

The Impact of Diversification in Strategic Management on The Catering Industry: A Case Study of Haidilao

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Abstract. The catering industry began to stagnate as a result of COVID-19. Faced with the competitive environment, F&B brands began to adopt various strategic management methods, of which diversification was an effective strategy. This study mainly examines the impact of diversification strategies on the development of the catering industry, taking the well-known hot pot restaurant Haidilao as an example. Based on the theory of corporate strategy management, it analyzes the business situation and the implemented diversification strategies of the company. Firstly, this paper discusses the current situation of Haidilao's restaurants, including the development status and business operations, and evaluates and analyzes the restaurant's sustainable competitive advantages using the VRIO model. Finally, it explores how the management of Haidilao implements diversification strategies, mainly including the analysis of the shortcomings of store growth strategies, how to apply diversification strategies to seek new growth points and provides recommendations for the currently implemented strategies. Through the case study of Haidilao, this paper provides insights into diversification strategies in enterprise management, which provides new ideas and methods for the management decisions of related enterprises.

Keywords: Diversification Strategy, Haidilao, Competitive Advantage, Digital Transformation.

1. Introduction

With the rapid development of the economy, the living standards of residents have significantly improved, and the demand for food has shifted from simply being full to eating well. The catering industry has become an important part of the national economy. However, due to the impact of COVID-19, many industries, including the catering industry, have begun to stagnate [1, 2]. On March 1, 2021, Haidilao announced that it expects a decrease of approximately 90% in net profit for the fiscal year ended December 31, 2020, compared to the previous fiscal year, mainly due to the significant impact of the restrictions imposed by various countries on consumption venues following the outbreak of the novel coronavirus.

In order to survive in a harshly competitive environment, Haidilao has begun to employ various strategic management approaches, with diversification being an effective strategy. Managing diversified operations is an important task for the company, requiring diversification for risk avoidance, utilizing surplus resources, seeking new growth, and escaping stagnant industries. As a case study, this research examines the impact of diversification in enterprise management strategy on Haidilao.

2. Literature Review

Over the years, strategic operations have focused on creating competitive advantages through diversification strategies, exploring new markets with new products, and lowering the company's risks through diversified operations [3].

Diversification refers to an increase in the number of industries in which a firm participates or an expansion of its business, and it also implies an increase in the heterogeneity of the market, with firms transforming the same product with subtle differences [4]. Since 1920, diversification has set off a boom, with many firms attempting to rapidly expand and become internationalized groups through asset mergers and acquisitions and restructuring. Through the diversification strategy, companies can first obtain the expansion of economic scale and increase market influence, and secondly,

diversification is also an effective way to spread the risk, or as the saying goes, “don’t put the eggs in the same basket”. Different businesses have their development cycle. Compared to a single business, a diverse company can better withstand market fluctuations.

Usually, a company is experiencing rapid growth, with profit levels above average and risks below average, meeting its sales requirements. In that case, the company only needs additional diversification strategies outside its core industry. However, this does not mean that diversification strategies are not important. With the advancement of technology and intensifying market competition, organizations are increasingly focusing on diversification to help their growth and development. Research shows that long-term diversification positively impacts company profits, with positively related diversification having a synergistic effect on company performance.

However, the more diversified a company is, the better its performance. The answer is no. Empirical research shows that unrelated diversification strategies can have a negative impact on the company or have little effect on its performance [5].

Diversification by a company is unrelated to performance but is more about increasing market power. For example, diversification can help companies reduce market competition through cross-subsidies, such as airlines selling low-priced economy tickets and high-priced business class tickets, using the revenue from economy class to subsidize the business class, to provide better service to business class passengers. However, this may be seen as price discrimination. Diversified operations enable companies to appear in multiple business markets, which can deepen consumer impressions and enhance market dominance.

3. Background of Haidilao

Haidilao is a large chain hotpot restaurant with business operations around the world. It was established in 1994, with Sichuan-style hotpot as its main offering. Initially, founder Zhang Yong opened a small hotpot restaurant to solve food and clothing problems. Initially, Zhang Yong and a few employees handled everything in the store to provide the best customer experience. As Haidilao grew, its exceptional service philosophy became one of its core competitive advantages [6].

As a leading enterprise in the Chinese catering industry, Haidilao’s business model and operational strategies are continuously analyzed. Some scholars believe that the essence of the catering industry, especially the hotpot industry, is inherently social. The location and service of the restaurant mainly facilitate consumers’ social interactions. In this respect, Haidilao has followed the trend closely by integrating restaurant stores with the Internet to provide a good social environment [7]. However, excessive service sometimes does not meet consumers’ privacy needs.

To better understand Haidilao’s sustainable competitive advantages and disadvantages, this report utilizes the VRIO analysis model to assess the organization from six dimensions: “Food & Beverage”, “Employees”, “Innovative Products & Service”, “Location”, “Haidilao’s Brand”, and “Decoration of Restaurant”.

Table 1 presents a VRIO analysis of Haidilao Hot Pot from six dimensions. Haidilao performs very well in terms of value and organization. It can provide valuable resources to customers and has an organized management system and structure to utilize resources.

