Chain Operation Innovation of Sichuan Cuisine: the Perspective of Logistics and Supply Chain Management

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Abstract: Since the competition becomes much serious, how to develop by innovation is of great importance for Sichuan cuisine enterprises. Chain operation mode, being an efficient and effective way to enlarge the scale, is widely used by more and more Sichuan cuisine enterprises. However, their development still has a lot of problems because of the lack of the support from logistics and supply chain management. In this paper, after introducing the current situation, we analyse two main problems in the chain operation of Sichuan cuisine from the perspective of logistics and supply chain management, and also propose the reform direction.

Key Words: Sichuan cuisine, Chain operation, Innovation, Logistics, Supply chain management.

1. Introduction

Chain operation is a way of modern business management and a form of organization that share scale performance, and it refers to certain shops among peers in circulation field, which are joined up through centralized procurement or concessions, so as to achieve service standardization, specialized management and management standardization [18]. Chain operation mode of catering industry originally started in United States. In 1952, the first franchised Kentucky Fried Chicken set up in Salt Lake City, and it marks the beginning of the modern catering chain operations. With the flourishingly success of Kentucky Fried Chicken, McDonald’s adopted this business mode in 1959 and created a milestone in the history of chain operation [26]. After that, the chain operation philosophy spreads rapidly and it has become the major approach for catering enterprises to expand both domestic and international markets. Compared with western developed countries like US, chain operation of catering started later in China [9]. In 1987, Kentucky Fried Chicken entered into China and became the first international catering enterprise that applied chain operation to manage its business in China [4]. After that, McDonald’s entered the Chinese market in 1990, and opened its first restaurant in Shenzhen [20]. Driven by the international restaurant companies, the chain operation developed rapidly. In 1991, the first fast food chain company, Shanghai Ronghui chicken fast-food company, was founded in Shanghai, which is the beginning of chain operation in China catering industry [2].

Now, many Sichuan cuisine enterprises are developing chain operation. By the end of 2013, more than 30 Sichuan cuisine enterprises, which are using chain-like management strategy, have entered into the "Top 100 Chinese restaurant" list. Chain operation has become the main method for catering enterprises to expand the scale and dominate the market [7].

Though Sichuan cuisine enterprises developed at a fast speed and the scale continuously enlarged, there are still many problems in the operation and management of the catering enterprises. Many restaurant companies have taken measures to solve these problems, but the performance has not been significantly improved. One of the key reasons is that the backward logistics system and supply chain management. In this paper, after introducing the current situation, we analyse two main problems in the chain operation of Sichuan cuisine from the perspective of logistics and supply chain management, and also propose the reform direction.

The rest of this paper is organized as follows. We present a literature review in section 2. In section 3, we list the current development status of Sichuan cuisine chain operation. Problem analysis of Sichuan cuisine chain operation are presented in section 4. The summary and suggestions are given in section 5.

2. Literature Review

Many scholars have studied the chain operation mode from different angles. The following is a review of the related literature.

Some scholars research on the chain operation mode. However, most of them are form macroscopic point. Zhao (2008) [24], Gu (2007) [4], Yu (2007) [22], Wang (2001) [16] etc. prove that chain operation is an efficient and effective way to enlarge the scale and dominate the market. Liao (2003) [10], Dong (2012) [3] and Tian (2004) [15], etc. focus on the chain operation mode of Sichuan...
cuisine. They provide some solutions on the development of Sichuan cuisine chain operation, i.e. strengthening the legal norms and constraints of governments, integrating the resources to build some leading catering enterprises, etc. Kuang (2005) [7] analyzes the supply chain structure of restaurant chains and proposes the research on support system in chain operation. Tang (2009) [14] analyzes the current distribution mode in chain management enterprises in China and makes a comparative analysis between different kind of distribution mode. Wu (2011) [17] carries on an investigation in a catering chain enterprise and makes constructive comments to the problems existing in procurement.

Some scholars analyze the problems in catering enterprises from the technical perspective such as standardization and information. They also propose some related countermeasures. Su and Chen (2002) [13] explain the importance of realizing standardization and normalization in catering enterprises and set forth the method of achieving standardization and normalization from the standpoint of scientific research and cooking techniques. They propose that the studying of standard setting, cuisine theories and high technologies can speed up the development of standardization, quantification and mechanization during the cooking process in catering enterprises. Li (2007) [8] thinks that catering chain enterprises should pay attention to informatization construction and the dishes should be cooked in a standardized process.

In addition, a few scholars consider the human resources. Zhang (2007) [25], Xing and Wang (2010) [19] present that it is important to develop talents in the fields such as operation management, product development, logistics distribution management and cooking skills, etc. Shu (2003) [12] emphasizes the importance of chain operation and talent management, especially in the period of expansion for catering enterprises.

The main difference between the above research and ours is that they do not analyse the catering industry from the perspective of logistics and supply chain. In this paper, from microscopic point, after introducing the current situation, we analyse two main problems in the chain operation of Sichuan cuisine from the perspective of logistics and supply chain management, and also propose the reform direction.

3. Situation Analysis

3.1 The enterprise scale is expanding through chain operation

With the development of economy, catering industry is developing fast in recent years. According to the Sichuan Bureau of Statistics, in 2013, the retail sales of catering services in Sichuan Province rose 10.1% from a year earlier to 151.764 billion yuan, contributing up to 14.6 percent of total retail sales of social consumer goods and 5.78 percent of the total GDP in Sichuan province [6]. By the end of 2013, the total number of catering enterprises above designated size in Sichuan province has surpassed 1200, among which, Haidilao Hot Pot, Sichuan Folk, Daronghe Sichuan and so on entered the "2013 Annual China Top 100 Catering Enterprises" list. The scale of catering enterprises is continuously expanding.

