



Research on Development Strategies and Financial Performance in the Catering Industry——A Case Study of Haidilao

Jianghao Zhao*

Guizhou University of Finance and Economics Western Michigan College,
Guiyang, Guizhou, China

*jtb2002@wmich.edu

Abstract. Over the past four decades since the reform and opening up, China's catering industry has continuously overcome difficulties, actively explored and forged ahead, and achieved remarkable economic accomplishments. However, despite the large overall scale of the industry, due to factors such as low market concentration, increasingly fierce competition, and insufficient profit stability, few large-scale catering enterprises have stood out for a long time. In September 2018, Haidilao was successfully listed in Hong Kong, China, with its market value once exceeding 200 billion yuan, marking a new stage of development for China's catering industry. As the business environment becomes increasingly complex and volatile, catering enterprises have no choice but to proactively respond to challenges and actively promote strategic adjustments and business transformation. This article takes Haidilao as the research object and, from the perspective of financial analysis, explores its development path and successful experience, with the aim of providing references and inspirations for domestic catering enterprises to achieve scale expansion and effective transformation.

Keywords: Financial Analysis; Catering Marketing; Case Study.

1 Introduction

Over the past four decades since China's reform and opening up, the catering industry has achieved remarkable economic accomplishments. However, it still faces challenges such as low market concentration, fierce competition, and unstable profitability, with few large-scale enterprises standing out for long. In September 2018, Haidilao's successful listing in Hong Kong marked a new development stage for China's catering industry.

This article takes Haidilao as the research object, aiming to explore its marketing strategies from the perspective of financial analysis. The research framework is as follows: First, it outlines Haidilao's high costs, short-term shocks, debt increase, and unstable cash flow situations. Then, through a case description, it further details these issues. Next, an in-depth analysis is conducted on Haidilao's operating profitability,

investment profitability, profit quality, solvency, and cash flow. Finally, based on the analysis, targeted suggestions are proposed.

The research is of great significance. For domestic catering enterprises, it provides valuable references and inspirations for achieving scale expansion and effective transformation. By learning from Haidilao's experience and lessons, catering enterprises can better respond to market challenges, optimize their marketing strategies, and enhance their competitiveness and sustainable development capabilities in the complex and volatile business environment.

2 Case Description

2.1 Rising Costs Compress Profit Margins

In 2020, Haidilao added 544 stores, reaching a total of 1,298 worldwide, with 131,000 employees by year-end. Employee costs rose 21% YoY to 9.676 billion yuan due to salary increases and more staff. Raw material prices also climbed since 2019, raising costs. High service standards increased operating costs, reducing gross profit margins and increasing cost expense ratios, limiting profit growth [1].

2.2 Limited Development Potential

In the first half of 2020, Haidilao suspended operations for 46 days due to COVID-19, severely impacting performance. Despite recovering, net profit dropped 86.8% YoY, with return on total assets and net assets decreasing by 10% and 19% respectively, indicating weakened profitability and efficiency. High debt and low returns reflect capital operation and cost control issues, challenging profit stability and sustainability, with insufficient growth momentum [2].

2.3 High Debt Ratio Affects Debt Repayment Ability

Haidilao's total debt rose by nearly 14 billion yuan in three years. By 2020, current liabilities were 9.868 billion yuan, and non-current liabilities reached 7.422 billion yuan. Current and quick ratios below 1 increased short-term debt pressure and repayment risk. Despite good performance, debt structure issues persist. Without optimizing capital structure and controlling financial leverage, expanding debt may weaken repayment ability and trigger a crisis [3].

2.4 Poor Cash Flow Situation

Since listing in 2018, Haidilao's free cash flow has fluctuated significantly. While it increased over three years, current liabilities rose faster, from 3.306 billion yuan in 2018 to 9.868 billion yuan in 2020. Despite 754 stores generating 26.556 billion yuan in revenue in 2019, revenue grew only 2.058 billion yuan to 28.614 billion yuan in

2020 with 1,298 stores. The epidemic impacted income growth, which lagged behind capital expansion, resulting in current liabilities exceeding current assets in 2020 [4].

3 Analysis

3.1 Operating Profitability

As can be seen in Table 1. From 2018 to 2020, the total asset turnover rate of Haidilao continued to decline. Although both revenue and asset scale increased, the growth rate of assets exceeded that of revenue, reflecting that the scale of asset investment was basically in line with the sales capacity, and the overall operation of assets was stable. In terms of cost and expense profit margin, it dropped by approximately 4 percentage points in 2019 due to a significant increase in raw material and labor costs. In 2020, it sharply declined to 5.8% due to the impact of the epidemic. Although the industry recovered and turned losses into profits in the second half of the year, the annual profit was severely affected. In addition, its gross profit margin on sales has declined for three consecutive years. This is because the growth rate of revenue has failed to keep up with the increase in sales costs, and the rising costs have squeezed the profit margin, leading to a weakening of the overall profit level [5].

