

Study on the Impact of Diversified Service Strategy: Case of Haidilao

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Abstract. In today's competitive market environment, it has become a trend for enterprises to seek diversified development. The diversification strategy aims to have a positive impact by expanding business areas and services to reduce corporate risks and improve market competitiveness. This paper takes Haidilao as an example to study the effect of the implementation of diversified service strategy from 2017 to 2023. Besides, the research shows that diversified service strategy has improved the financial performance of Haidilao enterprises. However, through comprehensive analysis by SWOT method, it can be seen that the implementation of diversification strategy is not smooth sailing, and many enterprises are faced with various challenges in the practice process, such as increased management difficulty, dispersed resources, and difficult to guarantee service quality. The study provides relevant theoretical reference and decision-making information for the catering industry. Through the implementation of diversified service strategy, Haidilao has achieved results in improving financial performance and market competitiveness, but it also faces problems such as cost increase, core business may be neglected, and service quality is difficult to control uniformly. Therefore, the optimization scheme of optimize staff allocation, strengthen staff training)and optimize resource allocation is proposed in this paper. This successful experience has important guiding significance and reference value for the whole catering industry in the aspects of business development, brand building, customer management and strategic planning.

Keywords: Diversified Service Strategy, Haidilao, SWOT, Literature Review.

1. Introduction

With the development, more and more industries aim to maintain stable development in international economic and trade while improve one's own system by the Diversified development strategy. However, in the process of implementing a diversified strategy, the management system lacks efficiency, and problems such as low correlation between various service sectors are gradually emerging. In recent years, Haidilao has become a leading enterprise in the hot pot catering industry with its successful diversified service strategy. It not only provides catering services, but also ventures into various service models such as personalized services and special needs handling, providing customers with different service experiences. Therefore, it has attracted a large number of stable customer sources, which has steadily improved its financial performance in recent years.

This paper aims to elaborate on the advantages and disadvantages of Haidilao's diversified service strategy, provide theoretical references for the catering industry's diversified service strategy, and reflect the impact of Haidilao's diversified service strategy on decision-making information for various groups from a practical perspective. For investors, understanding the advantages and disadvantages of Haidilao's diversified service strategy can help them better evaluate Haidilao's investment value and risks, and make more informed investment decisions. For consumers, the research results can provide them with a deeper understanding of Haidilao's service model and quality and provide reference for their consumption decisions. For the Haidilao itself, this study can help the enterprise identify the problems and deficiencies in its service strategy, provide guidance for optimizing and adjusting its service strategy, and enhance its core competitiveness. For managers in the catering industry, studying Haidilao's diversified service strategy can provide them with reference

and inspiration, help them develop more scientific and reasonable service strategies, and enhance the market competitiveness and operational efficiency of the enterprise.

2. Literature Review

There is abundant research on diversification strategy. Wang and Gao proposed that the advantage of new product development can be achieved through technology diversification strategy [1], Sun proposed that technological diversification is an important medium for promoting innovative development of circulation enterprises [2]. Xi, Ni, and Liu also proposed that digital transformation can enhance the resilience, security, and modernization of the supply chain [3]. In addition, some scholars have pointed out the drawbacks of implementing diversification strategies, such as Zhou's analyzed of the potential risk impacts that may arise during the process of diversification. He believes that if diversification transformation is not carried out at the appropriate time, it cannot ensure the smooth promotion of diversification development, and financial risk prevention is not done well, which will face the risk of transformation failure [4]. Zheng's research also showed that if catering enterprises blindly carry out diversified strategic transformation without formulating long-term plans, such as special financing plans and expanding financing channels, it is likely to bring financing risks to the enterprise [5].

The research on Haidilao as the research object is also very rich. Some scholars have proposed some high-quality strategies for Haidilao, such as Yan's belief that the cultural construction and implementation of Haidilao have a certain impact on its success. It is concluded that Haidilao promotes the integration of ideological and political work and cultural construction, as well as human resource construction, and constructs a suitable corporate culture, which promotes the overall performance improvement of Haidilao [6]. Li also mentioned that Haidilao has achieved development in innovation by making the organization flatter and giving greater autonomy to the region [7]. But there are also other scholars such as Zhang who believed that Haidilao needs to improve its organizational structure, optimize its development strategy, establish a human resources supervision system, and achieve a more optimized internal environment [8]. In addition, in terms of finance, Zhao analyzed the financial risks of Haidilao and believed that the financial risks of Haidilao mainly focus on fundraising, investment, operation, and fund allocation [9]. After analyzed Haidilao's management strategy, Gao concluded that Haidilao can ensure sustainable development by enhancing financial management, supplier management, fund and accounts receivable management [10].

