

# Analysis on Catering Industry Under Cov-19 ----- Taking McDonald's and Haidilao as Examples

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## ABSTRACT

As Corona virus occur in January and later spread to the whole world, the economy got hit hard by this epidemic. And catering industry got hit the most during Cov-19. However, many companies didn't choose "sitting duck", instead they stayed positive to face the crisis and keep operating during the worst period of the economy. This paper analyzes the impact of Covid-19 on the catering industry by comparing two companies: Haidilao and MacDonalad and looking at the impact of Covid-19 on this company's customer rates, cash flow, consumer channel. The conclusion set out from analyzing, and comparing the strategies the two companies take to face the crisis is : a mature company needs to know how to turn a crisis into an opportunity. Companies need to be flexible to the way it operates, secure steady cash flow, use proper marketing strategies and build good reputation with the communities and the consumers.

**Keywords:** *Cov-19, economic impact, company's response, catering industry, McDonald's, Haidilao*

## 1. INTRODUCTION

Cov-19 is a form of virus that has huge impact on people's health and the country's economic development. Under the impact of the epidemic, enterprises are facing severe challenges. The virus's impact is just like the second big depression for the whole world. Under the world's economic pressure, how to turn the crisis into an opportunity for the company, how to continue to produce, expand and develop, and what countermeasures should be taken to restore normal operation as soon as possible are the lessons that companies need to learn. This paper will analyze the impact of the epidemic on the catering industry as a whole and more specifically to two individual companies. Using McDonald's and Haidilao as examples, to analyzes and compares the strategies companies use and actions companies take under the epidemic. How the different strategies and actions change the situation for companies and what inspiration comes out to set an example and set an alarm for the future crisis. The study is important because companies can learn from the effective strategies and smart actions some companies take to turn the crisis into opportunities and learn from the mistake companies have made so they don't need to repeat what tragedy for some companies again.

### *1.1. The impact of Cov-19 on the catering industry, taking Haidilao as an example*

Cov-19 had impacted the economy for the world in a very negative way, especially for the travel industry and catering industry. After seeing the malign effect of the virus, people start to cancel their dinner plans. As data shows, reservations decrease significantly. This decline gives restaurant hardship because they can't get enough customers. People choose to buy groceries instead of taking out from the restaurant due to the risk of being infected. Customers lack confidence and decline in consumption capacity also give companies a hard task. The catering industry experiences the hit by the Covid-19 the most when the government orders states to announce that executive orders to shut down all onsite-dining at restaurants and bars[1]. As it is considered unnecessary for people to go to restaurants. People can't dine-in, low customer rates, are all the deadly factors for the restaurant. At the same time companies are facing pressure from wage costs, cash withdrawal, low cash returns and high rent. Restaurants still need to pay employees wages though the revenue is low. The market becomes very limited since delivery becomes the only option. The famous hot pot brand Haidilao, has been greatly affected by the epidemic. Haidilao by it's High brand loyalty, considerate service, great taste rank number one dining experiences among Chinese brands[2]. Although Haidilao is considered as the Food and Beverage industry leader, the Cov-19's outbreak still hit it business hard significantly. During the epidemic, Haidilao

