



# Research on Operation Strategy of Catering Industry Under the COVID-19 Epidemic Taking Haidilao as an Example

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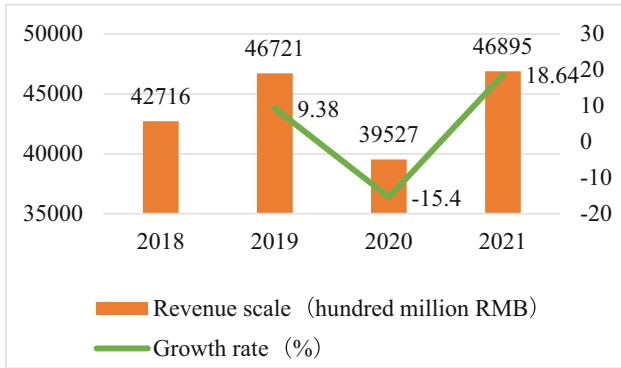
**Abstract.** COVID-19 is a great crisis for the catering industry. How to deal with and minimize its impact on their operations, various catering enterprises have adopted different strategies. As a leading enterprise in the industry, Haidilao has adopted a distinctive strategy of counter-trend expansion. Although it has achieved good results in the initial stage, with the economic recovery after the COVID-19 epidemic, the disadvantages of the policy have gradually emerged, which requires it to carry out macro-control on restaurant operations by changing strategic management methods. This paper first analyzes the effect of Haidilao's counter-trend expansion policy in terms of accounting performance and market performance. Then the SWOT analysis method is used to study and discuss the current development situation of Haidilao, and the specific content of the development strategy is put forward: first, Haidilao can appropriately give up the market with low economic benefits and maintain a certain level of cash flow. Second, Haidilao should speed up the development of takeout service and combine operation with informatization. Third, Haidilao should strengthen food safety management to fully meet the needs of customers. Fourth, Haidilao can appropriately add Chinese traditional cultural elements to the restaurant management to promote the development of brand characteristics. It is hoped that the business strategy obtained from the analysis of Haidilao in this paper can bring some reference value for catering enterprises in the post-epidemic era.

**Keywords:** Operation Strategy · Haidilao · COVID-19 Epidemic

## 1 Introduction

### 1.1 Background

At the beginning of 2020, due to the rapid spread of the COVID-19 virus and the irreversible damage it will cause to infected people, the Chinese government implemented a nationwide urban closure, which has caused lots of hall food business revenue losses, including Haidilao, which is at a leading position in the dinner service industry. At this time, most of the revenue of the catering industry has changed to takeout. What's worse, in some cities, restaurants even do not have takeout revenue for some weeks.



**Fig. 1.** Scale and growth rate of China's catering revenue from 2018 to 2021 (Photo credit: Original)

At the same time, a large number of raw materials and semi-finished products stored in restaurants have been lost due to expiration, and most dinner service enterprises still have to bear rigid expenses such as rentals, staff costs, utility expenses, etc. during the epidemic period. After resuming normal production and life, they also need to bear the expenses of epidemic prevention materials to protect employees and consumers, as well as the loss that the restaurant cannot be fully used due to the transitional epidemic prevention requirements.

These suddenly broke the annual growth trend of the catering industry revenue from at least 2018, and even dropped to 39527 hundred million RMB at a negative growth rate of about 15.4% in 2020, as shown in Fig. 1.

Therefore, it is necessary to conduct more in-depth research on the policies of enterprises in the dinner service industry under the impact of the epidemic.

## 1.2 Related Research

### Impact of COVID-19 Epidemic on the Catering Industry

COVID-19 has caused serious economic losses to the dinner service industry. Nearly 70% of the sample enterprises in the dinner service industry feedback that the annual sales will decrease year-on-year in 2020 and more than 80% of the sample enterprises reported that the annual net profit would decline. At the same time, the epidemic has also caused cash flow tension and financing difficulties to the catering industry. Meituan Research Institute conducted a questionnaire survey on the impact of the COVID-19 epidemic on catering merchants in Chinese Mainland in early February 2020. The result showed that 26.8% of catering merchants said that their funds were not available, 37.0% of catering merchants said that they were extremely short of funds and could only last for 1 to 2 months, 22.9% of the catering merchants said that they were short of funds and could last for 3 to 4 months [1].