3. Analysis of Haidilao's Diversified Service Strategy

3.1. Diversified Service Strategy

The diversified service strategy is a strategic decision made by an enterprise to expand market share, cater to the needs of different customer groups and enhance competitiveness in the same industry. From the aspect of content, the diversified service strategy refers to expanding the enterprise into different service fields on the basis of the original core service and developing service products or service items of different types, functions and levels. For example, a company that initially focused on catering services begins to engage in catering delivery, catering training, food supply and other related services. This is a form of diversified service strategy.

3.2. The Contents of Haidilao's Diversified Service Strategy

Since its early establishment, Haidilao has always prioritized the experience and needs of customers. In the process of enterprise development and operation, it has gradually formed and strengthened the business philosophy and service model of being "customer-centered". Haidilao positions its brand with high-end and quality services and implements the concept of "customer-centered" into its corporate culture. From store layout to staff training, it gives customers the feeling of being at home. Haidilao provides basic catering services. Special items such as noodle fishing

performances, face-changing performances, dance performances, and birthday celebrations bring a double feast of vision and taste to customers. Personalized services like hand care and manicures are also available. In some stores, services such as shoe shining, hair washing, children's amusement parks, and photo printing are provided to meet the needs of different groups. Haidilao caters to the development of the takeout industry and expands the takeout business by providing innovative services like helping customers arrange dishes on the spot, adjusting the pot bottom, and cleaning up kitchen waste. It also offers private customized hot pot service - Happy Feast, which is specially designed for occasions such as birthday banquets, family dinners, business banquets, and team gatherings.

3.3. The Implementation Approaches of Haidilao's Diversified Service Strategy

The main measures of Haidilao are divided into establishing an employee training and incentive system, digitization and intelligence of services, and finally optimizing the service quality monitoring and management mechanism. Moreover, the employee training and incentive system of Haidilao includes professional service skills training, cultivation of service attitude and awareness, as well as employee incentive measures in terms of salary, promotion, and welfare. Meanwhile, the digital and intelligent service means added during the service include online ordering and reservation systems, intelligent queuing and number-calling systems, and the application of the Customer Relationship Management (CRM) system. The service quality monitoring and management mechanism of Haidilao covers the internal quality inspection and evaluation system, customer satisfaction survey and feedback mechanism, and continuous improvement measures for service quality.

4. Impact Analysis of Haidilao's Diversified Service Strategy

4.1. Financial Impact

Through an in-depth analysis of detailed and comprehensive financial statements, it can be clearly seen that from 2017 to 2023, Haidilao's net profit generally showed an upward trend (in figure 1). Although the global epidemic that broke out from 2020 to 2022 caused certain losses to Haidilao, resulting in a negative net interest rate in 2021, except for this, its net interest rate remained positive (Net profit rate = Net profit / Sales revenue × 100%). After boldly adopting the diversified service strategy and gradually improving this process, Haidilao achieved a remarkable profit leap, that is, the feat that Haidilao's net profit reached 44.9 billion in 2023. Therefore, the significant improvement of key indicators such as net profit and net interest rate in terms of financial performance can strongly prove that Haidilao has achieved great success in implementing the diversified service strategy.