needs to face the pressure that comes from the sharp drop of operating income, employee wages, rental, inventory cost, expired materials and purchase of epidemic prevention materials[4]. Starting from 1/26 all the Haidilao restaurants all closed including all the chain restaurants. The chain stores distribute in 58 cities, total 332 stores experiencing a 50 days closed down during the epidemic. Daily loss of income is 5789.6 ten thousands RMB and the daily employee wages for all the stores are 2029 ten thousand RMB[4]. During the 50 days, instead of starting to offer takeout or delivery options, Haidilao chooses to not take any actions. Therefore customers don't have appropriate consumer channels. And the total loss of 50 days closing is huge: around billions of RMB. After Haidilao reopened, instead of giving customer discounts, using the method of small profit and large sales, Haidilao increased its product price. However, research found out that Haidilao didn't just increase the food price this year. Actually from 2015-2019, People's consumption per capital was 91.8 yuan, 94.5 yuan, 97.7 RMB, 101.1 RMB and 105.2 RMB[5]. Respectively, this is not because people are eating more, but because the price of Haidilao's vegetables is rising slightly every year. The reason behind the price increasing is because Haidilao is trying to accommodate increased costs for ingredients and labor and also compensate for fewer customers because it had to cut the number of tables available in response to social distancing requirements. Consumers were shocked by seeing the 6 percent increase of the food price. The unreasonable increase of price makes consumers think that Haidilao is taking advantage of the market after reopening the restaurant. The consumers express their discontent by posting on social media called Weibo. These postings have impacted Haidilao's reputation significantly. Newspapers use this hot topic to attract people around the world. After recognizing the impact of the customer's comment on social media, Haidilao chose to apologize "The decision of price increase is a bad decision, it hurts our reputation and customers[6]." After apologizing, Haidilao adjusted the price back to normal to quiet down the criticism. Though Haidilao is one of the leading companies in the catering industry, the strategies it takes during epidemic servers as a bad example for other companies. Though the epidemic did impact the economy significantly, the actions Haidilao took during the epidemic didn't remit the pressure from the epidemic, it made the situation worse.

## ***1.2. Catering enterprises that take actions and survive during the COV-19***

Though most of the catering industry got hit by the epidemic hardly. McDonald's, an American fast food company, became a model for the restaurant industry. Although McDonald's had closed hundreds of stores in Hubei, Wuhan, there are still 3000 stores remaining open. The report that

comes out 1/29/2019 shows that McDonald's earned \$1.57 billion on revenue of \$5.35 billion, both slightly higher than a year earlier. And the worldwide comparable store sales rose 6 percent which shows how strong the competitive ability the company has[7]. Covid-19 definitely hit McDonald's operating, many chain stores of McDonald's have closed down because of COvid-19 in countries like: United Kingdom, Ireland.. Breakfast also becomes the weak spot for McDonald's operations because the small customer rates and the restaurant can't offer dine in. But that is expected for MacDonal, every company will have its vulnerability. The sudden crisis is bound to affect its performance in a short time, but it has never completely destroyed. Because facing the crisis, emergency management, and efficient response is the wisdom of McDonald's. The company takes immediate action from several dimensions: safeguard procedures, secure cash flow, restaurant remodeling, Proper marketing, working with franchisees to gain support. Also the experience in SARS, helps McDonald's to face this crisis more calmly and they know what strategies they can use from the experience.

### *1.2.1. Experience from SARS*

Back in 2002, when SARS first started in Guangdong, China. Then spread to south Asia. Just like Covid-19, SARS has a huge impact on the catering industry. In 2003, the retail sales of catering industry in Beijing fell for the first time in three years. The closing rate of catering stores reached 70%, and the operating performance generally declined by 50-80% compared with the same period in 2002[8]. Facing SARS in 2002, MacDonal used two strategies: Convenience and cleanness. The company adapted delivery methods where it offers free delivery for people who work in the hospitals and communities. Employees needed to use McDonald's special sanitize to disinfect themselves. The company also tried to establish good images during the crisis. It specially allocated more than 500,000 RMB to buy more than 500,000 masks to give it free to customers who patronized McDonald's. At the same time, McDonald's also provided common sense leaflets to prevent SARS[9]. All these steps MacDonal took during SARS helped it to establish a good fundamental system to face the crisis. So when Covi-19 starts 17 years later, MacDonal can also use the strategies that it thinks are significant during SARS to help them through Covid-19