Under such circumstances, Zhou and Liu analyzed the expansion strategy taken by Haidilao in response to the epidemic from four aspects of financing, investment,

operation, and dividend. Through large losses, it denied the risk-taking behavior of the decision-makers of the Haidilao group [2]. Miao concluded that catering enterprises should hold a certain amount of working capital when facing the challenge of a sharp reduction in income [3]. Ban suggested that if Haidilao wants to maintain its leading position in the industry, it should adhere to the tradition of high-quality dining service and furtherly provide personalized services according to the preferences of each customer [4]. After that, Wu analyzed the impact of the epidemic on the entire catering industry and believed that the restaurant should change the strategy of “customers choose restaurants”, actively increase the number of recharge discounts, and innovate sales methods to attract customers [1].

However, most of the research data of these papers are from 2021 and before, and there is a lack of further research after that, which provides research space for this paper.

### **SWOT Analysis**

Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis is a situation analysis of the internal and external competitive environment and conditions of the enterprises under study. After listing the advantages and disadvantages of the enterprise and its industry, as well as the opportunities and threats for development, this paper will match and analyze various factors to provide convincing suggestions to the enterprise decision-makers.

The SWOT analysis method can provide comprehensive and reliable suggestions for enterprise decision-makers, and its application fields are very wide. Luo uses the SWOT analysis method to study and make suggestions on Huali's development strategy under the 5G background [5]. Li and Hu use the SWOT analysis to analyze Xiaomi's strategy for developing new energy vehicles, find out the shortcomings, and put forward innovative improvement suggestions [6]. Li used SWOT analysis to analyze the teaching mode of online biology courses and provided teachers with various teaching plans [7].

Therefore, using SWOT analysis to analyze catering enterprises under the impact of the COVID-19 epidemic can provide policymakers with strategic suggestions to maintain the sustainable and stable development of catering enterprises.

### **1.3 Objection and Motivation**

Due to the nationwide urban closure and capital problems, many small dinners service companies have been closed down. As for some large-scale dinner service enterprises, in addition to having sufficient funds, some macro-control strategies adopted by the decision-makers after analysis and discussion are also helpful to the survival of the company to a certain extent.

Since 2020, what kind of strategies have supported the dinner service industry to survive in such a harsh environment and recover rapidly? Taking Haidilao, an important part of the industry, as an example, this paper reflects the impact of COVID-19 on the development of the dinner service industry and put forward suggestions, by analyzing the marketing strategies of Haidilao during the epidemic.

## 2 Basic Descriptions of Haidilao

In 1994, Haidilao hot pot was founded in Jianyang, Sichuan Province. Its main selling points are the flavor characteristics of Sichuan and Chongqing local hot pot and high-quality service, and it has quickly accumulated a reputation in the local area.

In April 1999, the second store of Haidilao was determined to be located in Xi'an, Shaanxi Province. Being far better not only limited in service than its competitors in the same industry, Haidilao quickly won the affirmation of the local market in Xi'an, and the pace of outward expansion began to accelerate. In 2005, Haidilao established a subsidiary, Yihai international, which is mainly engaged in hot pot seasoning. Yihai specializes in the production and processing of hot pot seasoning, hot pot dipping, and Chinese compound seasoning for Haidilao restaurants and retail stores. These made up for the shortcomings of Haidilao in the supply chain and achieved integrated development. In June 2010, Haidilao's exclusive "Hilao Delivery" was conducted and began to provide hot pot takeout services.

After that, the business was listed and traded on the Hong Kong Stock Exchange on September 26, 2018, with a sale price of HK \$17.80 per share. 425 million shares were sold worldwide, with a market value of more than HK \$100 billion. The successful listing provided financial support for its future expansion strategy and expanded the brand awareness of Haidilao [8].

