

The Digital Transformation Development Strategy of China's Catering Industry - Taking "Haidilao" as an Example

Jing Kuang, Jingyan Su

Guangzhou Xinhua University

ABSTRACT

With the rapid development of technology, digital transformation has become an important strategy for various industries to enhance competitiveness and achieve sustainable development. In the catering industry, digital transformation also holds a crucial position. As a leading enterprise in China's catering industry, Haidilao has achieved significant results in digital transformation, but there are still some shortcomings. This article is based on the theory of enterprise development strategy and provides an in-depth analysis of Haidilao's development strategy in the current digital transformation environment of the catering industry. EFE and IFE matrix analysis were selected for internal and external factor evaluation through PEST model, Porter's Five Forces model, and SWOT analysis. The paper comprehensively identifies the challenges of digital transformation and Haidilao. It reveals how Haidilao can effectively choose development strategies while maintaining its leading position in the industry, and proposes the choice of development strategies for Haidilao.

KEYWORDS

Catering industry; Hai Di Lao; development strategy Digital transformation

1 Background of the research

With the rapid development of information technology and the deepening of digital transformation, the catering industry is undergoing unprecedented changes. The application of digital technology has penetrated into every aspect of the catering industry, from ordering and payment to marketing and supply chain management, all of which are gradually achieving digital transformation. In July 2023, the National Development and Reform Commission issued a notice on expanding consumption measures, State Council Letter [2023] No. 70, which clearly stated: to strengthen digital consumption and promote the construction of digital consumption infrastructure. China's catering industry has entered a period of growth and diversification, and the supply chain of the catering industry is facing multiple problems and challenges, which restrict its efficient operation ability and sustainable development. As a leading enterprise in China's catering industry, Haidilao has achieved digitalization in multiple aspects. This study takes Haidilao's digital transformation and development strategy as a case study. Haidilao was established in Jianyang City, Sichuan Province in 1994. The brand focuses on hot pot business, focusing on building an industry supply chain system and integrating the characteristics of hot pot from various regions into a high-quality hot pot brand. Haidilao is one of the early companies in digital transformation. As a leading catering enterprise, Haidilao's digital reform also represents the trend of industry development. Jie Pengwei, PMO of the Information Technology Department of Haidilao and responsible for the landing of the Feishu project, stated that the number of stores is constantly increasing, business

scenarios are constantly enriching, and various demands are emerging. Haidilao's digitalization has entered the deep water area.

2 Related theories and concepts

2.1 Related theories

The PEST analysis model, as a macro environmental analysis tool, plays an important guiding role in enterprise strategic planning and decision-making. By deeply analyzing the four dimensions of politics, economy, society, and technology, enterprises can comprehensively understand and adapt to changes in the external environment, thereby gaining advantages in fierce market competition. The following text will explore in detail each component of PEST analysis and its impact on corporate strategic planning. The SWOT analysis model is a commonly used tool in the field of strategic planning and management, which helps organizations evaluate their competitive position and future development direction. SWOT analysis covers four aspects, namely strengths, weaknesses, opportunities, and threats. Through SWOT analysis, organizations can gain a clearer understanding of their internal strengths and weaknesses, as well as the opportunities and threats they face externally, in order to develop more effective strategic planning.

Michael Porter proposed the Five Forces model, which has been widely used in companies and has played an undeniable role in their development. This includes five aspects, namely entry from competitors, substitution from substitutes, bargaining power from suppliers, bargaining power from buyers, and competition from competitors within the industry. The Porter's Five Forces model is mainly applied to the analysis of an enterprise's industrial environment, which is the theoretical basis for the analysis of the enterprise's industrial environment [8]. The Porter's Five Forces model has been widely used in the decision-making of enterprise strategy, helping enterprises understand the competitive environment, formulate corresponding market strategies, and gain competitive advantages. Quantitative analysis of opportunity and threat factors in the external environment of Hai Di Lao using SWOT analysis. The External Factor Evaluation Matrix (EFE) is a quantitative analysis tool for evaluating external environmental factors, while the Internal Factor Evaluation Matrix (IFE) is a quantitative analysis tool for evaluating internal environmental factors. This article lists the key factors in the internal environment.

