Analysis of Yang Guoyu's Domestic and Overseas Business

Xijin Chen*

University of International Business and Economics, Beijing, China

* Corresponding Author Email: 202206120@uibe.edu.cn

Abstract. Yang Guofu, the leading enterprise of Spicy Hot Pot in China has been receiving attention from consumers all along. But people's evaluations of this company are mixed. In China, analysts mainly analyze Yang Guofu from the perspectives of expansion methods, competitive strategies, and business environment. Besides, Foreign literature analyzing Yang Guofu is scarce.Yijuan Li has pointed out in the *China's Largest Spicy Hot Pot Chain Yangguofu Files for Hong Kong IPO* hat although Yangguofu led China's spicy hot pot scene, it is no stranger to controversies[1]. The exponential growth of restaurants operating under its brand is often accompanied by a slew of food safety incidents, sparking concerns about the firm's management and its leverage over franchised merchants.

Keywords: Yang Guofu, business, consumers.

1. Introduction

Yang Guofu Group is a fast-food industry leader based on local and facing the world. Founded in 2003, the Group owns the well-known "Yang Guofu" malatang brand, and its main business includes catering services and retail operations.The company's core management team is composed of professionals with rich experience in the catering, retail and manufacturing industries.

Since the establishment of Spicy Hot Pot, Yang Guofu has always adhered to the principle of "taste first". Every year, he has invested a huge amount of money in product research and development, constantly innovated, formulated thousands of formulas, strictly controlled food safety, and guaranteed product taste. At the same time, the research and development of equipment are also being carried out synchronously, constantly innovating technological equipment, and making product production more concise and convenient.

Through the integration of "to the store catering, take-out home, new retail" and other multi-dimensional consumption scenarios, to provide consumers with online seamless integration of offline catering experience. In the process of development, the operation system of Yang Guofu Malatang franchise headquarters continues to improve, with a number of departments, the support of franchisees is more comprehensive, one-stop support, and reduce the entrepreneurial risk of franchisees.At the same time, the research and development of equipment is also synchronized, and constantly innovate technical equipment, and product production is more concise and convenient. By innovating the formula of malatang soup and ensuring the quality of the whole process "from field to table", it can not only bring consumers rich taste and endless aftertaste of malatang, but also bring consumers health.The new factory also makes Yang Guofu's food safety reach a high standard, which is the basis for its going to the world.

1.1. From the Perspective of Customer Experience

In *Yang Guo Fu Mala Tang Chain Opens 5th Outlet in Plaza Singapura*,Rachel Tam believes that Yang Guofu provides a variety of ingredients and soup Bases such as Spicy Mala Beef Broth, Tomato Broth and so on in order to cater to the preferences of different customers [2].Admin's *SingPost Centre, Bugis Village, Esplanade Xchange, And Northpoint City* has similar opinion[3].

1.2. From the Perspective of Financial Condition.

Yang Guofu through small profits and high sales, to obtain a considerable net interest rate. In 2020, the average net profit of China's fast food industry is only about 5%, but Yang Guofu's net interest

rate has always been maintained at about 20%[4]. It relies on takeaway properties as well as single-serving properties.

1.3. From the Perspective of Expansion

The total number of Yang Guofu stores has reached 5,783, of which there are only 3 self-operated stores, and 5,759 domestic franchise stores have contributed more than 90% of the revenue [5]. Supply chain and franchise fees are Yang Guofu's main sources of income, store operating costs and risks are shared by the franchise stores, to achieve "drought and flood protection harvest". Besides, in 2020, the chain rate of Chinese restaurants is less than 20%, while the chain rate of the United States and Japan is about 50% [6].

1.4. From the Perspective of R&D

Yang Guofu is the first modern smart factory in the malatang industry with an annual production capacity of 15,000, which can be used by 12,000 stores [7] .Yang Guofu uses advanced technology to reduce costs, increase production capacity and improve efficiency.

1.5. From the Perspective of Market Environment

In 2021, China's self-heating hot pot market is expected to reach 10.37 billion yuan, and the market will continue to expand at an increase of 20% [8]. The emergence of self-heating food breaks the restrictions of the traditional scene, is welcomed by the public, and has an impact on physical stores. the malatang market size increased by 17.08% compared with 2020, and it is expected that the market size of China's malatang industry will reach 197.3 billion yuan in 2025[9].

