



Research on the Cash Flow Management Mechanism and Risk Control of Haidilao Enterprise During the COVID-19 Era

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ABSTRACT

It is clear that COVID-19 has seriously hindered the economic development. It has become a hot topic that how to make the catering industry grow with new vitality in the post epidemic era. Control measures like home separation have caused a great impact on the catering industry because of the decline in guest flow. It is important for companies to maintain stable cash flow. Previous studies have reached all kinds of industries, analyzing the methods they are used to avoid risk. In this paper, we focus on the specific measures implemented by catering enterprises in the epidemic. Here we take Haidilao, the leading enterprise of catering enterprises, as an example to analyze the change of Haidilao's strategy and excavate the new diversified strategy carried out by Haidilao in response to the epidemic. In addition, we analyze the reason behind the different strategy. The finding can contribute to a better understanding of the importance of the company's cash flow and the mechanism to effectively improve cash flow.

Keywords: *COVID-19 era, Haidilao company, cash flow management, risk control*

1. INTRODUCTION

The outbreak of COVID-19 has brought different degrees of impact on all industries especially on the catering industry. The disaster causes the reduction of guest flow, sale of inventory and the increase of operating costs, due to the government's risk management policies and people's concerns about their own safety. It has been found that catering industry remains some unsolved problems like low industry concentration, single profit mode and poor risk tolerance[1]. Therefore, the normal operation of business cash flow will be seriously hit in an uncertain economic environment. For example, many small and medium enterprises put themselves in deep financial trouble as more than 95% of the cash income of catering businesses depends on the sales of hall food. This inevitably leads to the lack of ability to deal with emergencies and risks. Therefore, it is necessary for catering industry to make plans to control cash flow to maintain the company in a good financial position.

The main focus of this paper is on analyzing cash flow problems and making efforts to innovate the control of cash flow management, taking Haidilao as an example. We can assume Haidilao as a miniature version of the Chinese catering industry. Haidilao hot pot, as a listed chain enterprise, has a unique status in the current Chinese catering industry. There are both effective and invalid decisions when they responses to the impact of epidemic. Firstly, we will implement an analysis of the impact of COVID-19 pandemic on Haidilao, based on which we discover some beneficial revelations to inspire catering business. Next, we will propose some additional suggestions to help catering business get through the obstacle brought by the epidemic further. This work will not only take a good step forward in the Haidilao own development but also provide new insights into the operation of the whole catering industry in the post epidemic era.

2. THE IMPACT OF COVID-19 ON THE CATERING INDUSTRY

The rapid spread of the global epidemic has a direct impact on major consumption and service industries such as accommodation, retail, catering, entertainment and tourism [2]. The catastrophe resulted in the complete loss of tourism revenue, many enterprises and factories around the world cannot operate normally. According to Chinese Hotel Association Research Institute, 93% of catering enterprises have chosen to close their stores, the development of the real economy is facing difficulties.

In this situation, the catering industry is an important force driving the growth of China's economy. According to the report issued by the Chinese government on February 12, 2020, the cash flow of the catering industry has decreased significantly or even broken. In addition, the rigid expenditure has caused a "disaster" to the industry, resulting in more than 70% of the losses of 95% of catering enterprises.

According to incomplete statistical data, in 2020, 45 catering brands closed their stores on a large scale or went bankrupt directly, involving hotpot, Japanese ingredients, coffee, baking, vegetarian and other categories, including Yoshinoya, WITHWHEAT, COSTA, CHAMATE, TAOYUAN VILLAGE, Coffee Box even coffee, etc.

From SARS in 2003 to COVID-19 in 2020, it is impossible to predict when the next epidemic will come, so active cash flow management measures are significantly important. In particular, the catering industry has a great demand for working capital. Catering enterprises need to use a large amount of cash in the links of procurement, production and sales as the guarantee of enterprise operation [3]. Therefore, maintaining sufficient cash flow is conducive to improving the anti-risk ability of enterprises.

3. ANALYSIS ON THE CASH FLOW MANAGEMENT OF CATERING ENTERPRISES -- TAKING HAIDILAO COMPANY AS AN EXAMPLE

3.1 overview of Haidilao company

On March 25, 1994, Haidilao Hotpot City, in Jianyang City, Sichuan Province officially opened. On May 17, 2018, Haidilao submitted a listing application on the Hong Kong Stock Exchange. On September 26, Haidilao officially landed in the Hong Kong capital market. In 2020, Haidilao's net profit was 309.3 million yuan, a year-on-year decrease of 86.8%. On November 5, Haidilao announced that it has decided to gradually close about 300 Haidilao stores with relatively low passenger traffic and lower operating performance on December 31, 2021.