Table 1. Relevant operating profitability indicators of Haidilao from 2018 to 2020.

| Year | Total asset turnover rate (times) | Cost and expense profit margin (%) | Gross profit margin on sales (%) |
|------|-----------------------------------|------------------------------------|----------------------------------|
| 2018 | 1.42 | 32.47% | 59.13% |
| 2019 | 1.29 | 28.30% | 57.68% |
| 2020 | 1.04 | 5.80% | 57.15% |

3.2 Investment Profitability

By comparing the data of each year in Table 2, it can be found that the return on total assets (ROA) of Haidilao has shown a significant downward trend over the past three years, and the fluctuation range is relatively large. In 2019, this indicator decreased by approximately 2.40 percentage points year-on-year [6], indicating a decline in the asset utilization efficiency and profit level of enterprises. In 2020, ROA dropped by more than 10%, reflecting a significant weakening of asset profitability. It is speculated that this is closely related to factors such as the suspension of store operations during the COVID-19 pandemic [7].

Return on equity (ROE) is typically used to measure the return level of shareholders' equity. The higher the value, the stronger the investment's profitability. Between 2018 and 2019, Haidilao's ROE rose by approximately 3%, indicating that the company generated more profits for its shareholders during this period. However, in 2020, the ROE dropped sharply, indicating a weakening of the overall profitability of the enterprise and a significant decrease in the level of shareholder returns.

Table 2. Relevant indicators of Haidilao's investment profitability from 2018 to 2020.

| Year | Annual return on total assets (ROA) | return on equity (ROE) |
|------|-------------------------------------|------------------------|
| 2018 | 13.80% | 19.10% |
| 2019 | 11.40% | 22.12% |
| 2020 | 1.12% | 3.03% |

3.3 Profit Quality Analysis

As can be seen from the data in Table 3, the profit cash ratio of Haidilao has generally shown an upward trend from 2018 to 2020, especially with a significant increase in 2020. This change reflects that the company's profit quality has been relatively stable in terms of cash flow after going public. In 2020, this indicator jumped to 9.42, mainly due to a significant decline in net profit compared to 2019, which led to a notable increase in the ratio of net cash flow from operating activities to net profit in the short term. In addition to profit fluctuations, changes in the macroeconomic environment and internal strategic adjustments of the company are also closely related to the changes in this ratio [8].

On the other hand, the operating cash ratio has remained at a relatively low level over the past three years, indicating that the company's ability to obtain cash flow through its main business is limited, and the efficiency of converting operating income into actual cash income is not high. To some extent, this reflects that there is still room for improvement in the company's operational quality and development stability [9].

Table 3. Relevant indicators of Haidilao's profit quality from 2018 to 2020.

| Year | Profit cash ratio | Operating cash ratio |
|------|-------------------|----------------------|
| 2018 | 1.45 | 0.14 |
| 2019 | 1.95 | 0.17 |
| 2020 | 9.42 | 0.1 |

3.4 Analysis of Solvency

It is generally believed that maintaining a current ratio around 2 can better ensure debt-paying ability, while a quick ratio above 1 is more stable. However, according to the data in Table 4, Haidilao's current ratio and quick ratio continued to decline from 2018 to 2020, both falling below 1 in 2020. Further analysis reveals that the growth rate of the company's current liabilities exceeded 70% from 2019 to 2020, significantly weakening its short-term debt-paying ability and increasing financial risks.

From the perspective of the asset-liability ratio, creditors hope that enterprises maintain a low debt level to ensure the safety of their claims, while operators may expand their operations and increase profits by moderately borrowing. Over the past three years, Haidilao's asset-liability ratio has continued to rise, with total liabilities increasing from 3.315 billion yuan to 17.29 billion yuan, among which long-term

liabilities have grown significantly. The changes in the liability structure indicate that the enterprise's debt-paying ability is facing challenges. The use of financial leverage exceeds a reasonable range. The persistently high debt not only increases the pressure on cash flow but also significantly raises the risk of debt default [10].