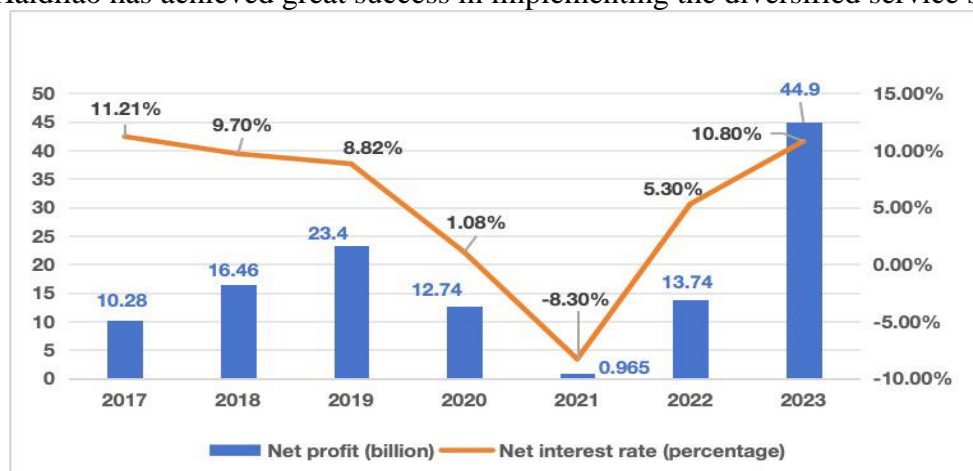


Fig 1: Net profit and net profit rate of Haidilao from 2017 to 2023.

4.2. Impact on Market Competitiveness

The hot pot brand Xiabu Xiabu, which is also listed on the Hong Kong Stock Exchange, did not adopt a diversified service strategy, and its brand awareness is much lower than that of Haidilao. Visualize brand awareness as a comparison of store numbers and operating performances. It can be intuitively seen from Figure 2 that the number of Haidilao stores has been greater than that of Xiabu Xiabu since 2020. In addition, the table turnover rate in Figure 3 also shows that the data of Xiabu Xiabu is lower than that of Haidilao. This proves that Haidilao's diversified service strategy has effectively enhanced its brand awareness and market competitiveness.

