

Case Study of Impact of COVID-19 on Haidilao

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Abstract. The outbreak of the pandemic forced numerous businesses to shut down, which severely harmed the economy and influenced many people's lives. The subsequent change in government policies, corporate policies, and consumer behaviors had a strong impact on the catering industry. Consumers grow to be more conscious and sensitive when consuming services. In finding a solution to recover from loss in profitability and customer consumption, restaurants started to revolutionize aspects of their operation to include the advanced online platforms and to emphasize safety and health in their marketing. Using literature analysis and case study method, this paper analyzes how this restaurant brand had been affected and how it could implement different strategies with Haidilao Hot Pot as an example. In the more rigorous competition in the post-pandemic era, Haidilao and other similar restaurants brand could learn from the consumers' behavior trends and develop more ways to improve their businesses.

Keywords: COVID-19; Haidilao; consumer behavior; management; competitive strategy.

1. Introduction

Near the end of 2019, the epidemic COVID-19 filled the world with panic and devastation. Lockdowns, death tolls, and quarantines that all came from this deadly virus severely harmed businesses and economies worldwide. One of the industries that had been struck critically was the catering industry. China's National Bureau of Statistics in 2019 showed a decrease of 44.3% in total revenue of the catering industry in the first quarter of the year [1]. Due to the severe epidemic outbreak, most people decided not to eat outside based on the fear of catching the virus, which left a large number of restaurant businesses to face the choice of shutting down or continuing to operate under the pressure of decreasing consumer demand and strict regulations in response to the pandemic. The hotpot industry, which has made a solid contribution to the catering market, was also facing a difficult situation. Many hotpot restaurants had already shut down, and some had gone bankrupt. As a result, numerous restaurant owners were anxious to find solutions to the loss of customer bases and the shortage in staff numbers. An example of an affected chain hotpot restaurant was Haidilao, which will be examined more closely in this paper.

Chen Shen explored the success of Haidilao from its human resource management perspective and innovative services and found that paying attention to service quality has a positive effect on consumer satisfaction [2]. Muhan Yan analyzed the strategies that Haidilao used under COVID-19 by investigating the challenges that restaurants faced and showed that restaurants should have differentiation and cost strategy [3]. Jiang Wang constructed a scale to measure the perceived quality of Haidilao and found out that perceived service quality has a greater positive impact on consumer satisfaction than perceived product quality. Also, perceived service quality and customer satisfaction can directly influence customer retention. Lastly, service empathy is the most important dimension in perceived quality that affects customer satisfaction and retention [4].

Most of the articles analyzed how Haidilao uses its unique and high-quality services to attract consumers, the characteristics of the consumer consumption behavior of Haidilao, and strategies that Haidilao and the hotpot industry as a whole could apply to conquer the severe situation. In the meantime, a few articles used the COVID-19 pandemic as a background to evaluate how different

factors in the pandemic influenced Haidilao or analyzed the best methods that Haidilao could implement to recover from the epidemic and improve its operating situation in the future.

The significance of this paper is to enrich the public's perspective on how businesses struggle with a harsh economic environment where there is little demand for the market. It is also important to provide other restaurant owners and students in marketing or business administration with insights on how to adjust managerial strategies under unexpected circumstances. After reflecting on some mistakes that Haidilao made and some practices by Haidilao that brought positive feedback, restaurant owners can then have intuition about how to sustain their businesses better and help to improve the whole economy, and scholars in marketing areas could enrich their vision on different marketing modes.

This paper will integrate a case study of Haidilao in the post-epidemic era and a related literature review to address the serious challenges in the catering industry in China during this period, which could shed light on potential strategic changes that could be employed by restaurants worldwide under the influence of the pandemic. Through the use of secondary data analysis on the financial report of Haidilao during the 2020-2021 period, this paper evaluates the effectiveness of Haidilao's marketing strategies and proposes an optimized competitive strategy that Haidilao can employ to improve its operating conditions and recover its contagious marketing campaign based on its incredible service quality.

