limited

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Abstract

Haidilao (HDL) has achieved fairly economical success in recent years. This paper firstly conducts external and internal business environment analysis of HDL, and then identify not only HDL’s strengthens to make it being successful but also its weakness. My results suggest HDL’s human resources are its strengthen by using hypothesis testing, while limited sources of revenue and relatively high price setting are its weakness. Hence, HDL should make solutions actively to mitigate the impacts of the weakness. This papers shows that by cutting 2% price, HDL’s revenue will increase 2.6%. Other theoretical analyses in this paper also indicate that HDL is supposed to constantly improve its consumers’ dining experience. For implications, this paper suggests the inefficient for business operating single-profit business. Moreover, the company who charges more does not necessary lead to more revenue.

Keywords

Strategic Management; Hypothesis Testing; HDL; Business Environment Analysis; Competitive Advantages.

1. Introduction

HDL, founded in 1994, is the biggest hotpot business in China currently. The paper highlights the strategic management process of HDL. Firstly, the business environment analysis is provided to identify HDL’s strategic goals. Then, a business-level strategy will be selected to fulfill HDL’s goal. This paper primarily utilizes quantitative method, which are surveys and questionnaires. Meanwhile, hypothesis testing, line regression and ratio analysis tools are being used.

2. External Business Environment Analysis

2.1. Opportunities from general and industry environment

For the general environment provides HDL opportunities. HDL indicates that the IKMS smart kitchen system, Novaq intelligent monitoring of the food safety system and EMS management system have installed to enhance the managerial ability[1]. In the future, Chinese government declared to actively promote the development of cutting-edge technology, making technology improvements unambiguous[2]. HDL regards technology as a relatively crucial strategic position [3]. Besides, HDL has sizable successional financial earnings to support innovation expenditures. Hence, HDL could actively utilize new technology for further management refinement.

Table 1. HDL’s net income condition compared with xiabuxiabu

<table>
<thead>
<tr>
<th></th>
<th>For the year ended December 31</th>
<th>Net income (in 1,000 RMB) of 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDL</td>
<td></td>
<td>2,346,962</td>
</tr>
<tr>
<td>Xiabuxiabu</td>
<td></td>
<td>288,000</td>
</tr>
</tbody>
</table>

Source: HDL’s annual report in 2019
HDL has opportunities in the industry environment. HDL has been highly controlling over its two most significant suppliers. Shuhai supply chain management limited company, the biggest processed food supplier, above 80% of its stocks are possessed by HDL. Besides, the condiment supplier, Yihai; is controlled by HDL’s board [3] Therefore, owing to the high control and risk management, HDL’s supplier bargaining power is low[4]. Hence, HDL has considerable superiorities in its supply chain. On ascribe to superiorities and the control over the supply chain; HDL is capable of planning its supply chain. Schroeder and Goldstein indicate that reliable supply chain management requires the integration of the different components of suppliers to reduce the total supply chain throughout time[5]. Thus, HDL’s supply chain gives its edges to be competitive.

2.2. Threats from general and industry environment

The general environment has been producing considerable external threats for HDL. United Nations forecasts that the world economy in 2020 will shrink by 3.2 percent, compared with 1 percent of the severe world economy crisis in 2008[6]. Hence, a great recession may happen in the next following years. Brue et al claimed that restaurant meals’ income elasticity coefficient is +1.4[7]. This connotes that HDL’s dining business will be relatively strongly hitted by the predicted recessions. Moreover, the industry environment has been producing threats for HDL. Recently, HDL had attempted to increase the cuisines’ price. However, about 40% of consumers counterviews were intense. Hence, HDL proclaimed that all the cuisines revert to the previous price, suggesting consumers relatively strong bargaining power[3]. Hitt et al show that the bargaining power of buyers is relatively powerful when they purchased extensive percent of the firm’s sale’s revenues[4]. The vertical analysis supports that the bargaining power of buyers for HDL’s dining business is robust since either in 2018 or 2019, the supervisory position for HDL’s dining operation is unchangeable, and other businesses’ profits only consists less than 4% of HDL’s total income.