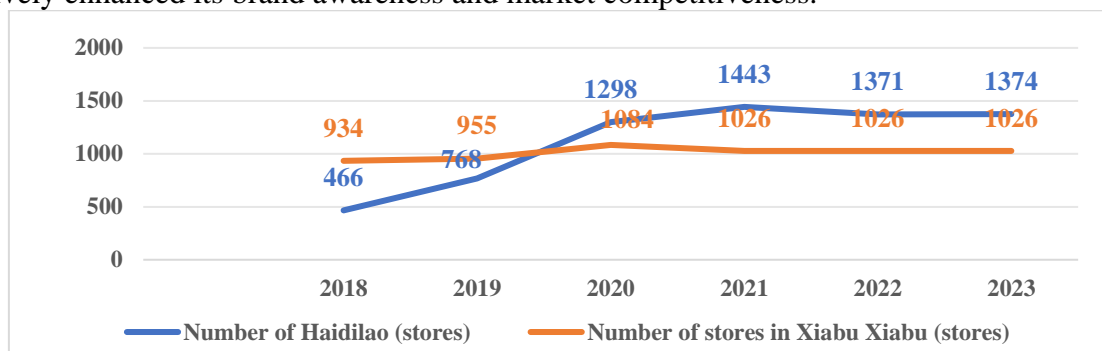


Fig 2: Comparison of the number of stores between Haidilao and Xiabu Xiabu

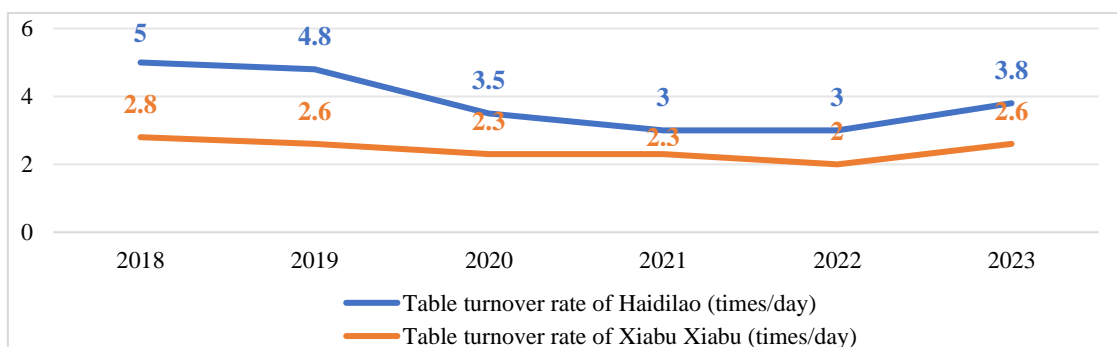


Fig 3: Table turnover rate of Haidilao and Xiabu Xiabu

5. Analysis of Haidilao's Diversified Service Strategy Based on SWOT

5.1. Strengths

5.1.1 Improve Customer Satisfaction and Loyalty

In-store Performances and Services. Haidilao presents various types of wonderful performing arts to consumers. Novel activities such as noodle-pulling, face-changing, and dancing have greatly attracted consumers' eyes and aroused their curiosity, which happen to become unique memory points of Haidilao in the eyes of consumers. In addition, other personalized services provided by Haidilao when customers are waiting, such as hand care, manicures, and services that have not yet been popularized in all stores, such as shoe shining, hair washing, children's amusement parks, and photo printing, diversify consumers' activities while waiting, which helps reduce consumers' anxiety while waiting. To a certain extent, this form reduces the probability of customers giving up during the meal waiting process. Such a diversified service strategy meets the needs of different groups, increases customers' satisfaction during dining, and further proves the irreplaceability of Haidilao in the market.

Delivery Services. Compared with the ordinary takeout industry, Haidilao has launched innovative services such as helping customers arrange dishes on-site, adjusting the pot base, and cleaning up kitchen waste, making every effort to make the brand's services more thoughtful. In addition, it provides various banquet occasion designs such as birthday banquets, family dinners, business banquets, and team gatherings, so that consumers' demands for experiencing Haidilao's

characteristic services are not limited to the store. This also proves to the market that Haidilao is not a traditional hot pot restaurant. Such thoughtful and innovative delivery services of Haidilao have further improved the deficiencies in ordinary delivery services and the catering market, further expanded Haidilao's business scope, and has always been on the path of customer-centered innovative services.

5.1.2 Enhance Brand Competitiveness

Service Differences from Competitors. When comparing the services of the same type of catering, Xiabu Xiabu has always adhered to the concept of "hygiene and cleanliness first, nutrition and speed as the key, mass consumption as the basis, and kind care appropriately", attracting customers with high-quality and healthy dishes but appearing slightly outdated in terms of services. However, Haidilao's business philosophy is to provide more intimate services, healthier, safer, more nutritious and more reassuring food for consumers on the premise of improving the stability and safety of food quality. Such a unique service strategy enables Haidilao to stand out in the fierce catering competition, deepen customers' impression and stimulate their freshness through innovation.

Brand Image Building and Communication. Haidilao first became popular on the Internet in 2011 with "extremely abnormal service", making more potential customers realize that Haidilao is the best choice for experiencing high-quality service attitude and shaping the brand's determination and measures to pursue the ultimate service. In 2019, a birthday celebration video at Haidilao went viral on the Internet. In the video, Haidilao's employees surrounded the birthday person, holding signs, singing, sending fruit platters and dancing in panda costumes for him, attracting many customers to the store to experience this service. Since then, various innovative services of Haidilao have constantly appeared in the public eye.

5.2. Weaknesses

5.2.1 Increase Costs

Rise in Labor Costs. Take Haidilao's manicure service launched in 2019 as an example. The comparison results with the previous year's costs are as follows. According to Haidilao's annual report, in 2018, the cost of raw materials and consumables of Haidilao was 69,350 million RMB. In 2019, this cost rose to 112,390 million RMB. In 2018, the staff cost of Haidilao was 50,163 million RMB. In 2019, the staff cost increased to 79,926 million RMB, an increase of 59.3%. Labor costs increased significantly.

Input in Service Facilities. According to Haidilao's annual report, the input in service facilities is mainly listed in other expenses. Other expenses increased by 18.4% from 1.361 billion RMB in 2022 to 1.611 billion RMB in 2023. The main reason was that the increase in marketing activities led to an increase of 0.99 billion RMB in business development expenses, an increase of 0.85 billion RMB in new daily maintenance expenses, and an increase of 0.62 billion RMB in warehouse expenses.

5.2.2 May Lead to the Neglect of Core Business

Unbalance Resource Allocation. Haidilao's diversified strategy is to support its diversified development through measures such as introducing the "Amoeba" business model, establishing an efficient supply chain system, implementing a clear internal promotion mechanism, improving the training system, and a flat management system. Although these measures are helpful to improve the overall operational efficiency and competitiveness of the enterprise, they may also lead to a decrease in attention to the core business due to the dispersion of resources and energy.

Limitations in Hot Pot Quality and Monotonous Dishes. Haidilao's hot pot is known for its high-quality ingredients and good service quality. However, with the development of the business, there are many factors affecting the ingredient recruitment system, such as distribution, storage, processing and other issues. Therefore, on the premise of ensuring quality, the number of dishes is relatively single.