2. Case Study of Haidilao

2.1 Background

Founded in Sichuan Province in 1994 by Yong Zhang, Haidilao started as an undistinguished Sichuan-style spicy soup diner. In two decades, it has developed to be a renowned chain restaurant brand in China. With the core value of "changing your own life using your own hand" inspired by the founder's experience, the employees are tightly connected to their company and determined to promote their business by increasing customers' satisfaction and providing safe and nutritious food. Haidilao has operated over 1300 restaurants in China and over 100 restaurants all over the world, which is conquered through its unique taste experience, strategic marketing campaigns, and notably thoughtful customer service [5]. In the restaurants, waiters and waitresses provide caring services, such as placing a fluffy bear doll if the customer eats alone, giving long-haired customers with hairbands before they eat, and taking care of toddlers or infants when their parents are eating. Among the hot pot industry, Haidilao is one of the most popular chains of hotpot restaurants worldwide. Statistics have shown that there are more than 36 million people who have membership in Haidilao [3].

As the epidemic began to cease in the first half of 2021, some surveys show that consumers have a strong intention for dining in hot pot restaurants [2]. However, the homogenization in the hot pot industry and the low barrier to entry cause high levels of competitive tension. The change in consumer behaviors caused by the pandemic also inhibits the performance of Haidilao. Although it has imposed some changes to its marketing strategy, it still has flaws that need to be solved in response to the severe crisis. Those aspects indicate the importance of studying Haidilao's management during this difficult time as a representative for other catering businesses.

2.2 Analysis the Impact on Haidilao

2.2.1 The Government Policy

1) Governments encouraged people to stay home and even forced lockdowns to repress the epidemic due to the contagious nature of the coronavirus. Since then, more people choose to eat food online instead of eating outside of their home.

2) This reduces Haidilao's advantage in the competition with other hotpot restaurants because its unique quality can only be thoroughly displayed through dine-in service. The exceptional

y considerate service and the memorable interaction between the servers and the customers for Haidilao's bright spot that attracts the main customers, yet the loss of consumers due to the epidemic hindered its specialty. In response to this problem, some of the Haidilao restaurants started selling commonly needed supplies for people in preparation for quarantine; some decided to deliver Sichuan hot soup and fast-food packages. [6] They also collaborated with a commonly used take-out food application, Meituan, to get more exposure from the public instead of using their own staff and application system. Despite Haidilao's innovation in food delivery service, it only contributes 2.5% of its revenue in 2020 and 1.7% in 2021 [7].

2.2.2 Haidilao's Response

1) Around March 2020, Haidilao customers found out that the price was raised drastically after Haidilao reopened its 600 restaurants that were originally closed due to poor business and customers when the pandemic was still spreading grievously. A piece of potato slice would cost 1.5 RMB, and a bowl of rice cost 7 RMB [8].

2) Haidilao's unreasonable price hike provoked the public's protest and condemnation from society. The pandemic caused people to realize the importance of saving money in case of a crisis where there is a shortage of income in most households. During this period, catering businesses should cut their prices as much as possible to gain more trust and a positive impression from the public. Yet, Haidilao's practices not only drove away potential and existing customers but also left an impression of greed and inconsiderateness in the public's eyes. Consumers generally detest profit-oriented companies because they perceive them as not creating value for society. Once they made the consumers feel that Haidilao is a profit-seeking capitalist brand, it would lose their support and damage its brand image. Companies should protect their reputation by not lifting prices in a noticeable way, especially at the time period when consumers are particularly sensitive to their daily expenditures.

3) After the spread of the COVID-19 Pandemic slowed down after March 2020, the management of Haidilao speculated that the pandemic could end in a half of year, and they viewed the pandemic as an opportunity for low-cost expansion since the pandemic pushed down the rent for businesses [10].