### *1.2.2. Safeguard procedure*

Having the experiences from SARS makes the safeguard procedure for MacDonal easier. Since the useful strategies can also apply during the Covid-19. After closing down the dine in section for all the stores, McDonald's takes safeguard procedures immediately to ensure the well-being of all the

employees, customers and the communities. In order to ensure the safety for the customers and the communities, the first step is to safeguard the well-being of employees. The company takes the right steps of safeguard by working with national and local government and health authorities. All the employees have to check the body temperature as they get in the stores, wearing a mask for the whole time is required. They are required to increase the frequency to wash their hands than normal. Employees with high temperature are required to stay home to observe. All the stores closed dine-in seating and also the self service bar to avoid the chance for the customer to get infected. All the surfaces in the high impact area are sanitized and cleaned. Although the dine in seating is not provided, the company provided drive thru and delivery. The food delivery person is required to wear a mask all the time during delivery, after they come back to the store, they need to wash their hands immediately and sanitize the delivery box and clean the surface where the delivery box is put on every hour. The customer can also choose different options of delivery. If they have concerns about meeting the delivery person, they can choose “delivery without contact” where the delivery person can deliver the food in any places the customer wants to avoid the risk of transmission of viruses from people to people[7].

### 1.2.3. Secure cash flow

During the epidemic, companies that don't have enough cash flow become the fatal reason for bankruptcy. Without enough cash flow, the company can't make turnover, can't continue to operate. Which put company into a dead point. MacDonald has the wisdom, in order to ensure the cash flow, the company has secured \$6.5 billion[7]. Having certain cash flow gives the company more budget and it also increases the safety of its dividend[10]. The diagram below represents the economic earnings of MCD from 2015-2019. It shows an upward trend which means that the economic earnings are increasing from 2015-2019, especially from 2018-2019. As the economic earnings increase, the dividends also increase. Because cash flow supports dividend payment. As data shows, the annual dividend share in 2015 to 2019 increased from \$3.44/share to \$5.00/share [11]. The dividends share also gives shareholders more confidence in MCD. The secure cash flow gives company This is important because many company's shareholders may lose confidence and trust for the company when they say the loss of economic earnings and decide to withdraw which leads to decrease of cash flow the company can have.

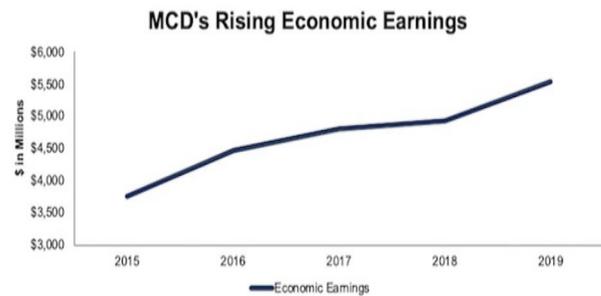


Figure 1. MCD's rising economic earnings from 2015[12]

So MCD did a good job by paying more dividend to shareholders to stable their confidence in the company. The secure cash flow McDonald's have give it an optimistic prospect during the epidemic. It also provide opportunities for McDonald's to turn crisis to opportunities for operating.

### 1.2.4. Remodel the restaurant

In order to elevate the experience for the customers during Covid-19. The company remodelled the restaurant: offering pick-up, upgraded drive-through lanes with digital AI-powered menu boards, which customers can easily order in the car without the risk of ordering face to face with the employee. Dining room power outlets for charging devices and a pick up counter for delivery orders which the restaurant will make sure it's sanitized and clean for customers to pick up the food[12]. All the remodel the company did attract many customers because they don't need to worry that much about the risk of getting infected as MacDonald further improved its service quality.

