

# ***Evaluate the Impact of Strategic Adjustment on Xiabuxiabu Company: Based on the Financial Analysis***

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**Abstract.** The research on the influence of enterprise strategy adjustment on itself provides a reference for exploring the way of development and reform of domestic enterprises and finding effective methods to cope with the changes of The Times. This paper focuses on Xiabu Xiabu, a hot pot restaurant that was very popular 10 years ago, and tries to explore whether the decline of Xiabu Xiabu is related to its strategic adjustment, and what kind of adjustment should be made to realize its revival. In this paper, through horizontal and vertical comparison and importance ratio analysis of the important financial data of enterprises, combined with competitive strategy, contingency theory and other relevant theories, the major strategic adjustment since 2016 is evaluated and analyzed, and the impact of enterprise strategic adjustment on enterprise development is explored, and corresponding suggestions are put forward.

**Keywords:** financial analysis; strategic adjustment; evaluation.

## **1. Introduction**

A wise strategy, which means a holistic and directional development goal, corresponding decisions, and ways of action for a certain period in the future, can provide a basis for enterprises to formulate business plans and policies, realize the integration of superior resources of enterprises, enhance competitiveness and competition efficiency (Deng, 2021). Therefore, strategy is crucial to the development and even revolution of enterprises, and the study about the strategy and its adjustment of a company can timely understand the endogenous factors of enterprise development. At the same time, adjusting the formulated strategy in combination with changes in the external environment of the company can ensure the correctness and effectiveness of strategy.

Financial analysis is widely used in enterprise financial management. According to Xu (2021), data indicators of financial statements can be used to help managers understand the operation situation, reveal the problems and shortcomings of enterprises, help managers improve, enhance and perfect management measures, and provide decision-making support for the strategic development of enterprises.

As a result, the combination study of strategic adjustment and financial analysis has its significance. Firstly, financial statements can directly reflect the company's operation, profit and other aspects of the situation, where are the crucial criteria of the effectiveness and efficiency of strategic adjustments. What's more, the consistency of financial data makes it possible to carry out horizontal comparison with competitors and vertical comparison of data over the years in the analysis process, which provide the opportunity to compare the real conduction of the strategic adjustments with the historic period under the whole industry environment.

During the ups and downs of Xiabuxiabu for more than 20 years, the company has experienced several strategic adjustments. Xiabuxiabu, founded in Taiwan in 1998, had gained popularity in China by introducing the concept of 'one person, one pot'.

In 2010, it entered Shanghai, Shandong and other provinces which means that it started regional expansion. In 2014, it was listed on the main board of Hong Kong Exchanges and became the 'first chain hot pot stock'. In 2016, the 'Xiabu + Brand Upgrade Plan' was launched, and the sub-brand 'Coucou' appeared. The mode of "hotpot + tea drinking" was launched to upgrade leisure experience. All strategic adjustment brought great changes to Xiabuxiabu without exception, which means that it is of great importance for Xiabuxiabu to study how strategic adjustment affects the enterprise, which is related to the future development. This study focuses on the strategic adjustment of brand upgrading

in 2016. After the strategic adjustment in 2016, there was a big jump in revenue, but there was a faint sign of weak development, which can be seen in table 1. Xiabuxiabu where to go in the future? Maybe we can find a way out from the financial performance since listing.

| CONSOLIDATED RESULTS                                                          |           |                                |           |           |           |
|-------------------------------------------------------------------------------|-----------|--------------------------------|-----------|-----------|-----------|
|                                                                               | 2019      | For the year ended 31 December |           |           |           |
|                                                                               | RMB'000   | 2018                           | 2017      | 2016      | 2015      |
|                                                                               |           | RMB'000                        | RMB'000   | RMB'000   | RMB'000   |
| Revenue                                                                       | 6,030,167 | 4,734,080                      | 3,663,993 | 2,758,137 | 2,424,606 |
| Profit before income tax                                                      | 503,193   | 609,440                        | 542,787   | 473,122   | 323,120   |
| Income tax expenses                                                           | (212,555) | (147,468)                      | (122,617) | (105,094) | (59,757)  |
| Profit for the year                                                           | 290,638   | 461,972                        | 420,170   | 368,028   | 263,363   |
| Other comprehensive income (expense) for the year                             | —         | 69                             | 1,163     | (1,232)   | —         |
| Total comprehensive income for the year                                       | 290,638   | 462,041                        | 421,333   | 366,796   | 263,363   |
| Total comprehensive income for the year attributable to Owners of the Company | 288,100   | 462,547                        | 421,333   | 366,796   | 263,363   |
| Non-controlling interest                                                      | 2,538     | (506)                          | —         | —         | —         |

**Table 1.** Consolidated result of Xiabuxiabu from 2015 to 2019

In the end of this project, I could help the enterprises understand the factors affecting strategy formulation and adjustment, and help enterprises correctly understand and evaluate the effectiveness and limitation of their strategy and adjustment through financial analysis. Finally, I could put forward suggestions for the future development of enterprises to adapt to the situation.

## 2. Literature Review

### 2.1 Literature Review of Corporate Strategy

According to Business Culture and Strategy (SQA, 2015, 162-163, HP6R 48), enterprise strategy has a wide range and can be generally divided into three levels: corporate strategy, competitive strategy, also known as business competitive strategy, and operational strategy.

There are three main viewpoints of theoretical research related to competitive strategy. The first viewpoint is the industrial structure proposed by Professor Michael E. Porter of Harvard Business School. His view was that enterprises should firstly consider the significant impact of industrial structure when choosing competitive strategy. The main theories of Michael E. Porter include: five-forces model, three strategies, value chain and so on. The second view is resource school represented by Cynthin A. Montgomery and David J. Collis. Resource school believed that enterprises should make use of their own unique resources to develop and cultivate to the maximum to form irreplaceable competitiveness of the organization. Corporations should choose and develop competitive strategy according to the industry environment of the enterprise. The third type of view is the core competence school represented by C.K.Prahalad and G.Hamel (1990), who said that in addition to understanding the enterprise's capabilities, combined with the analysis of the enterprise's internal environment, the key to win competitive advantage is to establish and maintain the advantage of core competence. In addition, some scholars also believed that attention should be paid to the overall ability of enterprises, including the organizational structure and the overall level of knowledge and skills.