<table>
<thead>
<tr>
<th>Table 2. HDL’s income structure[3]</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the year ended December 31</td>
</tr>
<tr>
<td>HDL’s dining operation incomes in percent</td>
</tr>
<tr>
<td>Delivery business incomes</td>
</tr>
</tbody>
</table>

Figure 1. Consumers’ response to HDL’s raise in price[1]

2.3. Opportunities and threats from the competitor analysis

The last dimension in HDL’s external environment analysis is competitor analysis. Xiabuxiabu is considered as a powerful competitor on ascribing to its abundant capital and future objectives that always satisfy customers new demand. Exactly as its objectives, Xiabuxiabu established Coucou hotpot in 2015, aiming at medium and high consumers[8]. A strategic matrix had made:
The table connotes that both Xiabuxiabu and HDL regard R & D as a critical aspect, and have a solid relationship with suppliers. However, HDL’s advantage is its direct-sale store operation strategy. Holmes claimed that third-party franchise might lead to a reduction of quality and decrease consumers satisfaction[9].

3. Internal business environment analysis

3.1. Strengths

HDL thinks that at least 80% of people consider HDL’s human resources as its strength. According to a survey, chosen randomly, 27 of 29 people think HDL’s unique human resources are its strengths (table 4). In 95% confidence level, HDL’s judgement will be evaluated true or wrong.

<table>
<thead>
<tr>
<th>Choices</th>
<th>subtotal</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique Human resources</td>
<td>27</td>
<td>93.1%</td>
</tr>
<tr>
<td>Excellent taste</td>
<td>4</td>
<td>13.79%</td>
</tr>
<tr>
<td>others</td>
<td>2</td>
<td>6.9%</td>
</tr>
<tr>
<td>Valid number of people to fill in this question</td>
<td>29</td>
<td></td>
</tr>
</tbody>
</table>

Solution:

Since confidence level is 95%, so, 95% = 1 − α, and 29 is the sample numbers.

So:

\[
\alpha = 5% \\
n = 29
\]

Since this sample has large sample size (n = 29<30), and overall standard deviation \(\sigma\) is unknown.

So: T Statistics should be applied:

\[
d.f. = n - 1 = 29 - 1 = 28
\]

\(\pi\) is the percentage of how many people regard HDL’s human resources as its strength.

Then:

The Null Hypothesis is:

\(H_0: \pi \leq 80\%\)

Alternative Hypothesis is:

\(H_1: \pi > 80\%\)

So:

\[
t_{(\alpha,d.f)} = t_{(0.05,28)} = 1.699
\]

And

\[
p = \frac{x}{n} = \frac{27}{29} = 0.9310
\]

So, the T Stat:
Because

\[ t_{stat} = 1.764 > t_{(0.05,28)} = 1.699 \]

So, sufficient evidence to reject the null hypothesis, so we must accept the alternative hypothesis. Thus, more than 80% of people regard HDL’s human resources as its strength.

HDL’s solid financial background is it’s another strength. First, HDL’s ability to generate funds through internal operation is sizable. HDL’s cash flow in 2019 is about three times bigger than Xiabuxiabu, who is another exclusively listed company except HDL in China hotpot industry.

### Table 5. Financial indicators comparisons between HDL and Xiabuxiabu in 2019[3,8]

<table>
<thead>
<tr>
<th></th>
<th>HDL</th>
<th>Xiabuxiabu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available cash flow (RMB)</td>
<td>2,346,962,000</td>
<td>785,192,000</td>
</tr>
<tr>
<td>Return on capital employed ratio (ROCE)</td>
<td>15.69%</td>
<td>7.43%</td>
</tr>
<tr>
<td>Earnings per share (per cent in RMB)</td>
<td>44.00</td>
<td>27.02</td>
</tr>
</tbody>
</table>

Besides, the return on capital employed ratio belongs to profitability ratios in which measures a company’s ability to gain profits and directly reflects the basic financial situation of the company[10]. As the table connotes, HDL’s ROCE is more than twice as many as Xiabuxiabu’s, which indicates its firm profitability. For investors’ perspective, HDL’s earnings per share is greatly higher than Xiabuxiabu’s, which connotes its sufficient profits and the level of shareholders’ importance for HDL. In a word, HDL possesses a unique and solid profit generating systems, which are not easily imitated by general competitors.

### 3.2. Weaknesses:

The limited sources of revenue are HDL’s first weakness. According to China National Bureau of Statistic[11], March, April and May’s foodservice compared to the same period of the previous years. Excel depicts a quasi-liner regression plot.