**Table 1.** Total revenue of important components of the dinner service industry from 2019 to 2021 (Table credit: Original)

Classification	Year					
	2019		2020		2021	
	Revenue (hundred million RMB)	Proportion (%)	Revenue (hundred million RMB)	Proportion (%)	Revenue (hundred million RMB)	Proportion (%)
Haidilao	206.14	60.55	275.27	63.43	280.21	65.17
Jiumaojiu Group	16.54	4.86	48.06	11.07	51.35	11.94
Tai Hing Group	30.50	8.96	27.06	6.24	22.39	5.21
BFC Holdings	22.80	6.70	21.58	4.97	15.20	3.54
Tsui Wah Group	12.30	3.61	14.96	3.45	13.12	3.05
Tam Jai International	8.23	2.42	9.98	2.30	11.87	2.76
Tang Palace	11.43	3.36	10.64	2.45	10.34	2.40
Fulum Group	10.31	3.03	9.24	2.13	10.19	2.37
Future Bright Group	15.56	4.57	10.90	2.51	8.90	2.07
LH Group	6.65	1.95	6.29	1.45	6.41	1.49
Total	340.46	100	433.98	100	429.98	100

Haidilao has developed rapidly with a very high growth rate since its listing, and its operating revenue has accounted for more than half of the dinner service industry for some time. Among the important components of the dinner service industry, Haidilao accounted for nearly 60%, 63%, and 65% of the operating revenue in 2019, 2020, and 2021 respectively, accounting for nearly 50% more than the second largest Jiumaojiu Group, as shown in Table 1. Therefore, Haidilao is an absolute leader in the industry and it is representative to take it as an example to study the impact of the epidemic on the dinner service industry.

The COVID-19 epidemic has brought not only challenges but also opportunities to Haidilao. This paper will take Haidilao as an example to analyze its financial strategies of counter expansion and its effect under the impact of the COVID-19 epidemic. At the same time, this paper will make a multi-dimensional analysis of Haidilao based on SWOT analysis and finally give specific suggestions.

### 3 Analysis of Marketing Strategy of Haidilao During the Epidemic

#### 3.1 Adverse Expansion Phenomenon of Haidilao

To a certain extent, the expansion of the catering industry depends on opening more new stores to seize the market share. Under the influence of COVID-19, the income of the catering industry has dropped significantly and the income growth rate is the first negative growth in recent years, as shown in Fig. 1.

In this environment, the decision-makers of Haidilao did not comply with the market situation of shrinking and reducing expenditure, but continued, or even accelerated, the momentum of continuous expansion in recent years. And continued to establish a store network at a growth rate of 68.52% throughout the country, as shown in Table 2.

#### 3.2 Analysis on the Accounting Performance of Haidilao's Adverse Trend Expansion

##### Operating Revenue

Compared with 2019, the COVID-19 epidemic had a great impact on the operating

**Table 2.** Number of same stores of Haidilao from 2019 to 2021 (Table credit: Original)

Classification	Year		
	2019	2020	2021
Tier 1 cities	49	90	144
Tier 2 cities	110	161	253
Tier 3 cities and below	57	113	182
Total	216	364	579
Growth rate (%)	58.82	68.52	59.07

revenue of Haidilao restaurant in 2020, slowing down its growth. However, due to the counter-trend expansion policy adopted by the decision-makers, the growth of the number of Haidilao restaurants still maintained a growth rate of operating revenue at 7.75%.

At the same time, the COVID-19 epidemic has, to a certain extent, promoted the development of the Haidilao takeout industry and the transformation of the sales form. The proportion of its takeout income has increased to a certain extent, from 1.69% in 2019 to 2.51% in 2020 (Table 3).