The three major strategies proposed by Michael E. Porter (2014) include cost leadership strategy, centralized strategy and differentiation strategy. Cost leadership strategy, also known as low cost strategy, refers to the effective way to reduce the cost of most or even all competitors, so as to obtain profits above the average profit level of the industry. The focus of the centralized strategy is to focus the target in a specific target group, which refers to the customers with certain common needs or the customers in a specific region, and may also be an age level, a professional group. In short, these specific customers have the same or similar needs. Concentration strategy is to carry out services and operations around specific target groups. Enterprises can better meet the target groups, achieve their differentiated needs or low-cost needs, and even achieve both. From the overall market perspective, the centralization strategy does not gain a low cost advantage or differentiation advantage, but it may be specific one or two demands are achieved in the market. Differentiation strategy refers to that enterprises make their products or services different from those of other competitive enterprises in some way, so as to establish distinctive services or highly competitive products in the industry. They need to effectively grasp the most valuable place in the mind of customers, so that the enterprise benefits.

## **2.2 Literature Review of Financial Behavior and Analysis**

Financial behavior is a kind of social and economic behavior that the academic circle focuses on. Different scholars have different views on its definition. According to Chen et al. (2004), financial behavior refers to the dynamic and realistic responses made by the main financial personnel and the financial organization of an enterprise in order to achieve the financial goals of the enterprise in the context of internal and external environment. Other scholars, such as Wang (2010), believe that the financial behavior of enterprises refers to the financing, operation, investment and income distribution behaviors related to value formation under the internal and external factors of various types of subjects in financial and economic activities. Research on corporate financial behavior usually focuses on a specific behavior.

Early studies mainly use relatively standard theories for analysis. At present, most of them choose empirical research to conduct statistical research on the variables of a factor and study its impact on a specific financial behavior (Jiang, 2016).

According to Financial Reporting and Analysis (SQA, 2014, HC43 35), analyzing financial statements can transform the data in financial statements into useful information to help information users improve their decisions. In the section 4 of Financial Reporting and Analysis (SQA, 2014, HC43 35), the detailed methods to analysis ratio. Ratio analysis is an important means of financial statement analysis, which mainly include the analysis of the ratios such as gross profit ratio, debt ratio, inventory turnover, and so on. The purposes of ratio analysis are to compare the performance of organization over a period of time to plot its progress and identify trend, to compare more than one organization in the same industry to see how each is doing against its competitors.

## **2.3 Combined Literature Review of Corporate Strategy and Financial Behavior**

In the operation of enterprises, the choice of corporate strategy and financial behavior are not isolated, but related and influential. Kochhar and Hitt (1998) studied the relationship between capital raising, dividend distribution and competitive strategy, and came to the following point of view: debt financing is suitable for non-correlated diversified strategies, while equity financing is suitable for correlated diversified strategies. Murillo Campello (2003) and other scholars used empirical tests to study the impact of financing plans on the responses of competitors in the industry, thus affecting their competitive strategies. Some scholars also believed that the financing decisions made by enterprises should be influenced by the competitive strategies chosen by different products. For example, Xiao Hong (2005) and other scholars argued that dividend distribution policy will be affected by the proportion of internal financing of enterprises, which would lead to dividend distribution policy, is also one of the factors influencing the competitive strategy of enterprises.

There are also many researches on capital structure and competitive strategy. Williamson(1988) and other scholars believe that competitive strategies affect financing decisions, and investment decisions also affect financing decisions. Therefore, it is reasonable to believe that different capital structures will serve different competitive strategies of enterprises. Barton (1988) and other scholars' research point of view showed that it is more conducive to deepen the understanding of capital structure to explore the capital structure of enterprises from a strategic perspective. Zhang(2008) believed that competitive strategy and capital structure influence each other, and the financial influence brought by competitive strategy should not be ignored when choosing a company's competitive strategy, which would become a major factor affecting the capital structure. The two should cooperate with each other to gain competitive advantages more easily.

## 2.4 others

According to Business Culture and Strategy (SQA, 2015, 20-84, HP6R 48), the external and internal environment analysis techniques are introduced. The PESTLE refers to political, economics, social, technical, legal, and environmental, which are the main external factors that may affect the company. SWOT analysis combines the internal strength and weakness with the external opportunity and threats.

According to Behavioral Skills of Business (SQA, 2014, J1E5 48), in the contingency theory, the internal and external environmental factors can be regarded as independent variables, and the strategic management mode chosen by the enterprise can be regarded as the dependent variable, which will adjust with the change of the independent variable. If the internal and external environment changes, the enterprise should also adjust the strategic decision accordingly

## 3. Research Methodology

### 3.1 Summary of Case Organization

I chose the catering industry as my research background. With the upgrading of China's urbanization level and consumption, the development trend of its catering market can not be undervalued. The increase of catering industry service satisfaction and corporate strategic positioning influence the financial performance of companies. For hot pot industry, previous successful cases and huge bonuses attract various people to emerge, such as Xiabuxiabu, Haidilao, and Banu. However, even they are famous brands of hot pot industry, each of their market share is tiny of the whole industry, which shows the fierce competition in hot pot industry.

Xiabuxiabu, founded in 1998, has created a new type of bar hotpot, which was popular among young people. In 2003, Xiabuxiabu ushered in its soar under the banner of "one person, one pot, SARS can not be infected". In 2008, it obtained huge investment and began to expand its popularity. In 2010, it began to open stores in Liaoning, Shanxi and other provinces, and began to expand geographically. By 2014, Xiabuxiabu was listed in Hong Kong Exchanges and won the title of "the first listed hot pot chain". Whereas in 2020, it "broke wings" in epidemic. After the primary search, I found that since The launch of the new brand of Xiabuxiabu in 2016, its transformation and upgrading had a track to follow. In 2016, the 'Xiabu + Brand Upgrade Plan' was launched, and the sub-brand 'Coucou' appeared. The mode of "hotpot + tea drinking" was launched to upgrade leisure experience.

Founded in 1994 in Jianyang, Sichuan Haidilao Catering Ltd. created the original Haidilao brand and has become the world's leading and rapidly growing Chinese restaurant brand focusing on hot pot. The brand has created a unique social culture in China's dining industry, becoming the ultimate dining experience. The unique model of "connecting efficiency and locked-in management" is at the heart of meeting the challenges of the foodservice industry and achieving high-quality growth. "Connected interests" highly adjusts the interests of employees and the company, and fully stimulates the vitality of growth. "Locked management" means to control systemic risks and protect the long-term development of Haidilao. Haidilao has successfully applied this model to Chinese and overseas markets, transcending cultural and regional boundaries and satisfying people's pursuit of a better life.

### 3.2 Methodology

The Mixed-method would be used in this research, which means that I combined qualitative analysis with quantitative analysis in my research project. Mixed-method research tries to use both qualitative and quantitative research approaches, emphasizing pragmatism and maximizing research objectives.