2.2 Related Concepts

Digital transformation refers to the process in which an organization or enterprise utilizes digital technology to change existing business models, processes, and customer experiences. It is built on the basis of digital transformation and upgrading, further touching the core business of the company, with the goal of creating a high-level transformation of a new business model. Digital transformation involves not only the application of technology, but also a comprehensive redefinition of organizational activities, processes, business models, and employee capabilities.

3 Analysis of the Current Status of Digital Transformation of "Haidilao" in the Catering Industry

3.1 PEST analysis

3.1.1 Political and Legal Environment

In terms of political and legal environment, with the increasing attention of the country to digital

transformation, a series of relevant policies and regulations have been introduced, providing a good transformation atmosphere for catering enterprises such as Haidilao. For example, the government encourages enterprises to strengthen information technology construction and promote the development of the digital economy, providing policy guarantees and support for Haidilao's digital transformation. At the same time, the strict implementation of laws and regulations such as the Food Safety Law has also prompted Haidilao to strengthen its control over food safety and quality in its digital transformation, enhancing the company's reputation and image.

3.1.2 Economic development status

The impact of economic development on the digital transformation of Hai Di Lao cannot be ignored. Currently, the Chinese economy maintains stable growth, and the continuous expansion of the consumer market provides broad space for the development of the catering industry. At the same time, with the improvement of residents' income levels, consumers have increasingly high requirements for the dining experience and service quality, which requires Haidilao to accelerate its digital transformation to better meet the needs of consumers.



Note: Data source: iMedia Consulting

Figure 1 Market size of China's catering industry

3.1.3 Social and cultural factors

The impact of social and cultural factors on Haidilao's digital transformation is mainly reflected in changes in consumer behavior and values. With the diversification and openness of social culture, consumers' awareness and acceptance of catering culture are constantly increasing, and their sense of identification and loyalty to catering brands are also increasing. This provides favorable conditions for Haidilao to enhance its brand image and create personalized services through digital transformation. At the same time, the increasing attention of consumers to environmental protection, health and other issues has also prompted Hai Di Lao to focus on sustainable development and the integration of green environmental protection concepts in its digital transformation.

3.1.4 Impact of technological progress

Technological progress is a key factor in promoting the digital transformation of Hai Di Lao. With the rapid development and application of technologies such as cloud computing, big data, and artificial intelligence, powerful technical support and tools have been provided for Haidilao. By utilizing these technologies, Haidilao can achieve data-driven decision-making and management, improve operational efficiency and service quality; At the same time, innovative service models can also be developed to enhance consumer experience.

3.2 Porter's Five Forces Model Analysis

3.2.1 Supplier's bargaining power

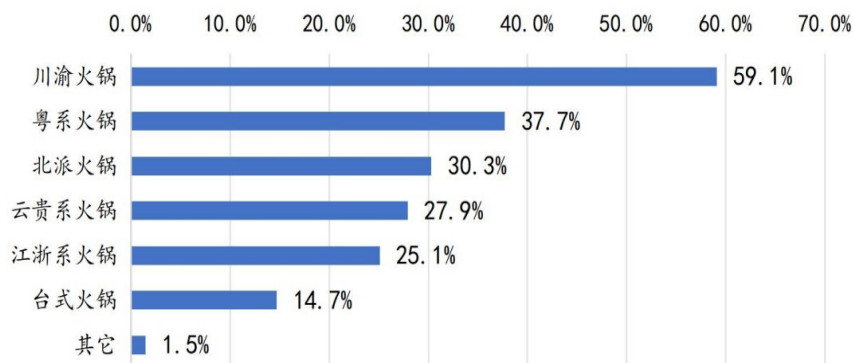
In the context of digital transformation, Haidilao has achieved real-time monitoring and data analysis of supplier information by introducing advanced supply chain management systems. This enables Hai Di Lao to better grasp the prices, quality, and service situation of suppliers during the procurement process, thereby enhancing its bargaining power over suppliers. At the same time, Hai Di Lao actively collaborates with suppliers to jointly promote product innovation and upgrading, in order to further enhance the competitiveness of the supply chain.

