

# Impact of COVID-19 on Enterprises and Countermeasures

## A Case Study of Haidilao Hotpot

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### ABSTRACT

The burst of COVID-19 has seriously affected annual profitability and cash flow of enterprises. However, digital management and digital transformation can help enterprises overcome the difficulties. Taking Haidilao Hotpot as an example, this paper analyzes the adjustment and development of the business model of catering enterprises during the epidemic. It shows that the stock price and Tobin's Q value are relatively good, and the profitability and sustainability are positive but there are still some operational risks. The analysis can inspire other small and medium-sized enterprises to deal with the epidemic.

**Keywords:** COVID-19, Digital era, Haidilao Hot Pot.

## 1. INTRODUCTION

Since December 2019, the COVID-19 has swept all over the world. The epidemic prevention measures have led to a sharp setback in corporate profits. Compared with the Spring Festival of 2019, 78% of the catering enterprises had a 100% loss in their main business revenue in 2020; 9% had a 90% loss in business revenue. The epidemic has made the catering industry into severe situations. According to the data from TianYanCha, 20,000 catering enterprises were closed down in the first two months of 2020, and the number of new enterprises decreased by 47% compared with the same period of 2019. In January 26, 2020, Haidilao temporarily closed their domestic hotpot outlets due to the epidemic. CITIC Construction Investment reported that public health emergencies were expected to bring about RMB 5.04 billion in revenue losses to Haidilao in 2020, about RMB 580 million in net profit to its parent company. The company will be under huge pressures.

Concerning the impact of the epidemic to enterprises and the corresponding measures, most small and medium-sized enterprises can only cope with the future unpredictable impact by digital and intelligent transformation. The financial digital transformation needs to have insight into the future

and be able to make right judgments. The transformation can be realized only by innovation on work concepts, work methods and orientation on customers. Haidilao is one of the catering enterprises in transformation when coping with the epidemic. The paper takes Sichuan Haidilao Catering Co., Ltd. (hereinafter referred to as Haidilao) as the research object, analyzing the impact to it and its coping strategies during and after the epidemic, and aiming to provide a reference to other similar enterprises.

## 2. JOURNALS REVIEWED

Joanna Fantozzi (2020) reported that, due to the persistent challenges from COVID-19, the income of foreign catering companies has been greatly impacted. The Rave Group's revenue declined nearly 40% in Q4, while the Pizza Hotel reported a 39% decline in domestic same store sales and the Pie Five reported a 37.9% decline as well. Hyoung Ju Songa, Jihwan, Yeona and Seoki Lee (2020) revealed the impact of COVID-19 on the U.S. catering industry by seeking the driving factors of company's stock return during the epidemic. They proposed that catering companies of larger scale, greater leverage and more cash were less likely to be affected by the decline in stock returns corresponding to COVID-19, and that the rise of

ROA has exacerbated COVID-19's negative impact on the stock returns in the U.S. catering industry.

Yang Ya (2020) analyzed how enterprises maintain financial health and solve the epidemic, and what kind of strategic thinking Chinese entrepreneurs should have at the moment. It is believed that enterprises should change their previous linear thinking, improve their operational efficiency, realize lean management and value their digital assets by intelligent and digital means. Xi Xiaohui (2020) believed that the application of scenario planning in financial strategy management was important for enterprises to obtain competitive advantage when facing the impact of the epidemic, and proposes that the process of financial strategy formulation, implementation or adjustment cannot be separated from the support of digitization. Digitization can integrate business financial information in real time, help enterprises reduce costs, make flexible decisions and reduce network risks and facilitate telecommuting.

According to the research of the domestic and foreign scholars, it is known that the COVID-19 has made human beings into a fate community. Its influence is not geographical. Domestic and foreign enterprises suffer from it but digital transformation can help them cope with the impact. Therefore, enterprises should change their previous linear thinking, improve their operational efficiency and achieve lean management by intelligent and digital means, so as to reduce the losses caused by the epidemic.

### **3. A CASE STUDY OF HAODILAO**

#### **3.1 Introduction and Operation Status**

Sichuan Haidilao Catering Co., Ltd. (hereinafter referred to as Haidilao) is a large-scale hot pot brand, which is cross provincial, chained and direct selling, focusing on Sichuan style hotpot and integrating various hotpot styles. It was founded by Zhang Yong in Jianyang, Sichuan province in 1994. With the change of people's lifestyle, the influence and scale of the catering industry is gradually increasing. In 2017, its annual revenue was RMB 10.637 billion, serving more than 100 million customers a year, ranking first in China and even in the global catering market. It was officially listed on the Hong Kong Stock Exchange in September 2018 (Stock Code: 06862. HK). After 26 years of development, it has become a leading catering enterprise. It constantly excavates new opportunities in catering market and creates a

catering service mode oriented on consumer experience. Keeping pace with the development, it has become the first catering enterprise in China to use digital personalized ordering system combined with new Internet technology and digital management.