Quantitative analysis is the analysis of the quantitative characteristics, relations and changes of social phenomena, and then reveals and describes the interaction and development trend of social phenomena. In this research project, I used the quantitative analysis to calculate the ration, collect and analyze the questionnaire results. I collected the financial reporting during 2013-2020 from the official website and selected the useful data from the Statement of Income, Statement of Financial Position.

In the Statement of Income, I selected revenue, gross profit, cost of sales, profit before tax, and profit for year. In the Statement of Financial Position, I collected the total assets, inventory, trade receivable, total liabilities, capital, trade payable, ordinary share, and so on. After collecting all the data needed to calculate the ratios, I listed them in the excel table and insert functions to calculate all the ratios for the seven to eight years. Then, I compared the ratios with the historical period ratios and the ratios of Haidilao from 2018 to 2020. In order to analyze the result of questionnaires, I classified and summarized the questions and answers of the questionnaire, and introduced the variables of the two questions for correlation analysis while looking for the factors affecting the single question.

Qualitative analysis is to analyze the "quality" of the research object, so as to understand the essence of things and reveal the internal laws. I used qualitative analysis to observe, search, and analyze the relevant information of the catering industry, Xiabuxiabu and Haidilao Company. Plenty of reports about the catering industry and hotpot store to learn from, and I learned about the general situation of the catering industry and the performance of Xiabuxiabu in recent years from the Internet and some relevant information. Apart from this, I also designed the opening questions in my questionnaires to ask about their opinions about changes in Xiabuxiabu. Last but not least, I summarized the interview of He Guangqi, chairman of Xiabuxiabu on the Internet, and summarized my group interview record with Xiabuxiabu employees.

Qualitative analysis and quantitative analysis have unity. In financial analysis, the indicators are both qualitative and quantitative. For example, when I analyzed net gross profit ratio, the ratio itself and comparison with other years can be attributed to qualitative analysis, while ratio was derived from specific figures. For example, the revenue of the whole industry in 2020 was poor due to the COVID-19, therefore the gross profit ratio would not be comparable with previous years. Combined the qualitative and quantitative analysis can have a better understanding of the situation. Therefore, in this project, qualitative analysis and quantitative analysis were inseparable. The combination of qualitative analysis and quantitative analysis can more accurately analyze the impact of strategic adjustment on the enterprise, and give them relevant advice.

### 3.3 Sources of Information

A primary source of information is information gathered first hand. The primary source of information can be collected by specific purpose, so it would be more appropriate for research purpose. Besides, I would like to use the primary source of information due to its ability to meet needs immediately, and the data can be guaranteed. I used the four main primary sources of information. They were the interview recordings of the chairman He from internet, the focus group interview with the internal customers of Xiabuxiabu, questionnaire to the external customers of Xiabuxiabu, and the interview with the common customer of Xiabuxiabu and Haidilao.

Firstly, I used the interview recordings of He Guangqi because he is the founder of Xiabuxiabu, and he had the right to make the strategies of the whole company. I searched for the relevant interview recordings and reports on the internet, and then selected the interview during the period from 2016 to 2021. After summarizing the interview of He Guangqi, I understood the reason to change from the point of view of the top managers.

Secondly, I organized a focus group interview with the staffs of Xiabuxiabu. I arranged this interview many weeks before I actually interviewed them, and selected five staff to interview to get the information and voice from the internal customers. I would like to conduct the focus group interview because that the staffs might not have the enough education background to finish the questionnaire, and interview with them one by one would take too long time. I summarized the interview process and their answers after finish the whole interview.

Thirdly, I issued the questionnaire to the external customers of Xiabuxiabu. I would like to collected and classified the different answers about their opinions on Xiabuxiabu from a large number of people from different age, consume level and geographic base. I issued the questionnaire to the people from different areas, in different age and gender, and even have different consume level. I analyze the result one question by one question.

Fourthly, I arranged an interview with a common customer of both Xiabuxiabu and Haidilao. Haidilao is also a famous hotpot chain brand, who has similar positioning and customers with Xiabuxiabu. As a result, the opinion from the common customer of there two company was important. I connected my old friend, Tian Muhe, who was my high school friend. He was originally studied in Hebei province and now is studying in Shanghai University, which is in a typical southern city. His answers well combined the different opinion from both northern and southern people, and his consume level also improved during the past five years. I chatted with him deeply and tried to understand his reason to choose between Xiabuxiabu and Haidilao.

A secondary source of information would come from investigation from other people, who may have similar purpose but not the same. I would like to use the secondary source of information because it is relatively easy to acquire and I can also learn from others' research. I will mainly use **four** secondary sources of information, which are the textbook, websites, the articles in journals, and the Annual Report of Xiabuxiabu.

Firstly, the textbook contained many theories that would be useful for me to search and cite to finish my project. I browsed the relevant textbooks to find the corresponding theories and applied them to explain practical problems. For example, I used PESTLE theory to analyze the environmental factors of Xiabuxiabu's strategic adjustment. Secondly, the website information from internet is diversity. I could easily find plenty of information I needed. Thirdly, I looked the articles in journals. The articles are mostly the previous research in the similar direction and their opinions would be useful for me to get my conclusion. Finally, I searched the Annual Report of Xiabuxiabu to obtain the financial statements. Data from the financial statement can reveal the financial position of company in the financial year. I used the relevant data to calculate the ratios and analyze changes in different accounts.

### 3.4 Research Methods

The financial report can be obtained from the Hong Kong Exchanges website because Xiabuxiabu was listed in the main board of Hong Kong Exchanges. I firstly browsed the Hong Kong Exchanges, and found the disclosure of information. Then I searched by the number of Xiabuxiabu which is 00520 and all of their report. The financial statement was in the Annual Report. I downloaded their Annual Report from 2013 to 2020 and selected all the financial data from them into a table. I collected the financial data in this way because I need the accurate financial data to calculate the ratios and analyze the financial trends of Xiabuxiabu.

I searched about the relative news and reports about the change of Xiabuxiabu on the Internet. I would like to find some recordings about interviews with the founder of Xiabuxiabu, He Guangqi. Fortunately, I found several reports on the magazines and some news talking about He Guangqi and Xiabuxiabu. It was difficult for me to achieve He in person, so the recording was the best way for me learn about him.

I issued the questionnaires to the customers of Xiabuxiabu. First of all, I went to the store and asked the waiter to help me to get the permission of other customers to issue the questionnaires to them. Additionally, I issued the questionnaires to my families and their colleagues in order to cover

the different age. What was more, I asked my schoolmates of senior high school, so that I can collected enough number of questionnaires and cover the people in different area.