1.6. From the Perspective of Development Potential

The increase in the price of malatang category mainly lies in the "consumption upgrade" that the category has experienced [10]. Taking Yang Guofu as an example, its stores provide more than 100 kinds of ingredients, with healthier, with room to raise prices.

2. Research Methods and Innovation

Overseas comprehensive analysis of Yang Guofu's articles is very rare.We will use SWOT model and Porter's Five Forces model to analyze Yang Guofu and the industry of Spicy Hot Pot and fill the research gap in this field.

3. Achievement

(1) Established in 2003, Harbin Yang Guofu Malatang Catering Service Co. Ltd. was established in 2007;

(2) 2017: In March, Yang Guofu International Division was officially established; In September, Yang Guofu's first overseas franchise store was officially opened in Vancouver, Canada, and its franchise stores exceeded more than 5,000;

(3) In January 2018, the second overseas store of Yang Guofu, Melbourne Store, was officially opened. In November, Yang Guofu officially opened its third overseas store in Tokyo, Japan;

(4) 2019: Yang Guofu Headquarters reached strategic cooperation with Danish Essentia supplier and won the TOP100 Chinese restaurant franchisees in 2019 and the TOP30 influential restaurant brands in Shanghai;

(5) 2021:Yang Guofu franchise stores have reached more than 6,000, covering 23 provinces and cities across the country, and began to expand to overseas markets (such as Singapore).

(6) On October 25, 2022, Yang Guofu has been approved for listing in Hong Kong.

4. Future Goal

Yang Guofu Malatang will continue to strategically expand its restaurant network at appropriate times to further enhance brand awareness, provide quality consumer experience, and bring health and beauty to consumers. Its development goal is to increase the number of franchise stores to 10,000 by 2025, known as the "10,000 store plan", and become the world's most popular malatang brand by 2030. In view of Yang Guofu's domestic development experience, Porter's five forces model can be used to analyze its opportunities and threats. These five factors are the threat of potential entrants, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the competitive intensity of existing competitors. Porter's Five Forces Model is a good choice for analyzing China's Spicy Hot Pot industry.

4.1. the Threat of Potential Entrants

Although there are many malatang shops in China, the gross and net profit margin of Malatang is relatively high compared with snacks, dinners and group meals. Secondly, Malatang has low technical content, less capital demand and low exit barriers; Moreover, although malatang has formed a wide layout in first-tier and second-tier cities, it still has greater development potential in third-tier and lower-tier cities. From 2016 to 2020, the market size of malatang in first-tier and second-tier cities has increased from 35.6 billion yuan to 42.3 billion yuan /CAGR of about 4.4%. In 2020-2025, the malatang market size of China's third-tier and below cities is expected to increase from 71.9 billion yuan to 129.2 billion yuan, with a CAGR of about 12.4%. In recent years, the scale and growth rate of the malatang market in China's sinking market is much higher than that of the first and second-tier cities. Taken together, the threat from new entrants is great.

4.2. the Threat of Substitutes

In view of Yang Guofu's domestic development experience, Porter's five forces model can be used to analyze its opportunities and threats. These five factors are the threat of potential entrants, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the competitive intensity of existing competitors.

4.3. the Bargaining Power of Buyers

Although malatang consumers are mostly individual consumers, due to the large number of malatang stores in China, and the degree of product differentiation is not large, consumers are easy to compare prices around, on the basis of the same price of the same dishes, consumers can choose hot pot restaurants with higher service quality, therefore, the bargaining power of the buyer is strong ad constantly strengthening.

4.4. the Bargaining Power of Suppliers

The upstream of malatang industry is mainly the production, processing and distribution of food raw materials, as well as tableware, beverages, etc., among which, commonly used food raw materials include fruits and vegetables, meat products, seafood, chili, sesame oil, animal offal products, etc., rich in categories, sufficient supply and relatively stable, reasonable price, relatively low price and lack of scarcity, basically belongs to a completely competitive market. The bargaining power of suppliers is low.