The main marketing channel of Haidilao is the dining service in physical stores. However, in order to survive the epidemic and seek long-term development after the epidemic, Haidilao has made a series of changes in its business model, organizational structure and even succession plans [4]. The location selection of newly opened stores gradually sinks, involving third-tier cities and counties, forming a top-down, high-density distribution of stores. In addition, the epidemic has changed the consumption patterns and lifestyles of the public. The traditional dine-in business cannot be fully recovered in the short term, and the turnover has plummeted. Therefore, with the development of Haidilao's own e-commerce sales model, Haidilao has also entered the online sales team, and online sales of takeaway services, condiments and food supplies have also gradually improved.

3.2 Transformation from active expansion strategy to contraction strategy

During the epidemic period, Haidilao implemented a more active expansion strategy than before the epidemic. In fact, compared to the 302 new stores opened in 2019 without the impact of COVID-19, Haidilao opened 544 new stores in 2020[3]. One of the reasons why Haidilao chose to implement the counter-trend expansion strategy is that the epidemic situation has accelerated the industry differentiation. As a leading enterprise with stable cash flow and high brand premium, Haidilao has more bargaining chips in rent negotiation and geographical location selection which is an opportunity for it.

Another reason is that the accelerated expansion of Haidilao is essentially in line with its long-term development strategy. Under the background of China's current overall consumption upgrading and consumption recovery, the development of catering such as hot pot will be better in the future. Different from the previous strategy of opening stores on the edge of the core business district, Haidilao chooses to seize more blank markets and increase the coverage of the overall market. Haidilao chose to open new stores in the third, fourth and fifth tier cities in order to increase market share and improve its competitive advantage. With the opening of stores, the group's revenue in 2021 is expected to exceed 40 billion yuan, the year-on-year increase of more than 40% [5].

The rapid expansion of stores has greatly boosted the revenue of Haidilao for many consecutive years, but it also buried hidden dangers. Haidilao announced that it would gradually shut down about 300 Haidilao stores with relatively low guest flow and poor operating performance before December 31, 2021. According to the official disclosure, many of the 300 closed stores were newly opened in 2020 and 2021. It is estimated that Haidilao has suffered a loss of RMB3.8 billion to RMB4.5 billion in 2021. The main reason for massive losses is

still highly related to store closures. Most of the losses were one-time losses caused by the disposal of long-term assets, which ranged from 3.3 billion to 3.9-billion-yuan, accounting for 86% of the total losses. This also implies the end of the expansion strategy. Furthermore, although the main reason for the loss is the asset impairment caused by the closing of the stores, it does not mean that the operation of the stores is proper. Under the control of the epidemic situation, the decline of turnover rate and the increase of operating costs have reduced the growth rate of receivables in the same store. In addition, it has also increased daily expenses, which has seriously affected the performance of stores. The transformation from active expansion to store closure and rectification implies that Haidilao adjusts its decision in time, such as shrinking the group's business expansion plan, restoring the learning and development center and uniformly cultivating excellent reserve personnel. The positive results have shown that during the Spring Festival in 2022, the average turnover of Haidilao stores reached 106% in the same period in 2021, returning to 70% in the same period before the epidemic in 2019[5]. On the other hand, it also warns other enterprises in the catering industry - blind expansion can only achieve temporary prosperity, which it is not advisable to adopt.

3.3 Implement a diversified strategy

As mentioned above, the change of Haidilao's opening strategy during the epidemic shows that it is not desirable to seek business growth simply by opening stores. In order to seek new development and obtain stable cash flow, Haidilao decides to implement a diversified strategy. Haidilao has extended its business in dinner, fast-food stores, leisure catering and takeout service [6]. The purpose of expanding dinner business is to explore other non-catering tracks. Meanwhile, it develops leisure catering and other businesses in order to guide guests to Haidilao stores and extend the consumption of hot pot.

We take the fast-food stores as an example. In the end of February 2021, Haidilao has developed more than 10 fast-food brands and successively launched several sub-brands. Its core products mainly cover three categories: noodles, covered rice and pickled vegetables. For example, "Qiaobao's Powder", which specializes in potato flour, "Meng Xiaojiang" and "Luo Dasao", which sell rice noodles and dumplings, are low-cost fast-food restaurants. It can be seen that the purpose of Haidilao has actively established a number of fast-food sub brand sits is to find the best business model, seek the products and form with the most marketing ability and consumer demand.

The fast-food brand of Haidilao is mainly distributed in Zhengzhou, Xi'an and Beijing. It has formulated the policy of "low price strategy plus single product with regional characteristics", trying to enter the market with

the high quality and more competitive price. Although the product pricing of 10-30 yuan has a significant price advantage in the first and second tier cities, unfortunately, there is no new brand that can generate sufficient cash flow and disperse the risks of the whole group [7].