Table 1. Three Scheme comparing

	Value	Rare	Imitation	Organization	Competitive advantage
Food & Beverage	Yes	No	Yes	Yes	Short-term Competitive Advantage
Employees	Yes	Yes	No	Yes	Sustained Competitive Advantage
Innovative Products & Service	Yes	Yes	Yes	Yes	Strong Competitive Advantage
Location	Yes	No	Yes	Yes	Competitive Parity
Haidilao's Brand	Yes	Yes	No	Yes	Sustained Competitive Advantage
Decoration of Restaurant	Yes	No	Yes	Yes	Competitive Parity

In terms of rarity, Haidilao's dishes are valuable but lack rarity. Its dishes are similar to those of other hot pot restaurants, which may place Haidilao in an equally competitive position and make the market more challenging. Similarly, Haidilao's location and restaurant decoration are not considered rare, as many competitors in the industry also have their stores in malls and similar restaurant decorations. In this aspect, Haidilao lacks resources that could provide a competitive advantage.

Regarding imitability, Haidilao's employee training model and its brand are difficult to replicate. Firstly, Haidilao's employee training is a very successful example. In Haidilao, a very famous concept is "regard employees as family", which is dedicated to providing a fair and just working environment for employees and maximizing the potential of each employee, fully reflecting Haidilao's respect for its employees. Moreover, the compensation for Haidilao's employees is also leading in the Chinese catering industry, incentivizing employees to contribute to better performance [8].

Haidilao's brand is its star product and has a significant competitive advantage. When most Chinese consumers mention a restaurant with good service quality, they first think of Haidilao, demonstrating its excellent brand and reputation. Many companies attempt to emulate Haidilao's service format but cannot grasp its essence. The substantive content of Haidilao comes from the worldview of its founder, Zhang Yong, who advocates "gaining customers table by table". The worldview is subjective and unique, shaping Haidilao's brand into a competitive advantage that is difficult to imitate.

Overall, Haidilao's innovative products and services have a very strong competitive advantage, followed by the employee training model and brand, all of which have sustainable competitive advantages. Haidilao should focus on these positive factors to make investment decisions and effectively allocate resources.

4. Diversification

According to the profit warning issued by Haidilao, the net profit has severely declined due to the epidemic's impact. Consequently, multiple institutions have lowered Haidilao's target stock price. In this dilemma, Haidilao has continued expanding its stores, attempting to support performance growth through high store expansion and penetration rates. However, this has yet to have a positive effect. The rapid expansion of stores and a severe lack of managerial staff have resulted in poor service and food quality at some Haidilao stores, seriously affecting customer satisfaction and reputation. The management also realized that early strategies had issues and promptly adjusted through diversification strategies.

4.1. Establishment of Sub-brands

In order to seek new market growth points and to reduce the risks associated with relying on single business development, Haidilao has begun to implement a diversification strategy by establishing sub-brands.

Since 2018, Haidilao has successively launched multiple business areas, such as self-heating hot pots, buffet restaurants, and more, attracting a larger customer base and further expanding its business scope.

As of 2021, Haidilao has developed over ten fast food brands, mainly covering categories such as noodles, box meals, etc. Unlike the high-end restaurants operated by the parent brand Haidilao, the fast-food sub-brands attempt to enter the market with a focus on high-cost performance [9]. For example, the average price per customer at Haidilao Noodles is approximately 10 CNY, which provides a significant price advantage in the cities where it is located.

It is worth mentioning that, based on market segmentation, Haidilao has launched a new sub-brand called "hailao" in Beijing, a first-tier city in China. While still operating as a hot pot, this brand targets consumers with lower spending power, such as students and office workers. Hailao focuses on affordability, streamlined, and semi-self-service, which differs from the wide variety of dishes offered by Haidilao. It limits the types of meat and hot pot ingredients and places some hot pot ingredients in a freezer for customers to help themselves, facilitating cost control and reducing labor costs. The average consumption of Hai Liao is about 80 yuan, which is 23% lower than the average consumption of Haidilao. This is a test run for Haidilao to enter the affordable hot pot industry.

Haidilao is gradually realizing diversification through establishing and building sub-brands for business expansion and strategic transformation. Although Haidilao still maintains a large advantage in the current catering industry, in the rapidly changing market environment, Haidilao needs a strategy to reduce the company's single dependence on the high-end hot pot business to face the risks and blows brought about by crises such as Covid-19.

4.2. Vertical Integration

Behind the diversified layout, Haidilao's strategic thinking is integrating the entire industry chain resources. Objectively speaking, Haidilao's advantages lie in its brand, service, and supply chain capability, which are some of Haidilao's core competencies. With numerous Haidilao stores, maintaining the high-quality and consistent taste of dishes places high demands on the suppliers. Haidilao has acquired suppliers and established independent departments, such as its most famous subsidiary, Shuhai, to ensure the high quality and stability of meat, vegetables, and ingredients. Shuhai used to be Haidilao's logistics procurement department and became independent from Haidilao in 2007, supplying vegetables and meat as the main ingredients to Haidilao. Shuhai has 17 cold chain centers in China, with distribution covering hundreds of cities, capable of meeting regional and cross-regional transportation needs [10]. Haidilao's strong upstream supply chain has formed an integrated supply system that combines procurement, processing, storage, and distribution, greatly improving operational efficiency, reducing operating costs, and achieving standardized management.