### **Operating Cost**

The COVID-19 epidemic in the first half of 2020 greatly increased the difficulty of operation of Haidilao. During the closure period, while there was no restaurant income, Haidilao still had to bear the cost loss of raw materials and consumables, staff costs, property rent, depreciation, and other expenses. At the same time, the cost of consumables is increased due to the consumption of epidemic prevention materials. While the cost of raw materials is reduced, the single item remains at a high level, as shown in Table 4. More importantly, the counter-trend expansion plan adopted by Haidilao's decision-makers during the COVID-19 epidemic has further increased the operating costs.

### **3.3 Analysis on the Market Performance of Haidilao's Adverse Trend Expansion**

In terms of the market performance of Haidilao, the trend of Haidilao's share price in 2020 is upward, which is very rare in the context of the poor income of the catering industry, as shown in Fig. 2. The root cause is the decision of Haidilao to expand against the trend during the epidemic period, and its series of business decisions have been initially recognized by the capital market. However, the high-speed development of Haidilao without increasing profits is not a long-term plan after all. Its gradual loss gradually appeared in the first half of 2021, causing its share price to drop precipitously. This trend continues until the first half of 2022 and may continue in the future.

## **4 SWOT Analysis of Haidilao's Marketing Strategy**

### **4.1 Strengths of Haidilao**

#### **Service Advantages**

The service provided by Haidilao is one of the best in the industry, and the high-quality service is also one of its characteristics of Haidilao. It starts with snacks and drinks and Gobang for customers waiting at the door, hot towels and fruits for customers at the time of ordering, manicures, birthday greetings, and dolls for customers who eat alone while eating. After eating, customers can even take away free snacks and toys. This, to a certain extent, makes Haidilao popular with customers.

#### **Perfect Supply Chain**

Haidilao has established a complete supply chain system in its development through the

**Table 3.** Revenue for the year of Haidilao from 2019 to 2021 (Table credit: Original)

Classification	Year					
	2019		2020		2021	
	Revenue (hundred million RMB)	Proportion (%)	Revenue (hundred million RMB)	Proportion (%)	Revenue (hundred million RMB)	Proportion (%)
Restaurant operation	256.10	96.44	274.54	95.95	396.61	96.47
Delivery business	4.49	1.69	7.18	2.51	7.06	1.72
Sales of condiment products and food ingredients	4.94	1.86	4.21	1.47	6.87	1.67
Others	0.03	0.01	0.21	0.07	0.57	0.14
Total	265.56	100	286.14	100	411.11	100

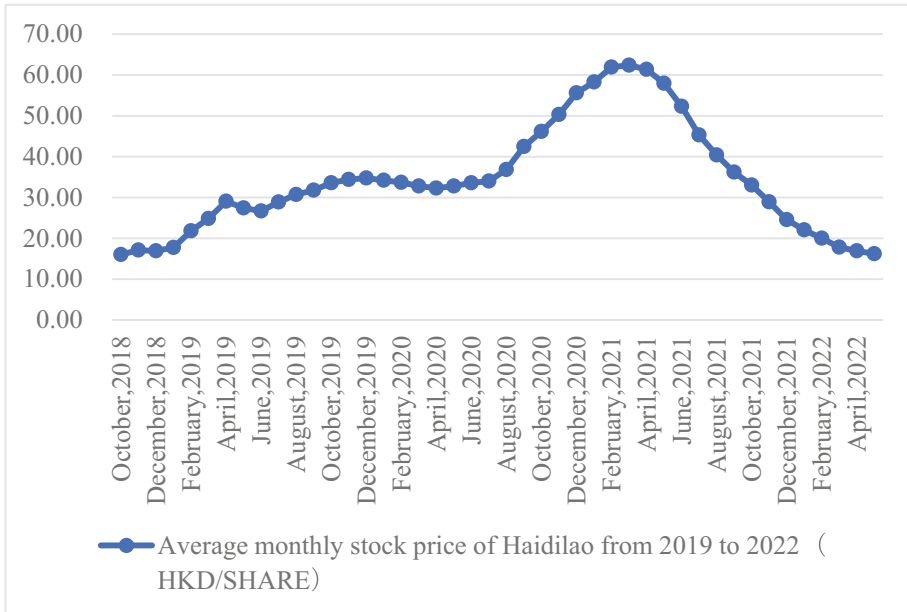
**Table 4.** Expenses for the year of Haidilao from 2019 to 2021(hundred million RMB) (Table credit: Original)