3.2.2 Buyer's bargaining power

Digital transformation enables Haidilao to better understand consumer needs and preferences, thereby providing more precise services and personalized products. This enhances consumers' sense of identification and loyalty to the Haidilao brand, and reduces the bargaining power of buyers. In addition, Haidilao has improved consumer satisfaction and stickiness by optimizing service processes and improving service quality, further weakening the bargaining power of buyers.

3.2.3 Threats from potential entrants

In the process of digital transformation, Haidilao has effectively reduced the threat of potential entrants by establishing digital barriers and enhancing brand influence. Competition among peers is fierce, and Haidilao has improved the operational efficiency and service quality of the restaurant by introducing intelligent ordering systems, big data analysis and other technological means, forming a differentiated competitive advantage with potential entrants. At the same time, Haidilao has continued to invest in brand building and market promotion, enhancing brand awareness and reputation, and further consolidating its market position.



Note: Data source: iMedia Consulting

Figure 2 Top 5 Hot Pot Stores Frequently Visited by Consumers in 2022

3.2.4 Threats of substitutes

Digital transformation enables Haidilao to better meet the diverse needs of consumers and reduce the threat of substitutes. For example, Hai Di Lao continuously enhances consumer stickiness and loyalty to the brand through innovative dishes and improved service experience. At the same time, Hai Di Lao actively pays attention to industry trends and the situation of competitors, adjusts

its business strategy and product innovation direction in a timely manner, in order to respond to possible substitute threats.

3.2.5 The level of competition among competitors within the industry

In the context of digital transformation, competition in the catering industry is becoming increasingly fierce. However, Haidilao maintains a leading position in the industry with its strong brand strength, high-quality service experience, and efficient operational management. At the same time, Hai Di Lao actively cooperates and competes with other enterprises in the industry, jointly promoting the progress and development of the industry.

3.3 SWOT analysis

3.3.1 Advantages

The brand has a strong influence, and as a leading enterprise in the catering industry, Haidilao has a wide brand awareness and good reputation. Digital transformation helps to further enhance brand image and attract more consumers. Through digital transformation, Haidilao has launched online booking, takeout and other services, providing consumers with a more convenient dining experience, enhancing the brand's attractiveness and loyalty. Haidilao has accumulated a large amount of consumer data in the process of digital transformation, providing strong support for precision marketing and personalized services.

3.3.2 Disadvantages

Digital transformation requires a large amount of capital investment, including expenditures on technology research and development, talent cultivation, system upgrades, etc., which may bring certain financial pressure to Hai Di Lao. In order to achieve digital transformation, Haidilao needs to invest a large amount of funds in purchasing and maintaining advanced information equipment and systems, as well as training employees to master digital skills, which will increase the operating costs of the enterprise. With the continuous development of technologies such as artificial intelligence and the Internet of Things, Haidilao needs to constantly update and optimize its digital system to adapt to market changes and changes in consumer demand. This requires enterprises to have strong technological research and innovation capabilities.

3.3.3 Opportunities

With the growth of market demand and the continuous improvement of consumer demands for dining experience and service quality, digital transformation can help Hai Di Lao meet market demand and enhance competitiveness. Through digital transformation, Haidilao can provide more convenient ordering and payment services, optimize restaurant layout and process design, enhance consumer dining experience, and attract more consumers to choose Haidilao as their dining location. Collaborative development of the industrial chain: Digital transformation can promote information sharing and collaboration between Haidilao and upstream and downstream enterprises, and improve the efficiency of the overall industrial chain.