4.5. Competitive Intensity of Existing Competitors

Malatang market share CR5 is only 10.2%, showing a highly decentralized competition pattern, while the sinking market competition is white-hot. In terms of the number of registered enterprises, the number of registered enterprises related to malatang in China increased year by year from 2010 to 2019, the number of registered enterprises increased from 6332 in 2010 to 43,992 in 2019, fell to 35,032 in 2020, and recovered to 37,318 in 2021. Moreover, the low threshold of its shop has also

led to a large number of businesses in the industry, in summary, malatang industry in the industry competition is more intense.

SWOT analysis can be used to analyze Yang Guofu's internal and external context. SWOT analysis mainly includes four aspects which are strengths, weakness, opportunities and threats. Here are the details.

4.6. Strengths

First,it has brand recognition and a good reputation, and is welcomed by consumers. Second, the company provides a combination of online and offline consumption experience, while breaking the traditional consumption scene restrictions. Can be eaten alone in line with the needs of modern people, with the potential to further expand the market. Third, Yang Guofu has a professional factory R&D team to innovate formulations and ensure adequate supply. In addition, industrial supply chains and standard production processes ensure food safety and quality stability.Fourth,Yang Guofu adopts a franchise model that is easy to expand to ensure rapid expansion and strong anti-risk ability.

4.7. Weakness

First, because the enterprise adopts the operation mode of joining, the management cost is high. Second, it is difficult to raise price as the price elastic of demand for malatang is elastic .A rise in the price will cause a large decrease in quantity consumed.Third,the profit model is relatively simple, so it lacks stability.Second,Yang Guofu built factories and research and development bases in multiple locations, increasing both fixed costs and variable costs.

4.8. Opportunities

First,it is in line with the consumption needs and trends of most contemporary consumers. Second,the government has adopted a preferential policy for the resumption of work in the catering industry.

4.9. Threats

First, the number of competitors for similar products is constantly increasing. Second, the development of self-heating food has reduced malatang's market share.

In order to avoid fierce domestic competition in China, Yang Guofu's timely expansion of overseas markets is a wise choice. But can successful experiences in China really be replicated abroad?

PEST analysis is a model that explores and understands the impact on enterprise development from four aspects: political and legal environment, economic environment, social and cultural environment, and technological environment.

We will use the PEST model to analyze Yang Guofu's overseas business environment.

In terms of political and legal environment, the United States, the United Kingdom, Canada and other countries have all introduced environmental protection laws and food safety laws which means Yang Guofu needs to invest more resources in environmental protection and quality assurance.If these aspects are not taken seriously, Yang Guofu may be negatively affected by large fines and public criticism. The limitations of labor low such as the minimum hourly wage will further increase the labor costs of Yang Guofu. The cooperation between China and Southeast Asia is becoming increasingly close, and both sides.

In terms of economy, affected by the epidemic, the economic development of the United States and the UK is sluggish. The inflation rate is constantly increasing.The prices of raw materials and rent are on the rise. After the outbreak of the Russo Ukrainian War, the prices of commodities such as food and fuel rapidly increased. Compared to China, the corporate tax in the United States is lower, which facilitates Yang Guofu's development. Up to August 2023, the Federal Reserve has raised interest rates five times, resulting in an increase in Yang Guofu's operating costs.

For the perspective of social and cultural aspects, Spicy Hot Pot originated in China and is an imported product for overseas markets. The taste of Spicy Hot Pot may not well cater to the

preferences of overseas consumers. Besides, most European countries have entered an aging society, and the proportion of elderly people has increased, which may not be suitable for spicy food. Meanwhile, the stagnation of economic development has led to an increase in unemployment rate. Influenced by public opinion, countries such as the United States have developed discriminatory ideas against Asians. In addition, more and more Chinese students study abroad, which facilitates the expansion of Spicy Hot Pot's overseas business. For the perspective of technical environment, Yang Guofu's core technology lies in his soup but after years of research, Yang Guofu's formula is no longer a secret.