Table 4. Indicators related to Haidilao's debt-paying ability (2018-2020).

| Year | Current ratio | Quick ratio | Asset-liability ratio |
|------|---------------|-------------|-----------------------|
| 2018 | 1.74 | 1.6 | 27.75% |
| 2019 | 1.27 | 1.06 | 48.45% |
| 2020 | 0.67 | 0.55 | 62.81% |

3.5 Cash Flow Analysis

Free cash flow refers to the remaining cash that an enterprise can freely dispose of after making the necessary investments for maintaining normal operations and development. It is often regarded as an important indicator for evaluating the financial health of an enterprise. Both excessively high and low levels of free cash holdings may pose risks to business operations. This article calculates the free cash flow of Haidilao from 2018 to 2020 based on the general calculation method of free cash flow (free cash flow = net profit after tax + depreciation and amortization - capital expenditure - increase in working capital), in order to analyze its cash flow situation.

According to the data in Table 5, the overall free cash flow of Haidilao fluctuates significantly. In 2018, this indicator was negative, mainly due to large-scale capital expenditure and occupation of working capital. In 2019, it turned positive, mainly due to improved profits and enhanced efficiency in working capital management. Although it rose significantly to 2.077 billion yuan in 2020, considering the structural risk that its current liabilities exceeded current assets during the same period, the enterprise still faces certain financial pressure, and there are still hidden concerns about the quality of cash flow and its debt-paying ability.

Table 5. Cash flow-related indicators of Haidilao (2018-2020).

| Year | Free cash flow (billion yuan) |
|------|-------------------------------|
| 2018 | -38.11 |
| 2019 | 1.88 |
| 2020 | 20.77 |

4 Problem Summary and Suggestions

Haidilao is confronted with numerous problems in its business development. In terms of costs, the cost-expense profit margin has declined due to the increase in raw material and labor costs, and the current wage system poses a risk of pushing up costs. In terms of operational efficiency, the total asset turnover ratio, current ratio and quick ratio have declined, the short-term debt-paying ability has weakened, and the opera-

tional efficiency and management level of assets have been affected. In terms of the capital and liability structure, the asset-liability ratio has been continuously rising, the liability structure is unreasonable, long-term liabilities have increased significantly, and the debt-paying ability is facing challenges. In terms of capital operation, development overly relies on debt expansion, the use of funds does not match the debt-paying capacity, and current liabilities exceed current assets.

4.1 Strengthen the Cost Control Mechanism

On the basis of maintaining service quality, enterprises can start from aspects such as raw material procurement and employee salary structure to optimize costs. For instance, the current piece-rate wage system of Haidilao (such as settlement based on the number of times dishes are served or towels are handed over), although it helps to stimulate the enthusiasm of employees, is prone to overservice, affecting the customer experience and pushing up labor costs. It is suggested that enterprises, in light of the characteristics of catering services and the actual needs of customers, reasonably adjust the incentive methods to effectively control labor expenses while maintaining the motivation of employees.

4.2 Enhance Overall Operational Efficiency

On the one hand, Haidilao should fully assess the regional consumption level, customer flow and the demands of the target group before opening new stores. It should comprehensively consider the time and risk value of capital investment, and through diversified investment plans and structured investment models, select efficient investment paths to avoid resource waste caused by inefficient expansion. On the other hand, against the backdrop of the normalization of the epidemic, enterprises can actively leverage digital means to expand new business forms such as food delivery and e-commerce, build multiple sources of profit, and enhance the resilience of profits and the sustainability of development.

4.3 Optimize the Structure of Capital and Liabilities

At present, Haidilao should focus on reducing its asset-liability ratio. Data shows that most of its borrowing was used for store expansion. During the period of high uncertainty in the business environment, the management needs to scientifically control the pace of store expansion and focus on the operational quality of individual stores rather than simply pursuing quantity. Enterprises can explore diversified financing channels such as equity financing and supply chain finance to reduce their reliance on debt and improve their capital composition. At the same time, efforts should be made to gradually improve the current ratio and quick ratio by controlling the scale of current liabilities and increasing the proportion of current assets, so as to relieve short-term debt repayment pressure.

4.4 Improve the Fund Operation Strategy

Haidilao should change its development model that overly relies on debt expansion and match the use of funds with its debt-paying ability. The management should formulate a prudent financial plan to balance the relationship between business expansion and expenditures such as debt repayment and new product research and development. In addition, it is necessary to increase investment in working capital to reverse the unfavorable situation where current liabilities exceed current assets. While ensuring the effective use of funds, it is necessary to strengthen budget management and expenditure review, eliminate unnecessary expenditures, and enhance the overall efficiency of funds and profit levels through "increasing income and reducing expenditure".