#### **3.1.1 Analysis on Business Model**

##### **3.1.1.1 Eat-in Business**

According to its financial report of 2019, Haidilao's main business income comes from eat-in. The income of restaurant business was RMB 25.588 billion, accounting for 96.3%. However, due to the COVID-19, the number of eat-in customers has decreased significantly. Although the epidemic in some cities has been alleviated, the recovery of eat-in business is still slow.

##### **3.1.1.2 Online Business: Self-heating Hotpot**

At the beginning of 2018, Caidumei, a brand of Haidilao Shuhai Supply Chain, transformed from selling food materials to semi-finished vegetables, but its operation was not good and was suspended in mid 2018. The rapid outbreak of COVID-19 has made consumers difficult to go out, but it has brought a promising market for semi-finished products. Haidilao has turned the crisis into an opportunity to relaunch semi-finished products.

##### **3.1.1.3 Takeaway Business**

Its takeaway business was suspended during the COVID-19, but most other catering enterprises made profits from it. After the epidemic was alleviated, the takeaway sales of most restaurants increased significantly, while Haidilao stopped all business, resulting in a relatively slow recovery of takeaway business afterwards. Its hotpot delivery has great inconvenience, resulting in poor delivery business income.

#### **3.1.2 Analysis on Operation Status in the Past Years**

According to the income data of Haidilao in the past five years (Table 1 below), the total income of Haidilao has an upward trend from 2016 to 2019. Particularly, the growth rate of restaurant business income is the highest, followed by that of takeaway business income. However, in the first half of 2020, due to the impact of COVID-19, enterprises' income dropped sharply, but its takeaway business

income maintained a steady growth rate. The annual operating revenue of 2019 is the highest, about RMB 25.61 billion.

Table 1. Income details of haodilao (RMB 100 Million)

Item	2016-12-31	2017-12-31	2018-12-31	2019-12-31	2020-06-30
Restaurant Operation	76.40	103.90	164.90	256.10	91.60
Takeaway Business	1.50	2.20	3.20	4.50	4.10
Sales of Condiments and Food Materials	0.30	0.30	1.50	4.90	1.90
Total Income	78.10	106.40	169.70	265.60	97.60

a Source: Haidilao Annual Report

According to Haidilao’s interim report, it is committed to opening new outlets in the first half of 2020. Its global outlets network will increase from 768 on December 31, 2019 to 935 on June 30, 2020. Despite the active expansion of outlets, its business performance in the first half of 2020 is not good. The operating income (restaurant operation) is the main income source. According to the comparison between the data of the first half of

2019 and that of 2020 (Figure 1), the revenue of the first half of 2020 is RMB 9.16 billion, 19.2% lower than that of the same period of 2019 (RMB 11.33 billion). However, the takeaway business revenue for six months ended June 30, 2020 was RMB 410 million, an increase of 123.7% compared to RMB 190 million in the same period of 2019. Due to the impact of COVID-19, the number of its takeaway orders increased rapidly.

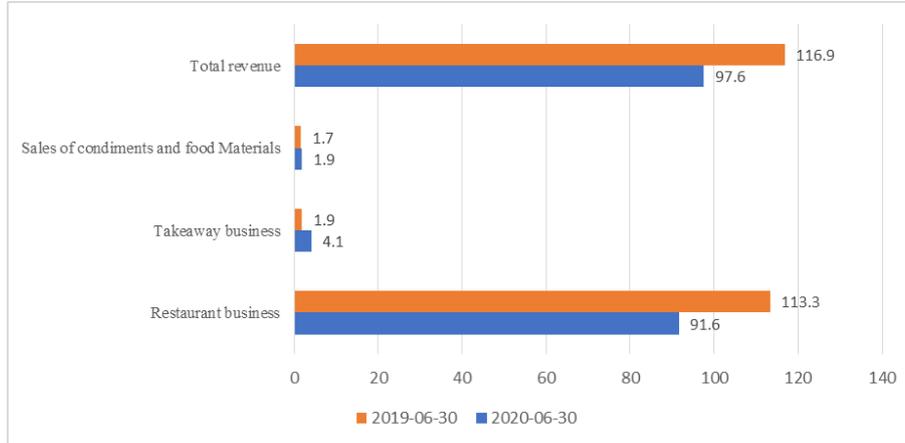


Figure 1 Comparison of revenue details of haodilao on June 30, 2019 and June 30, 2020.