I arranged the focus group interview with the waiters in the store of Xiabuxiabu. I went to the offline store in my hometown and ask the store manager helped me find five staffs to finish the interview. I chatted with them and asked them about the questions I prepared before at the same time. I also conducted an interview with my old friend who is the common customer of Xiabuxiabu and Haidilao in order to find the reason why and how people make choice between them.

### **3.5 Data Analysis Methods**

#### **3.5.1 Sampling**

I collected the financial data of Xiabuxiabu from 2014 to 2020, which is also all the financial data since it listed to now. There are several reason to choose the financial data as above. Firstly, they were close to nowadays and can clearly reveal recent trends. Apart from this, data from 2014 to 2020 covered the time of strategic adjustment and its subsequent reactions.

I chose the waiters in one store of Xiabuxiabu as their internal customers, especially there are two old staffs of Xiabuxiabu worked for more than 8 years. Waiters are the fundamental employees of the whole company, and they also experienced the different time of the development of company with their own work life. They may not be beneficial from the strategic adjustments directly, but it really result on some difference to their life and higher demands were made on them. I interviewed them to find out signs of strategic adjustments on them, and to give suggestions about the internal customers finally.

I interviewed with my old friend, Tian. He was born in Hebei province, which is a northern province, and studied in Shanghai, which can be attributed to the south of China. I chose him to conduct the interview because he was attracted to Xiabuxiabu some years before, and also a big fan of Haidilao recent years, which means that he had rich experiences as the customer of both Xiabuxiabu and Haidilao. I could knew well about the differences between them, and find the reason about the different popularity of them.

I issued the questionnaires to 100 external customers of Xiabuxiabu. I chose the current customers in the Xiabuxiabu store, my families and their colleagues, and my schoolmate of high school. I thought the questionnaires issued to the current customers can guarantee the validity of the answers. My families and their colleagues could ensure the age distribution, and my schoolmate can make sure the geographic distribution.

I chose gross profit ration and net profit ratio to measure the profitability. The gross profit ratio can reflect the change and relationship between the revenue and cost of sales. However, the net profit ratio could reflect the profitability directly. As for liquidity, I chose to calculate the quick ratio to measure the short-term liquidity, and the debt ratio to measure the long-term liquidity, which is also the investment ability. Quick ratio ticked off the influence of inventory, therefore, it was more typical criteria to measure liquidity. Debt ratio can reflect the capital structure of the company, so as the long-term liquidity or the investment ability can be found from it. As to efficiency ability, I chose non-current assets turnover, and trade payable turnover. The non-current assets turnover shows the rationality of the structure of non-current assets. The trade payable turnover reflects the times the trade payable can be used. It can show the ability to use the trade payable. I would like to choose sales growth rate and total assets growth rate to judge the develop ability. These two ratios can reflect the increase of revenue and assets, which means the real development of the company.

#### **3.5.2 Reliability, Validity and Generalisability**

The reliability and validity of the data from the financial report can be guaranteed because Xiabuxiabu was the public company, and its financial report was audited and the audit report was issued. Additionally, the financial report was published in the Hong Kong Exchanges to all the people and was subject to inspection by all relevant department. Also, I selected relevant data from the

financial report such revenue, profit and so on, which can be calculate to several useful ratios and reflect different ability of the company, so its generalisable can be ensured.

As to the questionnaires, I designed my questionnaire and revised for several time under the guidance of my tutor, therefore the questions are designed well. When I issued the questionnaires, I chose the external customers of Xiabuxiabu in different gender, age, and some other demographic distribution. In this way, the answer of the questionnaires can be as generalisable as possible.

The interviews were conducted in person with the staffs and the customer. According to the whole process, I have the confidence to ensure the reliability, validity, and the generalisability. The interview recording online of He Guangqi could be found which was valid, and the videos of the interview can be reliable. The interview questions were generalisable and I could found the appropriate answers of my questions.

### 3.5.3 Data analysis Methods

I used the ratio analysis method to analyze the changes in financial behavior due to the adjustment of strategies. I firstly calculated all those main ratios that represent the four capabilities, which are the profitability, liquidity, efficiency, and development. Then I chose some special ratios and tried to attribute some traits of their financial behavior. In the further step , I compared those ratios with the historical numbers and the same period ratios with its competitors - Haidilao. The comparison with historical numbers can also be regarded as trend analysis. I collected and calculated all the financial data of Xiabuxiabu since its listing, so as to explore the changes in its operating conditions, especially before and after its strategic adjustment, and then evaluated the effectiveness of its strategic adjustment.

I used some statistic methods to analyze the result of questionnaire as Appendices 1 shown. I mainly used the pie chart to show the combination of the total, and used the percentage stack histogram to show the answer to the grading questions.

## 4. Summary of Findings

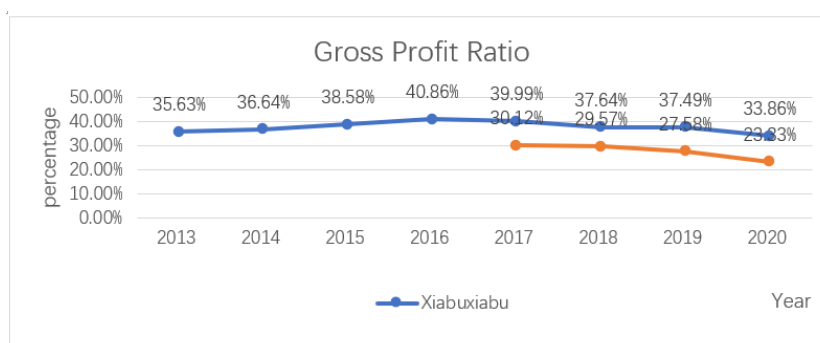
### 4.1 Summary of Findings

#### 4.1.1 Ratios

The financial data of Haidilao could only be obtained from 2017 because it just listed in 2018, so the previous data could not be analyzed together with Xiabuxiabu.

##### 4.1.1.1 Profitability

The gross profit ratio (Gross profit/ Revenue) of Xiabuxiabu and Haidilao can be shown as Figure 1:

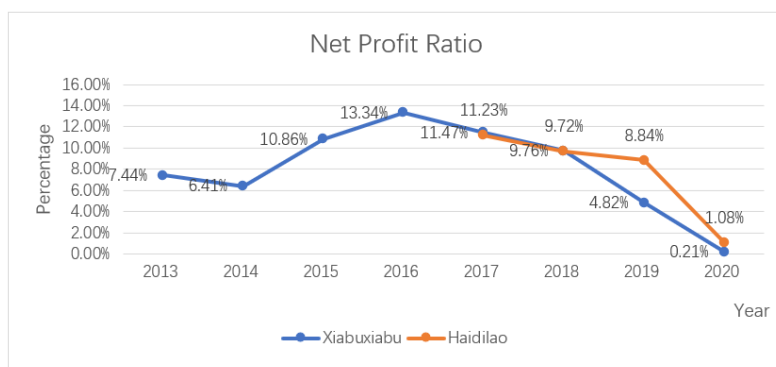


**Fig. 1** The gross profit ratio

The overall gross profit margin of Xiabuxiabu is higher than that of Haidilao, but for Xiabuxiabu itself, after four consecutive years of growth from 2013 to 2016, it began to decline in 2017. And Haidilao itself is also in a state of decline.