4.5 Research Limitations and Prospects

This article has multiple limitations. In terms of data acquisition, the publicly available financial data, after processing and summary, is difficult to accurately reflect the operational details of Haidilao in different regions and stores, such as cost structure and profit levels. Moreover, its timeliness is poor, and the release of enterprise reports has time intervals, which may affect the accuracy and forward-looking nature of the conclusions. In terms of analytical dimensions, the focus is mainly on financial indicators, with insufficient consideration of the market environment. Macroeconomic fluctuations, changes in policies and regulations, and the competitive situation in the industry can all affect its operation, but these factors have not been fully taken into account. The changes in consumer behavior have not been fully incorporated either. Nowadays, consumers pay attention to healthy diets and pursue convenient and personalized experiences. If Haidilao does not adjust its strategy, there will be risks, which all limit the applicability of the conclusion. In terms of research methods, quantitative analysis based on financial data is the main approach, relying on hypothetical conditions and models. In actual operation, data fluctuations can affect the accuracy of the results, and it is difficult to assess non-quantitative factors such as corporate culture, brand image, and management team capabilities, resulting in incomplete and in-depth research conclusions.

Future research can be carried out from multiple dimensions to support the development of Haidilao and the catering industry. In terms of expanding data sources, a comprehensive and accurate analysis system is constructed by integrating internal data such as store sales and customer feedback, as well as external data from social media. When building a comprehensive analysis framework, financial indicators should be combined with non-financial factors such as market environment and changes in consumer demand. Advanced theories should be introduced to deeply analyze business operations and provide targeted suggestions. Pay attention to industry trends and the application of new technologies, be aware of the challenges and opportunities that new business models such as shared kitchens bring to financial management, utilize big data and artificial intelligence to enhance the level of enterprise financial management, and adjust research methods in a timely manner. Conduct

comparative case studies, select enterprises from different regions, scales and models for comparison, summarize management experiences and strategies, and provide references for Haidilao. At the same time, long-term follow-up research should be carried out to comprehensively and deeply understand its development process and laws, promptly identify risks and provide solutions, verify the stability of research conclusions, and accumulate rich practical experience for the research of the catering industry.

5 Conclusion

This paper takes Haidilao as a case study to explore development strategies and financial performance in the catering industry. Haidilao faces challenges like rising costs, limited development potential, high debt ratio, and poor cash flow. Through financial analysis, it's found that its operating and investment profitability have declined, profit quality has issues, solvency is weak, and cash flow is unstable. To address these, it should strengthen cost control, enhance operational efficiency, optimize capital and liability structure, and improve fund operation strategies. However, the research has limitations in data acquisition, analytical dimensions, and research methods. Future research can expand data sources, build a comprehensive analysis framework, introduce advanced theories, pay attention to industry trends and new technologies, conduct comparative case studies, and carry out long-term follow-up research to better support the development of Haidilao and the catering industry.

References

1. David K.,Thomas.: Research on Financial Risk Management in the Chinese Catering Industry: A Case Study of Haidilao. *International Journal of Contemporary Hospitality Management*, 36(2): 112–115 (2024).
2. Emily R. Johnson.: A Comparative Study of Supply Chain Strategies in the Catering Industry: Haidilao and Yum China. *Journal of Hospitality and Tourism Research*,47(4): 45–48 (2023).
3. Michael S.,Miller, Jennifer L.: Brown. Cost Control Challenges in the Catering Sector: Lessons from Haidilao. *Asia-Pacific Journal of Business Administration*,15(3): 210–214 (2023).
4. Robert T.: Financial Risk Management During the COVID-19 Pandemic: Evidence from Chinese Enterprises. *Global Finance Journal*,54(5): 100712 (2022).
5. Sophia W.: Post-Pandemic Development Strategies for Chain Catering Enterprises: The Case of Haidilao. *Journal of Hospitality Financial Management*,30(1): 33–37 (2022).
6. Yang G.: Research on the Current Situation and Countermeasures of Financial Risks in China's Catering Enterprises: A Case Study of Company A.Modernization of Shopping malls,(03):159-161 (2025).
7. Zhang C.: Analysis of Supply Chain Management Strategies for Catering Enterprises: A Comparison Based on Haidilao and Yum! Brands Modernization of Shopping malls,(01):30-32 (2024).

8. Wu R.M., Lin Y.X.: Analysis of Cost Management in the Catering Industry: A Case Study of Haidilao. *China Market*,(25):86-89 (2023).
9. Fan XY.: Analysis of Enterprise Financial Risk Management under the Background of the COVID-19 Pandemic. *Western Finance and Accounting*,(09):29-31 (2022).
10. Miao SP.: Discussion on the Development Strategies of Chain Catering Enterprises in the Post-Pandemic Era: Taking Haidilao as an Example. *Accounting of Township Enterprises in China*,(01):81-84 (2022).

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