5.3. Opportunities

5.3.1 Expand the Market and Increase Sales

Attract Different Customer Groups. Haidilao provides children's toys to enhance the consumption experience of customers and increase the fun. This strategy not only attracts children but also some college students. At the same time, various waiting services also attract the attention of many office workers because they often pursue efficiency. Haidilao provides several other services during the waiting time, which undoubtedly helps them better arrange their time and better meet their needs for time management.

Increase in Brand Awareness and Sales. The overall table turnover rate of Haidilao restaurants was 3.8 times/day in 2023, and 3.0 times/day in 2022. Haidilao restaurants received over 397.0 million customers throughout the year 2023, an increase of 43.7% compared with the previous year. Revenue increased by 33.6% from 310,386 million RMB in 2022 to 414,533 million RMB in 2023.

5.4. Threats

5.4.1 Difficulty in Uniformly Controlling Service Quality

Differences in Service Levels Among Different Stores. The implementation of diversified services and the increase in employees' workload have led to more uncontrollable product quality. Food safety issues such as "On July 20, 2020, a hard plastic sheet was eaten in the black-bone chicken rolls when dining at Haidilao in Jinan" and "On July 31, 2020, after a batch of chopsticks at Haidilao's Fuchun Xintiandi Store in Hangzhou was detected with coliform bacteria, another store of Haidilao in Hangzhou attracted attention again due to the disinfection problem of chopsticks" are common.

Employee Training and Management. The common training methods of Haidilao are the large-classroom lecture method and the apprenticeship training method. During the pre-job training of new employees, the classroom lecture method is often used. The training content mainly focuses on service awareness, post skills, language ability and corporate culture. The training topics, trainers and training locations are uniformly arranged. The training method is relatively fixed and does not start from the characteristics of adult learning, blindly emphasizing one-way knowledge imparting.

When employees enter the post to work, the apprenticeship training method is mostly used to teach the post knowledge hand in hand and train employees for Haidilao according to the process of "passing, helping and leading", but it is inevitable to be affected by the post knowledge mastery and teaching ability of the old employees. Long-term implementation of training lacking diversified forms will have an adverse impact on company's catering operation and learning atmosphere of employees.

6. Suggestions for Optimization of Diversified Service Strategy of Haidilao

6.1. Optimize Staff Allocation

In view of the high labor cost, Haidilao should pay attention to the issue of staff allocation. Firstly, the number of staff can be arranged reasonably according to the passenger flow and time period to avoid the waste of human resources. Secondly, it can also try to cooperate with some part-time platforms and recruit some part-time employees to share the work pressure, so as to deal with business needs more flexibly.

6.2. Strengthen Staff Training

Effective staff training can improve efficiency and reduce costs. Haidilao can first formulate detailed service processes and standards, and then train all employees to make them proficient in execution. A variety of methods such as explanation, demonstration and simulation are adopted in the training to avoid inefficient teaching and the non-standard caused by the old leading the new. In addition, the supervision and evaluation mechanism should be established to regularly check the service, correct mistakes and reward outstanding employees.

6.3. Optimize Resource Allocation

Haidilao should adjust the budget allocation, increase the investment in dish research and development, and can also consider cooperating with some external catering research and development institutions to jointly develop new dishes.

7. Conclusion

This article conducts an in-depth study on the diversified service strategy of Haidilao, and it can be concluded that diversified service strategy is an important measure for Haidilao to expand its business scope. Through the strategy, enterprises can not only enhance their brand competitiveness, but also expand their market. Haidilao's correct strategic choice has enabled it to become a leading brand in the hotpot industry and even the entire catering industry, providing a successful template and experience reference for the catering industry. Haidilao has developed from an ordinary hotpot restaurant to a leading enterprise in the industry, and its successful diversified service model has provided valuable inspiration for its peers. It demonstrates how to stand out in the fierce market competition by deeply understanding consumer needs, continuously innovating service content and forms, improving service quality and customer experience. However, there are shortcomings in terms of increased costs, difficulty in uniformly controlling service quality, and potential neglect of core business. This article proposes suggestions for optimizing personnel allocation, strengthening employee training, and optimizing resource allocation. The optimization of Haidilao's diversified service strategy aims to achieve greater commercial value and sustainable development, which has important reference value.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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