The net profit ratio (Profit for the year/ Revenue) of Xiabuxiabu and Haidilao can be shown as Figure 2:



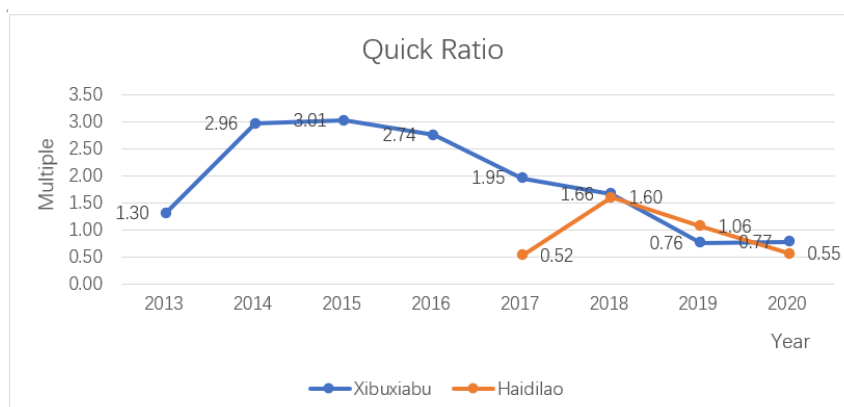
**Fig. 2** the net profit ratio

Generally, there was still a problem of first rise and then decline around 2016, which was more obvious because it was net profit. In the last four years, Haidilao's performance was slightly higher than Xiabuxiabu, but it still declined a lot. Preliminary analysis shows that the net profits of the two companies plunged in 2020 due to the impact of the epidemic.

Both net profit and gross profit have generally followed the same trend -- up and then down around 2016. This means that the profitability of equivalent cost has declined after 2016. Whether this decline in profitability ratios was due to strategic adjustment requires the result of other ratios to study together.

#### 4.1.1.2 Liquidity

The quick ratio of Xiabuxiabu and Haidilao showed in Figure 3 reflected the liquidity in a short term. Quick ratio is the ratio of current assets minus inventory to current liabilities.



**Fig. 3** the quick ratio

Since 2013 and 2017 were respectively the first years of Xiabuxiabu and Haidilao's listing, their current assets, inventories and liabilities were not yet perfect, so the figures were relatively low. If these two starting years are excluded, we can find that the quick ratio of the two companies generally shows a downward trend. The quick ratio of Xiabuxiabu in the early stage is high, which reflected the safety of its short-term liabilities, but at the same time, it indicated that the current assets occupy too much, the utilization rate of funds decreased, and the profitability decreased.

In 2019-2020, it fell to around 0.76, slightly below the safe level, which required vigilance against short-term debt risks.

The debt ratio (Total debt/ Total assets) of Xiabuxiabu and Haidilao shown in Figure 4 reflected the liquidity in a long term, which is also its investment ability.

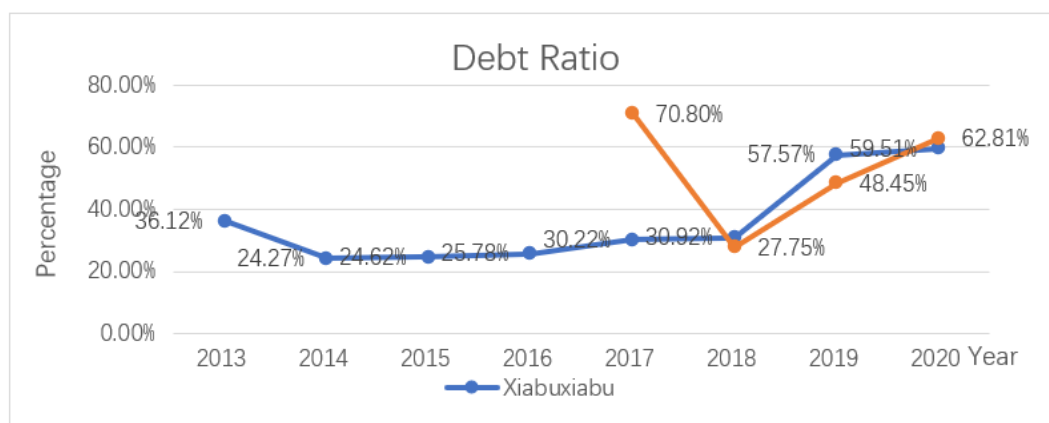


Fig. 4 the debt ratio

Ignoring Haidilao's debt ratio in 2017, Xiabuxiabu and Haidilao's debt ratio roughly moved in the same direction. Xiabuxiabu in the early stage had a low debt ratio and a good degree of equity protection. In 2019 and 2020, both saw significant increases in debt ratios, partly due to an increase in bank loan and borrowing.

The quick ratio and debt ratio in the early stage can reflect the good debt security of Xiabuxiabu, while the ratio changes greatly due to the increase of debt in the later stage, so we need to be alert to the occurrence of related risks. From the quick ratio, we can see that the excessive occupation of current assets in the early stage can explain the lack of profitability from 2016 to 2018.

#### 4.1.1.3 Efficiency ability

Non current assets turnover (Revenue/ Average net book value of fixed assets) demonstrated in Figure 5 reflected the usage of non-current assets.