According to the investigation and analysis, the diversified strategy of Haidilao does not seem to bring obvious and visible benefits to the whole group of Haidilao. In 2020, Haidilao's "other brands" revenue accounted for only 0.1% of the total revenue. In 2021, it was reported that this revenue accounted for 0.5% [5]. One of the reasons why Haidilao's diversified strategy are not effective is that the layout of Haidilao's fast food business is still in the exploratory stage. The brands are in the initial establishment period and have not begun to expand significantly. Another reason is that the differences in the development of different industries are also testing the ability of Haidilao to formulate different strategies for various industries. For example, fast food products require high-standardized meals with low per capita prices, or the necessary efficiency of takeaway business, etc. How to transform their own business models and find their own competitive advantages through price or product differences? It is also a huge challenge for Haidilao to quickly adapt to the operating characteristics of the current market in different industries and bring sufficient cash flow.

4. SUGGESTIONS

It is obvious that the market and the situation are constantly changing in the post-covid19 era. What we can do is to predict the possible problems by analyzing the situation in the future and try to avoid risks as much as possible. There are four reasonable suggestions including paying attention to the cash flow of enterprises, carry out strict cost control, improving the efficiency of inventory management, expanding the business of the enterprise.

4.1 Pay attention to the cash flow of enterprises

As mentioned above, Haidilao's store expansion has boosted revenue. However, the forced closure of many stores with poor business conditions also brought significant losses to Haidilao. In the epidemic, many catering enterprises went bankrupt because of the shortage of cash flow, but Haidilao was able to quickly adjust its state after experiencing huge losses because Haidilao had sufficient cash flow. Therefore, it is very important to have sufficient cash flow. In fact, catering enterprises should keep their focus on cash flow statement and pay more attention to working capital and financial indicator. Making rolling forecast is a good way to find potential risk and reserve appropriate anti risk working capital [8].

4.2 Carry out strict cost control

Cost control is also a necessary step to maintain a stable cash flow in a good business. In particular, the food cost of catering enterprises, like raw materials, accounts for a significant proportion of daily operating expenses. The raw material cost of food can be controlled in the most effective way. Taking Haidilao as an example, we can strengthen cooperation with upstream suppliers and ensure long-term stable supply relationships. Depending on the season or the time when the epidemic is repeatedly high, the purchase volume is controlled to achieve the cost target.

4.3 Improve the efficiency of inventory management

The second suggestion is to improve the efficiency of inventory management, specifically the introduction of electronic information technology. Affected by the epidemic, the sales situation and demand for goods in stores in different regions are different. This requires the head office to allocate scientifically according to the situation to avoid inventory backlog and shortage. Using the transfer document, we can track and control the logistics and cost of the inventory which can not only reduce the backlog and shortage of inventory but also reduce the inventory cost.

4.4 Expanding the business of the enterprise

According to our analysis, Haidilao's diversified strategy is mainly to establish sub-brands, improve upstream and downstream enterprises and establish its own complete supply chain. In fact, we reckon that it can also launch new products and services through cooperation and joint branding with well-known enterprises. For example, recently, Hailao and Coca Cola jointly launched a series of activities, like a joint warm winter gift box, which makes consumers immerse themselves in the scene of brand building and stimulates consumers' purchase desire with imagination. At the same time, Haidilao can also carry out operation with other industries, which not only stimulates customers' consumption enthusiasm, but also improves customers' sense of participation. According to media publicity and rendering, these activities make the value image of the brand more widely spread[9].

5. CONCLUSION

Under the current environment, various obstacles caused by the new crown epidemic have seriously affected the development of the economy. In particular, it has a great impact on the catering industry. Therefore, this article studies and analyzes the various problems that have occurred during the epidemic period in Haidilao, a giant in the catering industry, as well as its own cash flow

management and risk control methods. At the same time, we deeply analyze and dig out the reasons for the strategic transformation of Haidilao's expansion. Meanwhile, we focus on the problems existing in the implementation of the diversified strategy to reduce the risk of repeating itself in the epidemic era.

Overall, the study strengthens the idea that sufficient and stable cash flow is crucial to the development of enterprises. This thesis has provided a deep insight that how to disperse risks and maintain the stability of cash flow. At the same time, it also implies that the enterprise strategy should closely follow the trend and adjust in time. The results show that the company's cash flow control mechanism should change with the changes in the macroeconomic environment of the economy [10].

In the future, a more comprehensive analysis of the operation of Haidilao under the dual background of macro-economy and micro economy will be done and we could assert the long-term effects of the new policy on the development of Haidilao and overall catering industry.

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