Classification	Year		
	2019	2020	2021
Raw materials and consumables used	112.39	122.61	179.77
Staff costs	79.93	96.77	148.75
Property rentals and related expenses	2.40	2.36	3.39
Utility expenses	9.12	9.78	14.57
Depreciation and amortization	18.91	30.34	45.48
Travelling and communication expenses	2.20	1.86	2.46
Other expenses	10.00	12.52	18.54

years. Some of the companies that have established long-term cooperation with Haidilao are even its subsidiaries. Haidilao purchases customized hotpot bottoms and other products from Yihai International Holding Ltd, processing food materials and warehousing logistics services from Shuhai Supply Chain Management Co., Ltd, human resources management and consulting services from Beijing Weihai Management Consulting Co., Ltd, and mutton products from Haidilao of Jarudbanner Haidilao Foods Limited. These greatly reduce the cost of raw materials affected by raw material suppliers and can control the quality of raw materials and reduce logistics costs.

### Good Reputation

Because of the high-quality service of Haidilao and the hot pot, which is very popular for people to eat together, Haidilao has a wide audience, including a certain number of repeat customers and young people who pursue new trends. And with the word-of-mouth



**Fig. 2.** Average monthly stock price of Haidilao from 2019 to 2022 (Photo credit: Original)

of these customers who love the brand culture of Haidilao, more and more customers have been attracted to Haidilao.

## 4.2 Weaknesses of Haidilao

### High Price

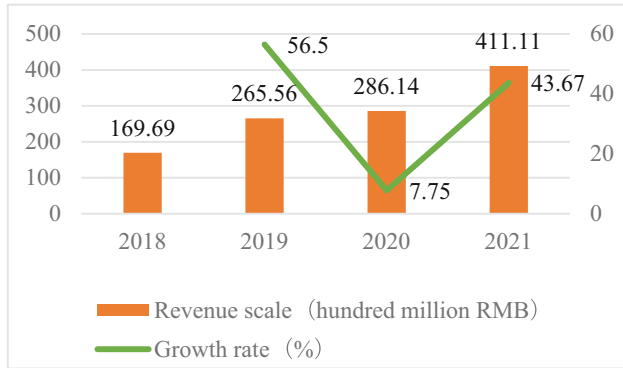
According to relevant data, in 2021, the average spend per head of Chinese consumers in hot pot restaurants was less than 100RMB, accounting for nearly 48.2%. The average spend per head, which is 100-150RMB, accounts for 30.7%. The average spend per head, which is more than 150RMB, accounts for 14.1% [9]. However, the average spend per head of Haidilao's customers has always been high. According to the annual report of Haidilao, the average spend per head of customers was 105.2RMB in 2019, 110.1RMB in 2020, and 104.7RMB in 2021, which is an expensive part of the whole industry. Therefore, people may be more willing to choose other slightly cheaper hotpot brands.

### Single Product

The business of Haidilao has mostly been in the hot pot field. Although Haidilao has occupied the leading position in the industry in recent years, it cannot better meet the market demand in the long-term development of the enterprise. In particular, in the face of young people's less and less leisure time, it is not a good choice to eat hot pot.

At the same time, due to the nature of the industry, Haidilao is also vulnerable to the environment. Because of its single catering industry attribute, when the overall





**Fig. 3.** Scale and growth rate of Haidilao's revenue from 2018 to 2021 (Photo credit: Original)

economy affecting the catering service industry declines or the industry situation is depressed, the business of Haidilao will decline. During the COVID-19 epidemic in 2020, although Haidilao still maintains a high-income scale, the growth rate of 7.75% in 2020 is insignificant in the face of the growth rate of 56.50% in 2019 and 43.67% in 2021, as shown in Fig. 3.