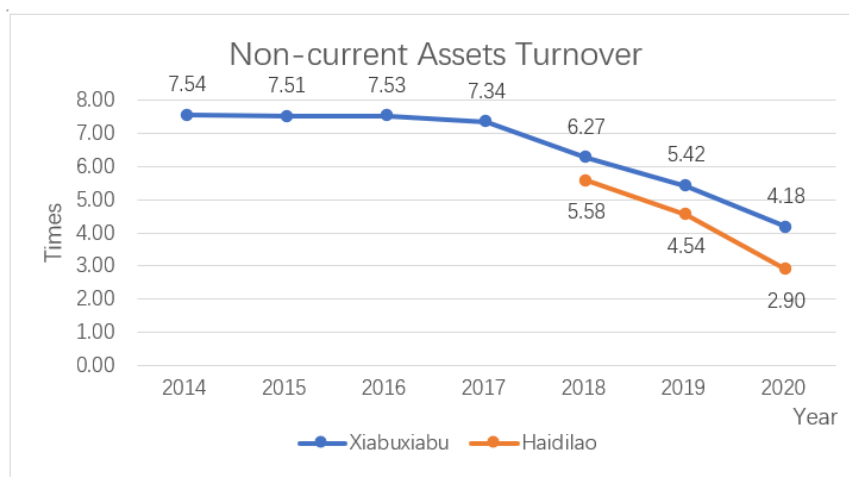
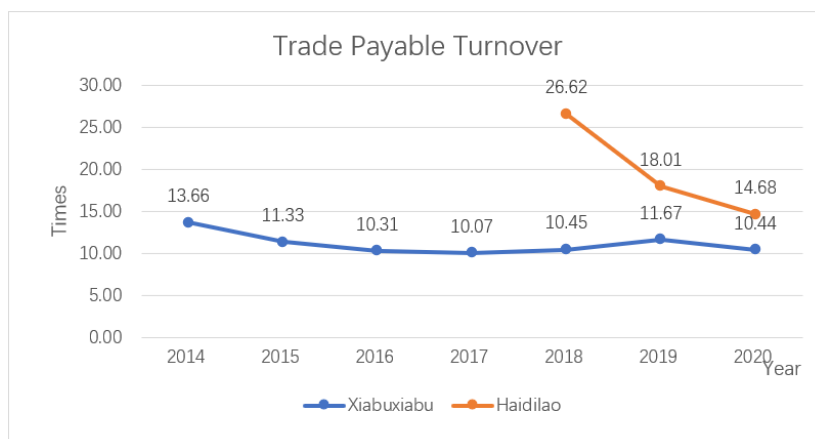


Fig. 5 the non-current assets turnover

The turnover rate of non-current assets of Xiabuxiabu was higher than that of Haidilao on the whole, and the two trends were similar. The decline in 2018-2020 can be considered as industry factors or economic environment factors. The high turnover rate testified to the sound structure of fixed assets and their ability to generate profits.

Trade payable turnover (Cost of sales/ Average trade payable) can be shown in Figure 6.



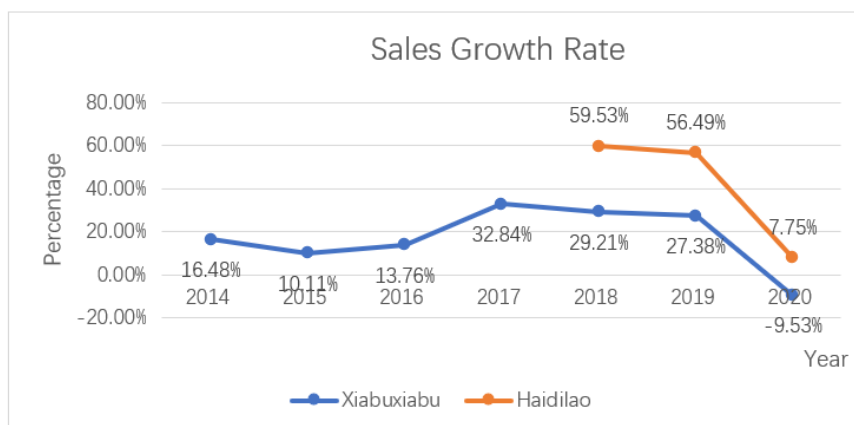
**Fig. 6** trade payable turnover

The accounts payable turnover rate of Xiabuxiabu was lower than that of Haidilao, and was stable between 10 and 15 times. The lower the accounts payable turnover rate is, the longer the accounts payable can be used and the higher the utilization rate of funds. In this regard, Xiabuxiabu had a better utilization rate of funds.

From the non-current assets turnover and trade payable turnover, The efficiency of Xiabuxiabu was better than Haidilao. However, this advantage was not obvious after the later years. Xiabuxiabu should find its own positioning, create its own advantages and maintain good efficiency.

#### 4.1.1.4 Development ability

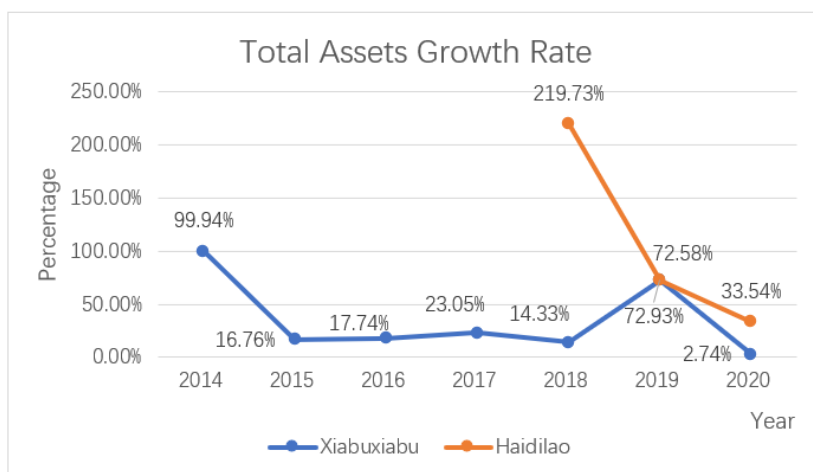
Sales growth rate (Revenue increased/ Initial revenue) can be shown in Figure 7.



**Fig. 7** the sales growth rate

The sales growth rate of Xiabuxiabu is lower than that of Haidilao on the whole, and both of them show a similar trend. From 2017 to 2019, the sales growth rate of Xiabuxiabu was significantly higher than that of other years, which proved that the transformation and upgrading of Xiabuxiabu had achieved certain results, and the subsequent sales could be improved.

Total assets growth rate (Assets increased/ Initial assets) shown the increase of assets in Figure 8.



**Fig. 8** total assets growth rate

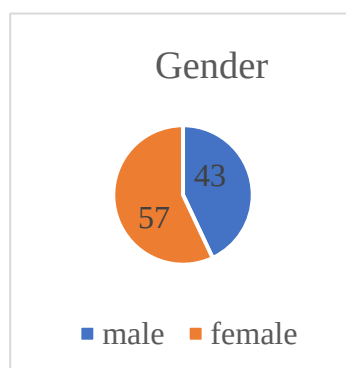
Haidilao's asset growth rate was higher than Xiabuxiabu, while Xiabuxiabu's own asset growth rate surged in 2019, which to some extent represented its expansion.