3.3.4 Threats

With the deepening development of digital transformation in the catering industry, more and more enterprises have joined the ranks of digital competition. Haidilao is facing the risk of

intensified market competition. Other catering companies may use digital means to provide better services, more favorable prices, and other strategies to attract consumers, posing a threat to Haidilao's market share and profitability. Digital transformation involves a large amount of data transmission and storage. Once technical failures or data leaks occur, security issues will have a serious impact on Haidilao's business operations and brand image.

3.4 Analysis of Internal and External Factor Evaluation Matrix

3.4.1 Internal Factor Evaluation Matrix (IFE)

The Internal Factor Evaluation Matrix (IFE) is a quantitative analysis tool for evaluating internal environmental factors. This article lists the key factors in the internal environment; Then, data collection and scoring were conducted on the main key internal factors that affect the company's development for 15 employees, including senior management, at Hai Di Lao.

Table 1 Internal Factor Evaluation Matrix for Transformation (IFE)

	serial num- ber	Main internal factors	weight (%)	score (1-4)	weighted score
strength	S1	Brand awareness and market share	14%	4	0.56
	S2	Digital service innovation and product development	12%	4	0.48
	S3	Digital management mode	11%	3	0.33
	S4	Large scale market coverage	10%	3	0.30
	S5	Digitalization accumulates a large amount of consumer data	9%	3	0.27
Weaknesses	W1	Order system operator fee selection	10%	2	0.20
	W2	Development and operation costs of digital technology	9%	2	0.18
	W3	Sensitivity to economic fluctuations	8%	2	0.16
	W4	Employees master digital skills	9%	2	0.18
	W5	Limitations of market promotion and brand promotion	8%	2	0.16
amount to			100%		2.82

According to the Internal Factor Evaluation Matrix (IFE) of Hai Di Lao, the total weighted score is 2.82, which is higher than the average weighted score of 2.5, indicating that Hai Di Lao has more advantages than disadvantages in terms of internal environment and has strong internal competitiveness. Haidilao has successfully established its position as an industry leader and improved consumer experience through its strong brand awareness and market share, digital service innovation and product development, and digital management model. In addition, Haidilao's large-scale market coverage and digital accumulation of a large amount of consumer data have further strengthened its market competitiveness. Despite facing internal disadvantages such as employees mastering digital skills and operating costs of digital technology development, through continuous internal management optimization and market strategy adjustments, Haidilao can effectively overcome these challenges and continue to maintain its leading position in the industry.

3.4.2 External Factor Evaluation Matrix (EFE)

It is a quantitative analysis tool for external environmental assessment. This article provides SWOT analysis to quantitatively analyze the opportunity and threat factors of the external environment of Hai Di Lao. Firstly, list the key factors in the external environment, and then use the questionnaire distributed by the store manager of Haidilao to evaluate and score each key factor. The rating is based on a 4-point system, with the highest score being 4 points, followed by 3 points, followed by 2 points, and the lowest score being 1 point. Then, give corresponding weights based

on the importance of the research factors. The External Factor Evaluation Matrix (EFE) provides a systematic method for evaluating the external environment in which Hai Di Lao operates. A total of 15 questionnaire feedback points were received from Hai Di Lao in this survey. By identifying, scoring, and weighting key external factors, we can quantitatively understand their potential impact on Hai Di Lao.

Table 2 External Factor Evaluation Matrix (EFE) for Haidilao's Digital Transformation

	serial num- ber	Main external factors	weight (%)	score (1-4)	weighted score
Opportunities	O1	The rapid development of digitalization in the catering industry	12%	4	0.48
	O2	Consumer's growing demand for digital services	11%	4	0.44
	O3	National economic growth drives consumption upgrading	10%	3	0.30
	O4	Digital transformation enhances competitiveness	9%	4	0.36
	O5	Consumer dining experience	8%	3	0.24
Threats	T1	Data management technology malfunction or data leakage	12%	2	0.24
	T2	Digital services compete fiercely in the same industry	11%	3	0.33
	T3	Competition in the multinational food and beverage industry	9%	2	0.18
	T4	Market saturation and the emergence of new brands	8%	2	0.16
	T5	The impact of economic fluctuations on consumer spending	10%	2	0.20
amount to			100%		2.93

The analysis results show that the total weighted score of the external factor evaluation matrix for Hai Di Lao is 2.93, which is higher than the average weighted score of 2.5. This result shows that compared with external threats, benthic fishing faces greater opportunities. Specifically, the rapid development of digitalization in the catering industry and the growing demand for digital services from consumers have been identified as the most influential opportunity factors, while data management technology failures or data leaks and digital services are seen as the main threats in the fiercely competitive industry.