### 3.2 Countermeasures of the COVID-19

#### 3.2.1 Goal Setting and Adjustment

During the epidemic, Haidilao set a new target that was to prevent the COVID-19 through the country and to aid Wuhan city. In January 23, 2020, the control headquarter of COVID-19 is established and relevant epidemic prevention and control measures were launched. At present, in the case of

indefinite closure, it not only better regulates its internal operation, but also actively responds to the social prevention and control measures and actively donates money and materials.

#### 3.2.2 Digital Transformation

In the past years, Haidilao has been changing people's dining experience by various digital means. In the process of digital transformation, cloud technology is its focus. During the epidemic,

digital promotion was accelerated. Firstly, it cooperated with Blackbee Technology to build a set of contactless delivery system. Secondly, it launched the "Fresh Direct Distribution" convenience service on its APP, and finally added "E-commerce Live Broadcast" to its epidemic prevention plan. The further application of digitization makes it able to provide catering services during the epidemic. In the first half of 2020, it was actively promoting the intellectualization of its outlets. Three outlets were equipped with intelligent mechanical arms, 23 outlets equipped with "Thousands of People, Thousands of Flavors" intelligent boiler matching machines, and outlets all over the world equipped with IKMS intelligent kitchen management system.

### *3.2.3 Integration of Offline and Online Business*

During the continuous impact of COVID-19 on the whole country, Haidilao adhered to epidemic prevention disinfection and online services, and upgraded the Contactless Delivery and Peace of Mind services. It also began to enter the semi-finished product market. By trying to prefabricate dishes, it launched the Kaifanle series of semi-finished convenient dishes, including 12 classic dishes and 4 selected soups, posted on its official APP, takeaway ordering system and several e-commerce platforms. As early as in the SARS period, it used the Internet thinking of OTO (online to online) to launch takeaway services. Through Online and Offline consumption, it realized the aggregation of catering enterprise traffic, and continuously optimized the enterprise brand with the help of user comments, so as to achieve sustainable development.

### *3.3 Analysis on Countermeasures of COVID-19*

"Figure 2" below shows the mechanism model of Haidilao's business model on market performance. It uses the income method of value evaluation method for reference, takes profitability as the income index and uses operational risk to represent the discount rate of future income. From these two perspectives, the paper explores the formation motivation of its performance in catering market. In terms of profitability, according to the profit model of hotpot catering, the paper further explores the profit sustainability and profit growth by describing the current profit level of the industry, in order to reflect its future earnings. In

terms of operational risks, the paper concerns the feature of its single delivery system and the pressure of market competition, so as to judge the degree of future income discount. Obviously, the higher the profitability is, the higher platform value expected by the market is. However, the increase of operational risks will weaken investors' value judgment to the platform, which plays an opposite role in the trend of market performance. This paper will describe the development trend of its market performance based on the change of stock price and Tobin's Q value, and explore the change motivation of market performance in such business model according to the profitability and operational risks of the platform.

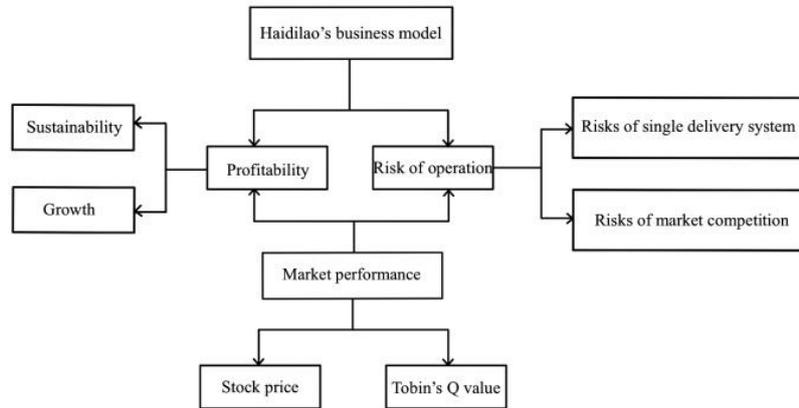


Figure 2 Mechanism Mode Of Haodilao’s Business Model On Market Performance.

### 3.3.1 Value Judgment of Stock Price Trend

As one of the listed catering company in China, Haidilao's stock price trend represents investors' judgment on the market value of the catering industry. As one of the earliest listed catering companies (see "Figure 3" below), its opening price was HK\$18.57 on the first day, with the highest

price of HK\$19.41 on the same day, its closing market value about HK\$93.121 billion. From the analysis on its stock price from September 2018 to June 2020, the highest price has reached HK\$39.00, reflecting market investors' optimistic attitude towards its hotpot market. According to the market enthusiasm and its developing prospect, its stock price is estimated to maintain high growth.