Excluding the special factors of COVID-19 in 2020, Xiabuxiabu has improved in sales growth, and its assets have grown rapidly in 2019. It is necessary to guard against the rigidity caused by blind expansion.

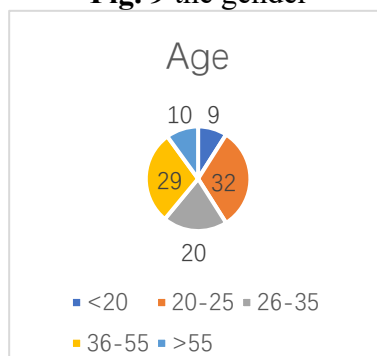
Through the overall ratio analysis, we can see that excluding the special factor of COVID-19 in 2020, the sales growth rate of Xiabuxiabu has been improved after the strategic adjustment, but its profitability has not been effectively improved due to the high capital occupation and capital expansion. At the same time, due to the impact of the epidemic, the profits of Xiabuxiabu have been greatly reduced. Therefore, Xiabuxiabu should come up with countermeasures in time to deal with this mutation.

#### 4.1.2 Questionnaires

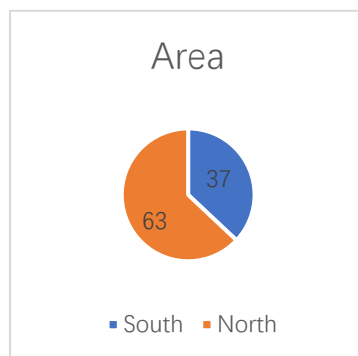
The demographics information of the customers who answered the questionnaires can be seen in figure 9, 10 and 11.



**Fig. 9** the gender



**Fig. 10** age



**Fig. 11** area

According to the result of the questionnaires, it was clear that a big amount of people like to eat with friends, but there were still 31% of people who would eat alone, and they might be the customers or potential customers of Xiabuxiabu. Most people go out to eat frequency is higher, catering market is promising. 27% of them eat out every day to once a week. Most of them are office workers who don't have much time to cook at home. Therefore, Xiabuxiabu who appeal to "eating alone" needs to capture these customers.

More than half of people are most likely to choose hot pot when eating out. Xiabuxiabu needs to take advantage of this opportunity, by virtue of its high quality and high table turnover rate, to catch customers who dine with friends and those who eat alone in their spare time out of work.

Customers with different levels of consumption have different demands. Those who require low unit price pursue high cost performance, while those who accept high unit price hope for better service and high-quality food. Xiabuxiabu is positioned at the middle and low-end market and its pricing is between 50-70, which covers 33% of the customers, while its sub-brand "Coucou" is positioned at the middle market and covers 35% of the customers. The combination of these two brands covers most of the customers' demands.

Most people expect to have takeaway service, while some people do not like to take hotpot away, believing that it will lose the meaning of hotpot. However, in the post-epidemic era, Xiabuxiabu should develop its existing takeaway and prefabricated products more, so as to explore more market space.

Additionally, people may care more about the price and taste, and in Xiabuxiabu, people thought they do well in the price, idea and taste. This reflects exactly what attracts customers to Xiabuxiabu. Xiabuxiabu should improve its service quality and environmental quality while maintaining its existing advantages. Customers have an average preference for different Chinese discounts. Xiabuxiabu can choose discounts and value-added services if they want to carry out relevant preferential activities.

As for the opening questions, people have different opinions. Some think Xiabuxiabu rose their price too much and hope their price can be decreased, while others thinks the quality has improved and hope there will be more value-added services. Xiabuxiabu had better find their focus group and implement the differentiation strategy.

#### 4.1.3 Interviews

As for the interview recording of He Guangqi, who are the founder and chairman of Xiabuxiabu, there were several opinions. First of all, it has been planned for a long time to launch middle and high-end brands for transformation and upgrading. The purpose is to segment the market and then cover most middle and low-end markets. Secondly, for its rapid expansion, rigid structure and other problems, the company has foreseen that it will take the way of replacing senior leaders and closing stores to solve. Thirdly, launch the tea brand "Tea Mi Tea", which is a differentiated tea brand, and build a "humanistic teahouse".

As for the focus group interview with the internal customers, there are different voices among them. Two older women said that they were forced to work here struggle for life at the beginning and

did not like the job very much. However, after working for a long time, they became attached to each other and there were not many opportunities in the job. If possible, they hoped to get more salary. The other three young people said that they felt that working in Xiabuxiabu was different from working in other restaurants. They had a better atmosphere and hoped to have promotion and training opportunities.

As to the interview with the common customer of Xiabuxiabu and Haidilao, the interviewee Tian gave me some ideas and suggestions. He grew up with Xiabuxiabu like me, and he has a deep affection for Xiabuxiabu. However, after going to a university in the South of China, he found that Xiabuxiabu is not popular. Besides, local friends prefer to go to Haidilao, and they often eat there with their companions. Admittedly, Xiabuxiabu is a bit different from Haidilao in terms of environment and service, but Xiabuxiabu's own taste, takeaway and prepared dishes are excellent. The strategic adjustment of Xiabuxiabu in recent years is still effective, but it should still reach its own hard power and turn its advantages into strengths.

#### 4.1.4 Others

The external environment can be analyzed by using PESTLE analysis. Political and legal factor: China's policy of replacing business tax with value-added tax has created a favorable environment for enterprises. Economic factor: In recent years, China's national income level has increased, which has boosted consumption capacity and upgraded consumption. Social factor: Revenue shrank significantly in 2020 due to the impact of the COVID-19. Technical factor: Technological innovations have made it possible to take out hotpots and sell prepared dishes. Environment factor: Catering industry is prone to soot and a lot of garbage, corporate social responsibility should not be underestimated.

SWOT analysis can be used to analyze the internal and external environment of Xiabuxiabu.

There are several strengths of Xiabuxiabu. Firstly, it has high coverage of target market. The market positioning of Xiabuxiabu is middle and low-end market, while its sub-brand "Coucou" is middle-end market. The combination of the two will cover most of the middle and low-end markets. Secondly, its turn over rate is high, which means that they can receive more customers in a day than any other hot pot restaurant. Thirdly, Xiabuxiabu has high level of revenue. From the financial statements, we can see that the sales volume of Xiabuxiabu is increasing year by year, and the sales growth rate is maintained at about 20%. Such high sales can provide sufficient financial support for enterprise development.