4 Challenges Faced by the Digital Transformation of "Haidilao" in the Catering Industry

4.1 Cost pressure of technological updates and security management

From the weighted score of 0.24 for data management technology failure or data leakage in Table 2T1, it can be seen that technology updates rapidly, with the rapid development of technology and the rapid advancement of digital technology. Haidilao needs to keep up with the technological trend, constantly update and optimize its digital system. The digital transformation requires Haidilao to process a large amount of consumer data in its business operations. However, security risks such as data leaks and hacker attacks have also increased. Haidilao needs to strengthen data security and privacy protection measures to ensure the security and privacy of consumer data. From the weighted score of 0.18 for the development and operation cost of digital technology in Table 1. W2, it can be seen that Haidilao needs to invest a large amount of funds in the research and development, introduction, and maintenance of advanced technologies such as intelligent ordering systems and big data analysis platforms to ensure its leading position in digital transformation. The cost of technological investment is high, and digital transformation requires a significant investment in technology research and development, equipment procurement, system upgrades, and employee training. These high costs may put some pressure on the financial situation of Hai Di Lao.

4.2 Difficulties in Talent Reserve and Training

From the weighted score of 0.24 for W4 employees in Table 1, it can be seen that there is a lack of professional technical talents to support digital transformation. However, Haidilao's overall level of talent reserves is not high, and it is necessary to increase recruitment and training efforts to attract more talents with digital skills to join the company. The overall level of employees is not high, and it is difficult to transform in a short period of time through training. Digital transformation is not only an upgrade of technology, but also a subversion and reshaping of traditional business models. Therefore, Haidilao needs to invest a lot of time and effort in training its employees to help them adapt to the new digital work environment and business processes. However, employees may encounter various difficulties during the transformation process.

4.3 Rapid changes in market competition and consumer demand

From Table 2T2, the weighted score of 0.33 for digital services in the same industry shows that market competition is intensifying, and with the deepening development of digital transformation in the catering industry, market competition is becoming increasingly fierce. Haidilao needs to continuously improve its digital capabilities and service quality to cope with the entry of competitors. Consumer demands are diverse, and their demands for catering services and experiences are becoming increasingly diverse and personalized. Haidilao needs to better understand the changing trends in consumer demand through digital transformation and provide more accurate and personalized services to meet consumer needs.

5 Development strategy for the digital transformation of "Haidilao" in the catering industry

5.1 Digital technology improvement

In May 2024, the Ministry of Commerce issued the "Three Year Action Plan for Digital Commerce (2024-2026)" (hereinafter referred to as the "Action Plan"), proposing 20 specific measures to promote digital development in various fields of commerce. The head of the E-commerce Department of the Ministry of Commerce stated that the Ministry of Commerce will guide local commerce authorities to implement documents and policies, comprehensively improve the level of digital development in various fields of commerce, and promote the strengthening, optimization, and expansion of China's digital economy. Integrate with relevant national policies and open resources, and enhance the application of digital technology in management. So as to reduce management processes, expenses, employees, etc., and thus lower management costs. By collecting and analyzing consumer data, sales data, etc., provide strong support for enterprise decision-making. Using artificial intelligence technology for customer identification, intelligent ordering, and dish recommendation to improve service quality and efficiency. Applying IoT technology within the restaurant to achieve intelligent management of equipment and improve operational efficiency. Establish a comprehensive data governance system to ensure data quality, integrity, and security. By utilizing techniques such as data mining and analysis, precise data-driven decision-making can be achieved.