![Figure 2. HDL’s operation revenue compared with that in the same period last year](image)

Here, regarding month as \( x \), percent of same time in the previous year as \( y \)

Let the linear regression equation be:

\[ y^\^ = bx^\^ + a \]

And:
Then

\[
\begin{align*}
    \{a &= 0.2115 \\
    b &= 0.0945
\end{align*}
\]

Hence, assume \( y = 1 \), which means the time that foodservices back to the same level compared with last year:

\[
X = 1 - 0.2115/0.0945 = 8.34
\]

The accumulating loss of catering income:

\[
\text{Loss in percent} = \frac{(1-0.2115) \times 8.3}{1+8.3} = 39.43\%
\]

Therefore, about the middle of August, China foodservice industry will back to the same level, and HDL will have to lose 39.43% in revenue. Hence, HDL’s single type of revenue structure is suffering.

The high price level is another HDL’s weakness. According to China Industry Information Network, quasi-middle class, emerging middle class, middle class and upper-middle-class contribute 22%, 25%, 24% and 23% in china’s income structure[12]. According to a survey from 29 people based on random sampling, 79% of people think HDL’s price-level is to overly high. A normal distribution is made below:

<table>
<thead>
<tr>
<th>Choices</th>
<th>Subtotal</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>23</td>
<td>79.31%</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>20.69%</td>
</tr>
<tr>
<td>Valid number of people to fill in this question</td>
<td>29</td>
<td></td>
</tr>
</tbody>
</table>

Figure 3. Expected accumulating loss of catering income for HDL

Figure 4. Social class distribution
Thus, all the quasi-middle class, emerging middle class, middle class and 8% upper middle class think that HDL’s price level is too high. Due to the middle and upper-middle are HDL’s main consumers[3]. Thus, HDL’s price-level is overly high for target consumers.

4. Strategy Development

4.1. Strategy goal identification

One business environment threat indicates that HDL is supposed to find methods to mitigate the buyers’ relatively strong bargaining power. Hitt et al claimed that decrease consumers’ buying proportion over a business could somewhat mitigate buyers’ bargaining power[4]. Besides, HDL’s internal weakness also suggests the limitation of a single business model. Hence, develop new sources of revenue is necessary. Moreover, HDL’s solid supply chain system and financial structure would strongly support new realms of business as mentioned. Furthermore, another threat connotes a relatively high possibility that HDL’s dining business would suffer, causing loss in income. Due to HDL basically relies on its own operating cash flow to distribute dividends, and not participate in the financing[3]. Therefore, loss in revenue would hurt HDL’s ability to pay shareholders’ dividends and the difficulties to pay employees. Finally, downcast unpaid employees could threaten consumers’ advantages. Therefore, the first priority for HDL is to assure reliable income via retaining consumers, and continue to enhance the dining experience to improve the same store sales growth is a prerequisite.

Finally, HDL’s price-level is too high, as mentioned for target consumers. Hence, HDL considers to cut off 2% of the average price at first. The future policy over the cut in price will be determined by whether the further cut in price leads to total dining revenues increase or not. According to Brue et al., (2014), restaurant meals’ $E_d = 2.27$

Since

$E_d = \frac{\text{Percentage change in quantity demanded of } x}{\text{percentage change in price of } x}$

Other things equal,

$\text{percentage change in quantity demanded of } x = 2.27 \times 2\% = 4.54\%$

In 2019, HDL’s average table turn over (ATTO) per day in china is 4.8. Hence, the expected ATTO in next year would be $4.8 \times 1.0454 = 5.02$. In 2018, HDL’s ATTO in china is $5.1 > 5.02[13]$. Thus, HDL is capable of dealing with a 2% drop in price.

Other things equal, HDL’s dining revenue would increase 2.6%.

Table 7 Comparison of revenue after increase 2% in price

<table>
<thead>
<tr>
<th></th>
<th>Average consumption (RMB)</th>
<th>Demand</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>105.2</td>
<td>100.0%</td>
<td>105.2%</td>
</tr>
<tr>
<td>The year that 2% drop of price</td>
<td>105.2*98% = 103.1</td>
<td>100% + 4.54% = 104.54%</td>
<td>107.8%</td>
</tr>
</tbody>
</table>

5. Conclusion

This paper deals with what HDL’s strategic goals should be based on business environment analysis. After the analysis of HDL, my results suggest that HDL should continue to enhance its dining experience, develop new sources of revenue and cut price to increase average table turnover rates. However, limitations does exist. Firstly, when calculate the accumulate loss in income, I apply the straigh line in which conducted by excel, most accureate information will be
generated if curve line being used. Secondly, the hypothesis testing based on domestic data. Due to HDL is a global business, the future study could be wider and collect global information.

References