4) The expansion of new restaurants during the pandemic was made by the management of Haidilao with excessive confidence. This management's prediction about the restoration of normal social activity resulted in an expansion with problematic timing during the worsening pandemic. Overall, Haidilao opened 544 new stores, making a total of 1,298 stores worldwide in 2020. The increased stores also created more jobs, with the total number of employees exceeding 130,000 people. For the full year of 2020, Haidilao restaurants served over 250 million customers; however, the average table turnover rate decreased significantly, from 4.8 times/day to 3.5 times/day [10]. However, the expansion led to severe profit losses due to decreasing table turnover rates and the concentration of customers. According to its 2021 annual financial report (Table 1), Haidilao's restaurant network expansion drove overall revenue growth during the pandemic; however, Haidilao had a net loss of about RMB 4,161 million for the year 2021, a huge slump compared to the net profit of approximately RMB 310 million for the previous year and the net profit of approximately RMB 325 million for the year 2019 before the outbreak of the COVID-19 Pandemic. Besides, the expansion of Haidilao caused gaps in cash flow and decreased service quality as the new staff needed to undergo a process of training to be familiar with the operations, and it eroded the foundation of Haidilao's no-cost marketing campaign and reputation for placing service quality and customer satisfaction as its first priority.

Table 1. Haidilao's Condensed Statement of Profit or Loss and Other Comprehensive Income (RMB'000) [6].

	2021	2020	2019
Revenue	41,111,624	28,614,255	26,555,792
(Loss) profit before tax	(3,976,019)	735,142	3,247,224
(Loss) profit for the year	(4,161,206)	309,546	2,346,962

2.2.3 Change in consumer's behavior

1) People in the post-epidemic era are more willing to spend their money where it should be spent.

Due to the financial strain caused by COVID-19, more and more people are making an effort to save money and plan ahead with money in hand instead of spending. For safety reasons, the state prohibits significant movement of people. Many restaurants are unable to conduct normal indoor services and many jobs cannot be carried out as usual. The economy has been affected to a great extent. Therefore, more people are aware of the importance of saving money. They pay more and more attention to discount promotions and special offers. Although Haidilao provide a 31 percent discount for college students at special time periods and coupons to special groups, such as ¥30 against ¥100 vouchers, but the discount is not obvious to consumers, so they still believe the price of Haidilao is higher than other hotpot restaurants.

2) Online consumption and logistics delivery have become the norm.

When people are staying at home, more and more people download online apps such as TikTok and Xiaohongshu. These social media have many registered celebrities or public figures whose videos usually have a lot of clicks and viewers. Moreover, more and more people are choosing to watch and buy products on these social apps. This trend has become a way for people to catch up with the trends. In short video software, such as TikTok, in the restaurant industry, many users recommend the "hidden menu" of Haidilao, such as "tomato and beef rice". This has stimulated consumers' desire to purchase. People are also more likely to trust the comments posted by others on social media. For example, before the customers go to a restaurant, they will read through the information and reviews about a restaurant in Xiaohongshu to evaluate their potential choices.

2.3 Solution

In order to overcome the unfavorable impacts brought by the COVID-19 Pandemic, Haidilao may adopt the following measures to better its operating conditions:

1) Emphasize the value of Social Connection. Through a long period of isolation from friends or family members, most people realize the significance of social connection and develop the desire to gather with others. This need could be achieved readily by Haidilao through their humanistic and caring services. As the policy of social distancing becomes loosened, Haidilao should emphasize the bond between the consumers and the people around them and use this theme in their marketing strategy to resonate with customers.

2) Ensure a positive consumer experience and address concerns of safety and health. In an epidemic era, people will want to maintain social distance to stay safe. Many restaurants in China have incorporated robot service, for example, Xiapuxiapu. Robots can be very human-like, offering attentive service. Regular sterilization of robots can make consumers feel safe and secure. Also, many people are uncomfortable with Haidilao's emotional service. Robots can also relieve this discomfort and reduce the pressure of human service. The identification code can be established on the food so that users can have a more comprehensive understanding of the safety of the people according to the identification code.

3) Explore new online marketing strategies on social media. In the era of epidemic, people's consumption level is gradually decreasing, while the frequency of Internet access is gradually increasing. Haidilao should take advantage of this pattern in consumer behaviors. During this Internet Age, the majority of people depend on digital platforms to make their lives more convenient. Haidilao should take advantage of this pattern in consumer behavior by continuing to promote their products

in collaboration with digital platforms like Xiaohongshu, TikTok, WeChat, Weibo, and its official app as a part of its online marketing campaign. These applications help with reservations and increase the interaction between customers and the restaurants. By promoting the sharing of hidden menus, positive feedback from customers, and special privileges to customers with membership, they generate more exposure and word of mouth that could increase brand awareness.