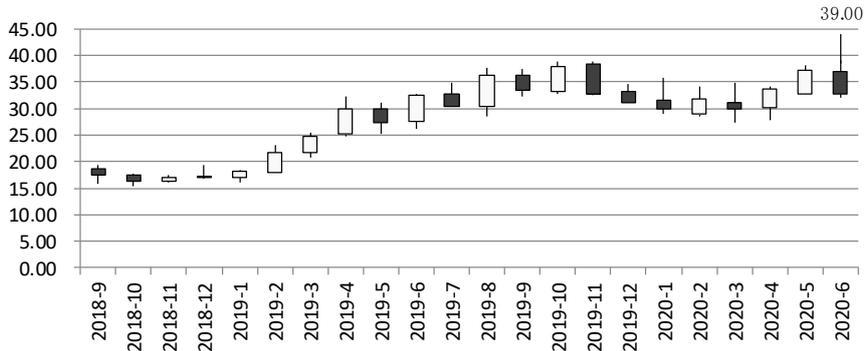


Figure 3 Stock Price Trend of Haodilao.

### 3.3.2 Tobin Q's Value

Tobin Q's value is a common index value to evaluate a enterprise's sales performance. Its formulae is enterprise value / asset replacement cost. If the value exceeds 1, it indicates that investors are optimistic about the enterprise's prospect and it has the demand to increase investment in assets. On the contrary, the reverse is true. In the calculation of Tobin's Q value, substitute data are often used in financial statements to calculate its approximate value because it is difficult to obtain such data as the replacement cost of assets. Since all shares issued by Haidilao are

circulating shares, the approximate Tobin's Q value is (market value + liabilities book value) / book value of assets, market value = circulating stock \* closing price. "Table 2" calculates its market value and Tobin's Q value at the end of each quarter since its listing on September 26, 2018. It can be seen that its Tobin Q value has always been above 2. The reason of higher Tobin's Q value is the nature of catering industry. It also reflects market investors' recognition of its business model. As for the trend of Tobin's Q value, it was highly valued by the market at the initial stage of listing. Its market value in Q4 of 2018 was close to HK\$ 98.729 billion and Tobin's Q value was 7.79,

showing that the capital market was extremely enthusiastic about such hotpot catering.

Thus, its market value increased contagiously, Tobin's Q value gradually to 10.90 in Q3 of 2019, rapidly to 8.49 in Q4, and remaining 7-8 afterwards. From the fluctuation of market value and Tobin Q value, its business model and market value are constantly going through investors' test. Its value creation and value realization mode is gradually shaped. It seeks a balance between short-term fluctuation and long-term value so that its stock price reflects the real value.

Table 2. Stock Price And Tobin'S Q Value of Haidilao

Annual	Mark Value(HK 100 million)	Tobin's Q va
2018Q4	897.29	7.79
2019Q1	1318.11	8.24
2019Q2	1722.50	10.63
2019Q3	1767.55	10.90
2019Q4	1650.95	8.49
2020Q1	1592.65	7.53
2020Q2	1733.10	8.14

a Source: Haidilao's Annual Report and Author's own compilation

### 3.3.3 Profitability

**Profit Sustainability.** An enterprise's profit comes from the remaining part of its economic output after covering the input of resources. If an enterprise can spontaneously form a complete closed loop from the input to the output in its business activities and maintain its independent operation in its main business rather than relying on accidental income sources, it can maintain its profit sustainability. For catering industry, there is a promising market in the early stage of development due to the brand effect and consumers' need for catering. Thus, Haidilao is profitable as a whole. Its profitability has declined because of the COVID-19 and the fact that its business income mainly comes from eat-in business. However, by integrating the semi-finished products and eat-in business, it still has strong sustainability in profitability in the future.

**Profit Growth.** Base on its sustainable operation, Haidilao has explored to develop and innovate its business model in order to constantly improve its profitability and strengthen the transformation of internal value chain. The evolution of its business model is mainly reflected in the strategic integration of eat-in business to semi-finished product businesses and the drainage of its brand effect. In recent years, it is mainly

committed to develop digital management and integrate digital and catering services. There has been some achievement in its semi-finished product business. Before the COVID-19, its food turnover rate in outlets has been at the forefront of the industry. During and after the epidemic, its self-heating hotpot business also has good market response. However, the semi-finished product market has not been fully developed and there is still room for increase and for profit margin. If its semi-finished product market is continuously growing, its profitability will further increase.