The weaknesses of Xiabuxiabu cannot be ignored. Firstly, the over occupation of assets would occupy much of the cash. Excessive appropriation of capital by assets may lead to inefficient use of cash and ultimately reduce the profitability. Secondly, service quality is not the pace of enterprise development. In the years of Xiabuxiabu's development, its service quality has not been effectively improved, which makes consumers' sense of experience decline.

The opportunities can provide a good environment to develop. First of all, under the impact of COVID-19, irregular restrictions on in-house eating have become common, and this is a good time to grow the take-out business and prepare meals. Moreover, "hot pot + tea" mode has large market space. Xiabuxiabu has launched the brand "Tea Mi Tea" and created the casual dining mode of "hot pot + tea recreation". At present, the market prospect is good.

The threats of Xiabuxiabu cannot be underestimated. Firstly, the hot pot market is almost saturated. Today there are many large and small hot pot brands in the market, if Xiabuxiabu can not 'ride the wind in the tide', it will quickly be submerged in the crowded market. What's worse, the competitors keep emerging. As more competitors flood the hotpot circuit, Xiabuxiabu face more competitors in the same industry, which means that it must excel in one aspect to survive.

Contingency theory can be used to explain the strategic adjustment. According to contingency theory, an enterprise's decision will change according to its internal and external environment. For Xiabuxiabu, there were two such changes. The first time was when Xiabuxiabu was founded. At that time, the hot pot industry was just emerging, and there was also a "migrant labor tide" in many big cities, which means that a large number of single people appeared in big cities. At this time,

Xiabuxiabu drew lessons from the development experience of Japan's single economy to launch a "one person, one pot" small hot pot at the bar, with low unit price and high turnover rate in the beginning of the new century triggered a boom. The second reform is in 2016, which is the transformation and upgrading plan of 2016 that this research focuses on. At this time, the national economy was developing rapidly, and the per capita consumption level was also greatly improved. It was easy to be replaced by other brands if they still focus on low-end products. Therefore, Xiabuxiabu launched the middle-end sub-brand "Coucou" and successfully achieved transformation and upgrading.

## 4.2 Implications for the Organization

The ratio analysis reflected that Xiabuxiabu had a good performance in revenue, but the profitability was not as good as expectation. For example, the growth sale rate were high from 2017 to 2019, which means that the strategic adjustment was valid. Whereas the investment and the capital structure was not as good as possible, which means that the debt ratio was too low to around 20%, and the assets grew too much in 2019. All of factors would cause the decrease of profitability. The low profitability would not be a good sign to both internal and external customers. As for internal customers, the shareholders cannot get dividend, and the employees would not get salary increase. As for the external customers, consumers would think that may some problems in the company, and the creditor may not want to lend money to them. In this way, the effectiveness and background of strategic adjustment can be clearly identified.

The results of the questionnaire and interviews reflect on the lagging of enterprise service. Among the scores of Xiabuxiabu's performance in the questionnaire, the service ranked at the bottom. At the same time, the focus group interviews with waiters also reflected the problems of unfamiliarity with the business and lack of training. As for the internal customers, the waiter may not get their development in Xiabuxiabu. As to the external customers, consumers cannot experience the excellent services and refuse to come again. Finally, the benefits of shareholders may be decreased due to the decline of sales. The development of service cannot keep pace with the company is also the problem caused by the strategic adjustment and need to be solved.

## 5. Conclusion

### 5.1 Recommendations for the Organisation

First of all, Xiabuxiabu should stop the blind expansion, which will drag down the capital chain and cause the situation of excess stores. Even profits from profitable stores may have to be used to support unprofitable stores. From the total assets growth rate, we could know that it soared to more than 70% in 2019 which means that Xiabuxiabu expanded too much in 2019. The too much expansion combined with COVID-19 resulted in the poor profit in 2020. So the blind expansion should be stopped. The profit may not return in a short term, but it will distribute to the future development.

Apart from this, Xiabuxiabu had better develop strengths such as take-out and prepared meals. Especially in the post-epidemic era, irregular restrictions on in-house meals may become a common occurrence, and developing takeaway and prepared meals into strong businesses will ensure that sales are less affected by the epidemic. According to the questionnaires, most of customers like the hotpot to takeaway, and the interview with He Guangqi also showed that the prepared meals and takeaway services are popular with people.

Additionally, Xiabuxiabu should improve its service quality. According to the results of the questionnaire, consumers are not very satisfied with the service of Xiabuxiabu, ranking at the bottom of the score. At the same time, according to the results of focus group interviews with waiters, employees generally receive little training, and there is no systematic training on how to serve customers. In this way, the improvement of service quality can not keep up with the improvement of consumption, so that consumers can not have a better sense of experience. Therefore, it is necessary for Xiabuxiabu to train waiters and improve service quality.

## 5.2 Implication for Future Research

This research combined the study of strategies and financial analysis, and provide the experience for the subsequent research on this field. Besides, the method to analyze financial status and explore the effect of strategies can be learned from other student who would like to study in these subjects. This research analyzed the financial report of Xiabuxiabu in detail. The managers and financial departments can find the problems and benefits in decision and strategic adjustments with the help of my research. This study can also provide research ideas and background for others who want to study Xiabuxiabu Company.

## 5.3 Final Remarks

This research began with the strategic adjustments of Xiabuxiabu. I explored the internal and external environmental factors and their effects on the decision of managers. Then I studied the about contingency theory and its use in Xiabuxiabu, which means that how the mangers react under different environmental conditions. Finally, I analyzed the financial reports by ratio analysis, and calculated eight ratios about its profitability, liquidity, efficiency, and development capability. The problems revealed by the ratios are exactly what I should reflect in my research.

During the research, there were several problems need me to solve. Firstly, the workload to selected data and calculate ratios was too much to finish and need lots of patience. I planed to do all that work in three days and completed it on time. Even though the process was difficult, I felt about the achievement finally. Secondly, I did weakly in time management. It was difficult for me to do lots of things in the same time period. I had to work daily and studied for this research and IELTS. I could not arrange my time well in the winter holiday. Fortunately, I could utilize the after-class time in March to finish this research.

In conclusion, this research found that the revenue and sales performed well after the strategic adjustment and the sales growth rates were relatively higher than before, which means that the strategic adjustment about transformation and upgrading was valid. However, due to the sharply increase of total assets increase caused by the expansion, the final profitability was poor. Additionally, according to the questionnaires and interviews, the takeaway and prepared dished business should be valued and the ability to provide services should be improved.

Finally, I proposed three suggestions based on the previous research. Firstly, Xiabuxiabu should stop its blind expansion. Secondly, Xiabuxiabu should develop strong businesses such as hotpot takeaway and prepared dishes. Thirdly, Xiabuxiabu should improve the service quality to improve the overall service level.

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