### 1.2.5. Working with franchisees to gain support

Knowing how to appropriately work with franchisees is also very important for a chain restaurant. MacDonald did a good job on it. The company works with franchisees around the globe to support financial liquidity, to avoid the negative financial impact Covid-19 binged as much as possible. The company's franchisees, suppliers and partners have contributed to the well-being of the employees and customers significantly. Franchisees operate about 90% of McDonald's restaurants[12]

### 1.2.6. Proper marketing

Despite offering Delivery and drive through during Covid-19, appropriate marketing is also needed to help MacDonald to build a good reputation in the catering industry. MacDonald donated 400,000 KF94 masks to the States of Illinois

operation center to help those medical workers who helped fight Covid-19 in the front line for the country and all the citizens. McDonald's reserve masks from their partners in China during the time when the supply of masks in the US is in shortage[13]. During the outbreak of Covid-19, in order to release the worries customers may have on the safety of the food, MacDonald attaches a "Peace of mind MCLE Delivery Card" on its delivery orders. It includes the name, temperature of the delivery person as well as the food production information to trace the origin.

All these strategies MacDonald uses help it to build a good reputation in both the catering industry and in the customer's heart. According to the data, about 70% of the McDonald's restaurants provide delivery service. And it ranked first place in the third party delivery form. People who register as members exceed 100 million. 80% of these members can provide digital experiences online This provides a good promotion channel for McDonald's [7]. Good marketing strategies help MacDonald to gain better reputation and gain more customers.

### ***1.3. How company should response emergencies by the experience of Covid-19***

The chances for such an epidemic to occur is really rare. However, every company needs to be ready to face it So that when a crisis comes, the company knows how to deal with it. By comparing the actions of the most famous restaurant: Haidilao and McDonald's, other catering companies can learn some lessons.

First of all, companies need to secure their cash flow. When it comes to places where the company needs to use cash for operating or for the turnover before bankruptcy the company can actually take out these money. Haidilao and MacDonald, both restaurants have a certain amount of cash flow and that's why though Covid-19 has hit the market hard, these two restaurants can still survive. Secondly: Companies need to learn to be flexible. When facing emergency events, It's easy to see that McDonald's is more flexible than Haidilao no matter the actions it takes and strategies it uses. Instead of closing down all the restaurants like Haidilao, MacDonald chose to face the crisis directly and take actions immediately. After closing down the dine in the seating area, McDonald's opened drive thru and cooperated with third party delivery companies to offer delivery services for customers. Being flexible can provide more chances and opportunities for the companies. Thirdly, proper marketing strategies are essential for companies to spent a difficult time. It's very obvious that MacDonald does more advertising than Haidilao which increased their customer rates. Moreover, because

MacDonald offers delivery service, customer who order food online can write digital experience which provides a good promotion channel for McDonald's. For Haidilao who don't do advertising and don't offer delivery, it loses all these chances for increasing customers. Good reputation is also very important for restaurants. Both Haidilao and MacDonald did a good job by donating masks during Covid-19 to help medical workers, policies, communities in the front line. They earned a good reputation from that. Fourthly

: For the catering industry, customers should be their property because without enough customer rate, the company can't operate. For Haidilao, it increased food prices after reopening, wanted to take more benefits from customers to recover the loss the company had during closing down. That causes many customers to be dissatisfied. On the other hand, MacDonald chose to use low price high sales strategies, which is considered a more appreciated and smarter way to operate during Covid-19. These strategies not only apply to the catering industry but apply to the whole market in both regular and special time periods.

## **2. CONCLUSION**

Though China is the first country that has the most amount of Covid-19, it's also the country that controls the virus by taking immediate safeguard actions, government's controls and corroboration with citizens. A company is just like a country, when a crisis happens, it needs to take immediate actions. MacDonald by its experience from SARS, safeguard procedure, secure cash flow, restaurant remodeling, support gaining from franchisees and proper marketing successfully turn crises to opportunities. It still operates well during the Covid-19. MacDonald builds a good reputation among communities by helping donate masks and money to communities. The actions the company took reflect the maturity of this company, it is strong enough to face the crisis. Covid-19 is a crisis but it also gives many companies a big lesson about how to be a mature company: be strong enough to face the crisis, be flexible to the changes of the world, and turn crises to opportunities to operate.

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