4) Optimize Pricing Strategy to address consumers' price sensitivity. In the post-epidemic era, Haidilao had high operation costs that forced it to increase the price of food, which received criticism from the public [13]. Thus, regulating food prices is a key step for Haidilao to gain consumers' trust. Haidilao should continue to offer special discounts on occasions in response to the public relations crisis that happened in 2020 and consumers' increasing sensitivity to the high price while controlling its expenses to recover its losses in the past year. For example, besides board games and snacks it has now, Haidilao could develop online games that could offer discounts after customers have achieved a certain level in the game while they are waiting in line. This would give them an incentive for eating at the restaurant and help spread the popularity of Haidilao. Through the increased application of advertisements on discount measures, Haidilao could amplify its overall positive image and fully promote all offline stores, and consumers will trust Haidilao more and eat food with more confidence.

Table 2. Haidilao's Revenue in 2021 by Segment [6].

	2021 (RMB'000 and percentages)	2020 (RMB'000 and percentages)
Haidilao restaurant operation	39,463,660 (96.0%)	27,433,692 (95.9%)
Other restaurant operation	197,781 (0.5%)	20,614 (0.1%)
Delivery business	705,659 (1.7%)	717,683 (2.5%)
Sales of condiment products and food ingredients	687,059 (1.7%)	420,901 (1.4%)
Others	57465 (0.1%)	21,265 (0.1%)
Total Revenue	41,111,624 (100%)	28,614,255 (100%)

5) Corporate with food delivery service platforms. As mentioned before, the pandemic has caused consumers to be more inclined to use online facilities for their daily deeds since they are convenient after being rapidly advanced in order to replace in-person services. Haidilao should continue improving its food delivery system in response to this trend, and Haidilao could improve customer experience by the corporation with major food delivery service platforms such as Meituan and Ele.me while offering specialized food that stands apart from the dine-in service and distinctive service that separates it from other ordinary restaurants. Even though their in-person service is not directly delivered by the servers, the restaurants could still work on how to show their prioritization of customers' needs and meticulousness in their food delivery service.

6) Concentrate on major operations. As part of the Group's overall growth strategy, Haidilao plans to acquire high-quality resources in horizontal areas to enhance its market position and competitiveness. However, Haidilao should recognize the underlying risks of its multi-brand operations, self-operated restaurants, and acquisitions of other brands such as Madam Zhu's Kitchen and Shi Ba Cuan Noodle. With the strict Zero-Covid policy implemented by the government and the worsening macroeconomics situation, Haidilao should be more conservative about its attempts in other fields under the critical influences of the pandemic. Therefore, Haidilao should still focus on its most well-known and profitable operation since the revenue from Haidilao restaurant operation accounts for 96.0% of its total revenue in 2021 according to Table 2 [14].

7) Reduce operating losses by stopping its rapid expansion. Haidilao should continue to close specific Haidilao restaurants in accordance with its "Woodpecker" plan to counter the impacts of its massive expansion and prevent invoking unnecessary costs during its period of difficulty that all restaurants with relatively low customer traffic, unsatisfying operating performance, and high density of Haidilao restaurants nearby need to be closed immediately [14].

3. Conclusion

In conclusion, this paper analyzes the impact of epidemic on hot-pot industry using both literature analysis and case study on Haidilao. This paper discusses some changes in consumer's characteristic and competitive strategies that Haidilao used to improve their revenue. Since there are some limitations on its strategies, Haidilao should explore different approaches to ensure its future development.

In general, the hot-pot industry had been greatly influenced by the epidemic. Government regulations have strict all people to stay at home. The dine-in services of hot-pot restaurants, especially Haidilao, have been influenced drastically by the reduction in movement of people. Consumers in the post-epidemic era paid more attention to food safety and protection. So, they are more likely to purchase food online or takeaway. Also, due to the economic crisis caused by the epidemic, consumers are more sensitive to money spending, they tend to save money. To return their revenue, Haidilao increases its price on food and opens numerous new restaurants. However, those actions are not as effective as Haidilao think and they lose money because of this.

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