Haidilao has also attempted to use a diversified strategy to build an efficient supply chain. Based on vertically integrating the supply chain, Haidilao advocates using the "amoeba" model. For the catering industry, the long chain characteristic of the supply chain can lead to increased management difficulties, resulting in bottlenecks, even with strict control, leading to management confusion, issues with dish quality and safety, and declining reputation. One of the core reasons for this is the need for proper personnel management. In 2011, Haidilao introduced the "amoeba" model, which involves subdividing a group into many small departments, stimulating and cultivating the management awareness of the leaders behind each independent unit. Haidilao has divided the company into multiple organizations, such as human resources, finance, and store operations. Each organization constitutes an independent profit center, aiming to enhance the business awareness of all employees through quantified empowerment, allowing the internal organization to consider self-survival like an amoeba. Taking talent development as an example, Haidilao has implemented the "mentorship" mechanism to ensure the rapid development of employees, motivating experienced store managers to teach new store managers through a reallocation of profit. This not only reduces external intervention but also accelerates the development of employees.

4.3. Haidilao Smart Restaurant

In addition to establishing sub-brands and vertically integrating the supply chain, Haidilao has also made efforts to digitize. Under the impetus of technology such as big data, the Internet of Things, and artificial intelligence, the business model of the catering industry has gradually diversified, and more and more enterprises have begun to build digital transformation. The smart restaurant is Haidilao's attempt at digital transformation. Through online and offline integration and intelligent uncrewed operation, Haidilao has built relatively mature, fully automated intelligent restaurant stores, where machines complete the process from storage to serving.

Catering enterprises face complex business scenarios, so achieving digital transformation is not easy for Haidilao, and it is a process that needs to be carried out gradually. Haidilao first chose to use an intelligent scheduling system, tablet ordering, and membership queuing system and then expanded the scope of digitization to the comprehensive digital management of the backend system, which is Haidilao's current "Yunshanglao" system, where the entire system from the front end to the back end is uploaded to the cloud space. This not only means that the restaurant can fully realize uncrewed operation, reducing labor costs and reducing security risks but also means that the database can achieve member customization, where each member on Haidilao's app can browse content that matches their interests. The system will recommend related dishes and promotional information based on customer preferences.

Haidilao has launched a smart restaurant based on traditional hotpot restaurants, a diversified strategy in line with modern society's development trend. From innovative services to technological iteration, Haidilao has taken the lead in the forefront of enterprise reform through smart restaurants.

5. Suggestions

Liking the new and hating the old is the consumer's norm in the food and beverage industry, so Haidilao must implement a diversification strategy. It is clear that market trends are constantly changing, especially when faced with sudden viral strikes like COVID-19; companies need to adjust their strategies in time to face the challenges and minimize the risks as much as possible by predicting and analyzing the future market.

The main sales growth of Haidilao in the beginning single relied on the expansion of stores; during the epidemic, many Haidilao stores were forced to close down, and the economy was hit due to the restrictive measures of the country. This is the disadvantage of the need for a diversification strategy. So Haidilao should focus on developing a diversification strategy to develop more new products or markets according to the market trend and consumer preference to diversify the risk.

Moreover, Haidilao's supply chain management is one of the important pillars of the current diversification strategy. From Shu Hai's current supply chain model, Haidilao already has high supply chain barriers. At this time, Haidilao can consider reducing costs and providing customers with a unique value, which should be unique and difficult to imitate, such as Haidilao's unique dish development team.

Haidilao has made great achievements in technological innovation in the traditional catering industry. It has ventured into AI and continues to update and upgrade. However, there are still many challenges in digitalizing the application to the catering industry. For example, during peak times with high customer traffic, high-frequency ordering and a large demand for side dishes may overload the database. If the system fails, the restaurant will stop operating. Haidilao needs to research and optimize database performance to ensure continuous and stable operation.

Furthermore, information collection has become very easy in the era of big data. Haidilao uses data to personalize services for its members, which is a good way to understand and meet consumer preferences. However, ensuring that the information collection process does not invade customers' privacy and avoiding internal information leaks is essential.

Haidilao must prioritize enhancing database performance to ensure uninterrupted operation during peak times. Maintaining data privacy and preventing internal information leaks is crucial in the era of big data and personalized services.

6. Conclusion

Managing a diversification strategy is crucial to a company's strategic management in today's dynamic business landscape. The diversification process and development often significantly impact the company's operations. This report conducts a comprehensive analysis of the leading enterprise, Haidilao, in the catering industry, employing a case study approach. It discusses background information and conducts a detailed VRIO model analysis of the company's sustainable competitive advantage. Furthermore, it examines Haidilao's three primary approaches to achieving diversification: establishing sub-brands, vertical diversification, and technological innovation. The findings of this study provide insight into how diversification strategy affects the development of the catering industry through the research of Haidilao restaurant, providing novel perspectives and approaches for the formulation and implementation of relevant policies.

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