### 4.3 Opportunities of Haidilao

#### The Change in People's Consumption Concept

With the improvement of China's national income level, in addition to meeting the basic needs of food, people have begun to pay more attention to the quiet and elegant environment, friendly and high-quality services, and exquisite and delicious dishes of dining restaurants. This background requires a high degree of conformity with the unique high-quality service of Haidilao, which makes it win the love of consumers and gradually expand its brand influence.

At the same time, more and more young people are willing to choose a hot pot for dinner and are more willing to pay for emotional connection [10], which also promotes the development of Haidilao to a certain extent.

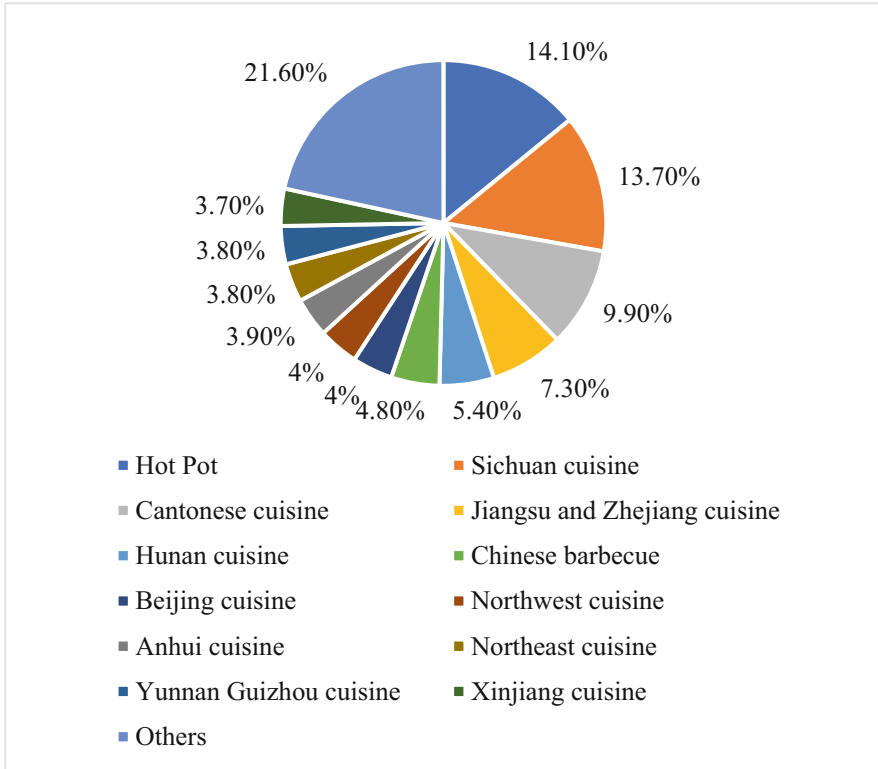
#### Own exclusive Takeout Service

As the Internet touches more and more fields, takeout has gradually become an indispensable part of the income of the dinner service industry. It is an important part of people's fast-paced life. Meanwhile, Haidilao's takeout service brand "Hailao Delivery" not only expands its business model but also avoids the loss of profits caused by cooperation with other takeout platforms, providing itself with a good future development space.

### 4.4 Threats of Haidilao

#### The Fierce Competition Among Catering Enterprises

Hotpot enterprises alone account for the largest proportion of the dinner service market,



**Fig. 4.** Market structure of China’s catering industry in 2020 (Photo credit: Original)

reaching 14.1%, as shown in Fig. 4. At the same time, the threshold to enter the hotpot industry is lower than that of other catering enterprises. Therefore, there are more and more hotpot brands in the market, and there are more catering enterprises with certain strengths entering the hotpot industry, which constantly compresses the living space of the original brands. To survive in this environment, in addition to keeping unique and thoughtful services, Haidilao must develop some other unique features.

**Foreign Food Products are Gradually Integrated into the Chinese Market**

As China’s domestic society becomes more and more inclusive and young people who are willing to accept new things gradually occupy the leading position in the consumption of the catering industry, people’s acceptance of foreign food and consumption preference gradually increased, which, to a certain extent, has crowded the market of traditional Chinese dishes and has also brought challenges to Haidilao.