### 3.3.4 Risks of Operation

#### 3.3.4.1 Risks of Single Delivery System

Despite its good market effect, the disadvantages of its single delivery system became more obvious during the epidemic. Haidilao insists on its own takeaway delivery system but the speed can not meet customers' requirement. There are great inconveniences in hotpot takeaway delivery. Bowls and boilers need to be recycled after meals. Other restaurants cooperate with mature third-party takeaway delivery platforms, such as Meituan and EIEME. During the epidemic, people try to reduce travelling and eating out so Haidilao is difficult to compete with other restaurants.

#### 3.3.4.2 Risks of Market Competition

With the rapid increase of residents' income, more Chinese pursuit brand effect, feature and fashionable foods. Humanized operation restaurants and pure natural healthy foods have been part of their daily life. The diversification of restaurants leads to obvious competition in catering industry. Therefore, with the rapid development of the industry, Haidilao need seize the market opportunity of semi-finished products, compete for market share by its service advantages and catering features, explore customers' demand for value and remain its development.

## 4. INSPIRATION OF THE RESEARCH

### 4.1 Inspiration of the Great Impact of COVID-19

The outbreak of COVID-19 in early 2020 has been the most serious public health crisis in recent years. It firstly threatened the survival of most small and medium-sized enterprises, and has an

impact on business revenue, operating costs and export earnings. During this long-lasting, wide-ranging and destructive epidemic, great negative impact is unavoidable to most enterprises. Through the responding strategies of some large listed enterprises, there are some inspirations: to comprehensively promote digital transformation, to reduce operating costs, to enhance cash flow and to follow the government policies.

## **4.2 Inspiration of Enterprises' Timely Countermeasures**

When facing sudden public health crisis, enterprises should increase their revenue and reduce their expenditure in time, which should be a permanent management philosophy. When revenue will not increase, they need to improve internal operation such as quality and efficiency and to reduce operating costs.

### **4.2.1 Exploring Businesses**

Enterprises should make good use of digital technologies and online services to expand their business and to seek new profit growth. For example, they can flexibly use the Internet technology to develop different ways of dealing with customers and doing business online and to employ proper management APP suitable for small and medium-sized enterprises. They can procure online, sale online, work online, outsource projects and so on. Some enterprises can even use full-staff online marketing to keep their customers.

### **4.2.2 Economization**

Cash is king. Owners of small and medium-sized enterprises should take the opportunity to improve management, control costs, clarify responsibilities, raise funds and improve their competitiveness. New projects or new businesses should not be invested unless they can improve the sales and cash flow. In difficult times, business owners and employees should initially extend the supply chain when order information and business process are not enough. They need to temporarily accept an effective short-term salary solution and even allow the company to owe part of the salary in a short time so as to overcome the difficulties together.

## **4.3 Suggestion of Self-extermination by Enterprises**

In this epidemic crisis, Haodilao's advanced, initiative and professional prevention and control, as well as its organizing and management ability are worth learning to most enterprises. However, it insists on its own delivery system at the beginning hindered its speed of business transformation. It had to cooperate with mature third-party delivery platforms.

Enterprises should learn to solve problems and seek opportunities by independent innovation. Entrepreneurs with strategic and long-term thinking can also take advantage of the epidemic to evaluate companies' reasonable development trend, so as to effectively improve the business operation mode, resource flexibility and sustainable development trend, etc. The management team needs to examine itself and superior strategic management to realize or maintain sharp ability of crisis identification. An enterprises can meet its vision and cope with unknown crises only if the whole company is united.

## **5. CONCLUSION**

Taking Haidilao as an example, the paper analyzes the outstanding operating mode of the restaurant industry, points out some feasible suggestions on the adjustment of operating mode of restaurants in the background of COVID-19 and provides enterprises with digital management thinking. The COVID-19 has brought uncertainty to the business environment, Haidilao and the other enterprises in the economy, should pay close attention to it and stay calm. For the forthcoming new ecology in restaurant industry, restaurants should accelerate analysis on their own and find out the future development direction, upgrade products and service.

To sum up, COVID-19 has brought a certain level of impact on most of the companies. However, in China, the influence is relatively controllable and the economy is going well in the long run. Through the preferential policy of the government and the efforts of enterprises, firms will pass through the hard times. By getting through COVID-19, the China's enterprises are experiencing or have experienced an important phase of upgrading and transformation.

## **AUTHORS' CONTRIBUTIONS**

This paper is independently completed by Yu Wu.

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