Through PEST model analysis, we can learn about Yang Guofu's overseas market situation. Next, we will analyze whether Yang Guofu's successful experience in China can be applied to overseas markets again.From previous analysis, it can be inferred that Yang Guofu first opened up the market with excellent formulas and low prices, then gains more market share through franchisees, and finally profits by selling ingredients to franchisees.

This expansion method means Yang Guofu wants to replicate such success, he needs to consider the following issues: The differences in dietary cultures between China and Western countries have led Yang Guofu to develop new formulas to cater to the preferences of overseas customers;

The rise in prices of fuel, grain, and other commodities caused by the Russo Ukrainian War; Inflation in countries such as the United States and the United Kingdom; These will increase Yang Guofu's operating costs. In a word these problems are harmful to the profit.

Other businesses are also imitating Yang Guofu's model overseas and competing with it.

The supply chain is not yet mature and cannot lower the prices of ingredients. Yang Guofu's overseas stores are located in multiple countries, which are far from the headquarters in China. Coupled with language and legal barriers, it will be very difficult to establish a stable supply chain in the short term.

Managing franchisees becomes more difficult. Franchisees are distributed in multiple countries, which is not conducive to centralized and unified management. Considering the high costs overseas, some franchisees may take the risk of using inferior products.

Based on the above factors, Yang Guofu faces the dilemma of high initial investment and lowreturns. In order to get out of the predicament, here are some suggestions:

China and Southeast Asia have similar cultures and numerous overseas Chinese, making it an ideal target market. Utilize mature domestic supply chains, convenient transportation between China and Southeast Asia and low labor costs to explore and consolidate the Southeast Asian market. This can also accumulate experience in overseas operations.

Fully developing the market for the Asian community, strengthen publicity, and expand the audience is useful to enhance Yang Guofu's visibility. Chinese students of Asian descent are more receptive to Yang Guofu's taste of Spicy Hot Pot, which is the most easily won audience in the overseas market. By promoting the Asian community, Yang Guofu's visibility can be improved.

Considering that the taste of Spicy Hot Pot may not well cater to the preferences of overseas consumers, it is imperative to develop Spicy Hot Pot suitable for overseas consumers. Yang Guofu has established multiple research and development bases in Sichuan and other regions, possessing technological advantages to create products that meet overseas consumers as soon as possible. Meanwhile, Yang Guofu can add ingredients that are more suitable for overseas consumers' preferences, such as fried chicken, French fries, etc.

Selling self heating hot pot and other fast food products overseas. According to the original formula, Yang Guofu has successfully developed instant food products such as self heating hot pot. However, other fast food products have already taken over the market in China, resulting in fierce competition and difficulty in gaining market share. So, expanding the market overseas is a good choice.

Creating high-end products. From the PEST model analysis, it can be concluded that the cost of Yang Guofu's overseas business will significantly increase. Therefore, creating high-end product profitability is an important way to solve the problem. In order to create high-end products, Yang

Guofu needs to strictly control product quality, use high-end raw materials, and create a good reputation. Considering the management issues brought by franchisees, Yang Guofu can operate high-end products through direct stores.

Strengthen management and support for franchisees. In domestic business in China, Yang Guofu has repeatedly encountered issues such as poor hygiene, spoiled ingredients, and poor service attitude due to improper management of franchisees. If these problems reoccur, it will seriously damage Yang Guofu's reputation and lead to local government punishment for Yang Guofu. Overseas customers attach great importance to these issues, which requires Yang Guofu to strengthen the management of franchisees.

5. Conclusion

Since its establishment in 2003, Yang Guofu has opened up the market with low-priced products which is closely related to China's unique national conditions. Yang Guofu's formula caters to the taste of Chinese people, with low prices opening up the market, and franchisees helping Yang Guofu quickly gain market share.However, Yang Guofu's domestic development experience cannot be replicated overseas. The environment in the overseas market is different from that in China, which requires Yang Guofu to make corresponding adjustments. Overall, what Yang Guofu needs most is the development of high-end markets and sufficient long-term operation.The high-end market has become a new profit point for Yang Guofu, and long-term operation will stabilize Yang Guofu's profitability. Obviously, for Yang Guofu, who has just opened up overseas markets, there is still a long way to go.

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