Utilize data visualization tools to improve decision-making efficiency and transparency. Catering enterprises have begun to strengthen their awareness of data security by adopting advanced data encryption technology and establishing sound data management systems to ensure the security and privacy of consumer and enterprise data.

5.2 Training of digital technology talents

Strengthen digital skills training for internal employees and enhance overall digital literacy. Introduce professional talents with digital skills and experience to inject new vitality into the enterprise. Establish incentive mechanisms to encourage employees to play a positive role in digital transformation. The digital transformation has also had an impact on the talent cultivation and recruitment needs of the catering industry. Enterprises need to recruit talents with digital skills and knowledge to support the process of digital transformation. At the same time, enterprises also need to strengthen employee training, enhance their digital literacy and skill levels, in order to adapt to the changes and challenges brought about by digital transformation. The development status of digital transformation in the catering industry presents characteristics such as widespread application of digital technology, significant improvement in consumer experience, enhanced operational efficiency and management level, diversified marketing and promotion channels, accelerated digital upgrading of supply chain, strengthened data security and privacy protection, development of cross-border cooperation and membership system, and increased demand for talent training and recruitment.

5.3 Utilizing digital platforms to enhance customer experience

Haidilao has always focused on improving user experience in the process of digital transformation. Continuously expanding the boundaries of product and service innovation through digital means, such as launching a mobile "Hi Hi" management system and providing innovative services such as "Subject 3". At the same time, Haidilao also provides differentiated services and rights adjustments for consumers from different channels to meet the needs of different consumers. Personalized service, understanding customer preferences through data analysis, providing personalized dish recommendations, promotional activities, and other services to improve customer satisfaction. Optimize online booking, payment, delivery and other service processes for convenient services, and improve the convenience of customer dining. Interactive experience, maintaining interaction with customers through social media, apps, and other channels, collecting customer feedback, and continuously improving service quality. It can be seen from Figure 3 that Haidilao has realized convenient digital service functions by using WeChat official account, Xiaohongshu, Tiktok and other platforms to provide users with meal ordering, takeout, and direct payment at any time. It also creates its own brand image through these platforms and regularly publishes enterprise related information to increase its stickiness with users.



Figure 3 "Haidilao" digital marketing platform WeChat, Xiaohongshu, Tiktok platform interface

WeChat official account, the official WeChat official account of Haidilao, provides users with diversified services. The backstage of the official account is carefully set up, which is divided into three parts: "catering services", "personal services" and "more services". Users can not only order food and inquire orders through the official account, but also participate in feedback, exchange

goods, query recruitment information and business cooperation. Regularly push content, including new product introductions, soft article promotions, and marketing activities, to ensure that users can stay up-to-date with the latest developments and promotional information of Hai Di Lao. Xiaohongshu and Haidilao have created a series of popular topics and marketing events on Xiaohongshu through user sharing and official promotion. Users share their unique experiences at Haidilao, including services, dishes, etc., further enhancing the brand awareness and reputation of Haidilao. The user interaction on Xiaohongshu is frequent, and users praise Haidilao's services and dishes, forming a positive word-of-mouth spread. Tiktok, Haidilao shows its products, services and experience to users through short videos and live broadcast on the Tiktok platform. This method is intuitive, vivid, and can quickly attract the user's attention.

6 Conclusion

Digitization is a trend for the development of China's catering industry. By implementing digital transformation, catering enterprises can improve operational efficiency, optimize customer experience, achieve precision marketing and customer insights, innovate service models and scenarios, apply artificial intelligence technology, achieve integrated development of online and offline, and ensure data security and privacy protection. This will help promote the development of the catering industry towards digitization, intelligence, and efficiency. Haidilao will continue to deepen its digital transformation, explore technological updates and security management. By introducing more advanced digital technologies, Haidilao will further improve operational efficiency. The cultivation of digital technology talents is to connect with the foundation of successful digital transformation. By utilizing digital platforms to enhance customer experience, Haidilao will also pay attention to market changes and changes in consumer demand, continuously adjusting and optimizing its own development strategy.

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