**5 Suggestions**

According to the above market strategy analysis and SWOT analysis on Haidilao, the development strategy of Haidilao should be formed on the basis of the combination of internal capabilities and external factors.

### **5.1 Abandon Markets with Low Economic Benefits Appropriately**

Due to the wrong strategic choice of counter-trend expansion made by the decision-makers of Haidilao in 2020, Haidilao has suffered a lot of losses. However, it is very important to maintain a certain amount of funds for the operation of the dinner service industry, because raw materials, employee wages, rent, water and electricity, and other aspects need financial support. Therefore, Haidilao needs to stick to tightening its business strategy and abandon markets with low economic benefits appropriately. By abandoning stores with low economic benefits, Haidilao can gradually enrich its cash flow to ensure its next development.

### **5.2 Accelerate the Development of Takeout Services**

In the post-COVID-19 era, there must be sporadic outbreaks of viruses and temporary closures. At this time, in the operating revenue of the catering industry, the proportion of takeout services that are less affected by the epidemic will rise to a certain extent. Therefore, Haidilao must continue to expand its delivery business. At the same time, in order to continue the brand characteristics and influence, Haidilao should further integrate its high-quality service into the delivery service.

### **5.3 Strengthen Food Safety Control**

With the improvement of people's quality of life, people begin to pursue the quality of all parts of life, which especially puts forward requirements for the dinner service industry. Therefore, if Haidilao wants to maintain its brand reputation, it needs to pay attention to the control of food quality in the whole process from raw materials to customers' tables. At the same time, it is an era when the Internet and public opinion are highly integrated, and any shortcomings may be infinitely amplified. Therefore, as a leading enterprise in the industry, Haidilao should strictly regulate food safety.

### **5.4 Add Elements of Traditional Chinese Culture**

While maintaining the current brand characteristics, Haidilao should incorporate Chinese traditional cultural elements, such as making improvements in decoration, dish arrangement, or waiter's clothing. It can arouse the resonance of customers in the Chinese market, and create novel experiences for customers in the foreign market, so as to finally achieve the goal of attracting customers and being unique in the industry.

## **6 Conclusion**

The COVID-19 epidemic in 2020 has brought great pressure to the catering industry. In order to survive in the financial difficulties caused by the COVID-19 epidemic, major catering groups have taken different strategies. However, with time, the adaptability of these different strategies has gradually emerged. As a leading enterprise in the industry, Haidilao has adopted a very unique policy of expansion against the trend. Although it

quickly seized the market share in the early stage of the epidemic and was recognized by the capital market, it caused a lot of losses in the post-epidemic era.

This paper takes Haidilao as the research object. Based on the perspective of strategic management, it first analyzes the effect of Haidilao's counter-trend expansion policy in terms of accounting performance and market performance.

Through SWOT analysis, this paper shows that Haidilao has the advantages of high-quality service, a perfect supply chain, and a good reputation, but it has the disadvantages of the high price of dishes and the single product. At the same time, it has the opportunity for people's consumption concept changes and the exclusive takeout service. At the same time, there is a threat of fierce competition among catering enterprises and the gradual entry of foreign food.

Through the above analysis, this paper concludes that Haidilao must adjust its development strategy in the post-epidemic era. Although Haidilao has adopted an incorrect strategy, due to its huge size, it still maintains a large market share and has a good brand reputation. However, the competition in the industry is still fierce, and customers' requirements for catering enterprises are getting higher and higher, so Haidilao needs to replan its development strategy.

However, most of the data come from the official annual report of Haidilao, which can only reflect the general situation. There may be an objective phenomenon. At the same time, the research data ends at the 2021 annual report of Haidilao, and the interim report for the first half of 2022 is missing to further analyze the changes and impact of its marketing strategy. In addition, through the sudden attack of this round of public events on the dinner service industry, it is hoped that each catering group will add emergency plans and handling methods for public events.

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