Chain operation plays an important role in the development of Sichuan catering enterprises. With chain operation, Sichuan cuisine enterprises have realized the mutual growth in both scale and quality. In 2011, the quantities of Sichuan cuisine chain-like enterprises whose sales volume achieved over 100 million reached up to 13, and 40 key enterprises in contact with Sichuan province opened a total of 953 restaurants [11]. Moreover, some catering enterprises are actively developing overseas markets. For example, Haidilao Hot Pot, Sichuan Folk, TANYOTO Hot Pot, etc. have opened restaurants in foreign countries.

3.2 The growth rate is falling fast

As the costs is increasing fast in rent, human resources and raw materials, as well as the influence of slashing public spending, the growth rate of catering industry have fallen quite considerably during recent 2 years. The sales value of catering industry in Sichuan province soared 10 percent to 68.91 billion yuan in the first half of 2013, which was 7.3 percent lower than that in the same period of 2012. The retail sales of catering enterprises above designated size rose 2.8 percent to 21.08 billion yuan, which was 26.9 percent lower than that in the same period of 2012 [5]. Confronted with continuous depressed market in catering industry, catering enterprises are striving to transform and upgrade in order to satisfy the mass but not high-end market, especially for some high-end enterprises.

3.3 More foreign-funded catering enterprises are entering Chinese market

After entering into WTO, China has been carrying out opening policy more intensively. More and more foreign catering enterprises entered Chinese market. These enterprises brought high-standardized, high-normalized and high-informatized management techniques and concepts, which to some extent promoted the transformation and upgraded of local catering enterprises. On the other hand, the entering of foreign catering enterprises took a share of the Chinese market quickly and given rise to fierce market competition [23]. Compared with foreign catering giants, some local catering brands are relatively weak and vulnerable in the market competition.

4. Problems analysis

4.1 Increasing operating cost and decreasing profit

The operating costs are increasing and the profit decreasing, which puzzles Sichuan cuisine enterprises significantly. Figure 1 shows the return on sales of catering enterprises in Chengdu [26]. We can see from Figure 1 that 16 percent of catering enterprises in Chengdu are in the red and the proportion of catering enterprises whose return on sales are between 0 and 10 percent accounts for 44 percent. The main reason is that the catering industry now shows a trend of "three highs". That is, the high cost of human resources, high price of rents, and high price of raw materials.

(1) The high cost of human resources Since the popula-
tion is aging at an accelerated pace and the proportion of young population drops recently, catering enterprises are facing difficulties with recruitment. As a result, the cost of human resources is increasing rapidly. In 2013, the average cost of employees in Chengdu catering enterprises expanded 5.9 percent year on year to 37,910.9 yuan, which was 25.24 percent of the turnover. Figure 2 shows the proportion distribution of the human resources costs to revenue in Chengdu catering enterprises [26]. We can see from Figure 2 that the proportion of catering enterprises whose human resource cost surpasses the average value has reached nearly 50%. A lot of catering enterprises are suffering heavy human resources costs.

According to data from Chengdu Municipal Bureau of Commerce, the wage of chefs, assistants, and servers are increasing. The servers’ wage, which accounts for the largest proportion of the total wage, increased at a highest ratio of 7%. The average monthly salary of employees are shown in figure 3. From Figure 3, we can learn that the head chef’s and store manager’s monthly salary is more than 6,500 yuan while the servers have the fewest monthly salary which was 1,947 yuan. As a labor-intensive industry, reducing human resources costs has become to be an urgent problem for all of the managers.

(2) The high renting costs With the rise of house price, the rents of restaurants both on street side and in shopping mall increase fast. Since collecting shopping, entertainment, food and beverage service in one place and having enough parking spaces, shopping malls are becoming more and more popular, particularly for young people. Therefore, the rents in shopping malls are higher than that of the restaurants on the street side. In 2013, the average renting costs of catering enterprises, for example in Chengdu, has been greatly increased from 8.35 percent of the turnover last year to 12.12 percent. Figure 4 shows the distribution of the proportion of renting cost to revenue in Chengdu catering enterprises [26]. From Figure 4, we can see that the proportion of catering enterprises whose renting costs surpass 8 percent of the revenue is near 50 percent. High rents tends to be a long term situation. How to overcome such a problem is an important issue.

(3) The high cost of raw materials The raw material cost accounts for the largest proportion of the operating cost. For Sichuan cuisine chain enterprises, the average proportion of raw material costs decreased from 48.92 percent of the total revenues in 2012 to 44.97 percent in 2013. [1] Figure 5 shows the distribution of the proportion of raw material costs to revenue in Chengdu catering enterprises. We can see from Figure 5 the proportion of catering enterprises whose raw material cost is more than 40 percent of the revenue has been larger than 65 percent. In order to reduce raw material costs, some enterprises have reduced the weight and price of dishes, which led to the overall decline in per-customer transaction [26]. On the surface, the raw material costs has been decreased. However, such problems still fails to address. To be at the leading edge of competition, catering enterprises have to solve the problem of high raw material costs.

4.2 Backward operation mode
Most Sichuan cuisine enterprises adopt traditional operation mode. That is, restaurants in a chain do procurement, processing and other management activities separately, which leads to a high cost of operations and management. Therefore, the phenomenon of low ratio in centralized procurement, processing and distribution gives
rise to a series of problems. (1) Low ratio of centralized procurement
Procurement is directly related to the operating costs. Sichuan cuisine involves a large number of raw materials in terms of both quantity and items. Without centralized procurement, it would be difficult for enterprises to gain scale advantages and price discounts, which makes raw material costs at a high level directly. What's more, the decentralized procurement of raw materials would also introduce administrative challenges and a waste of human resources. Centralized procurement plays a significant role in chain operation. Many restaurants in Sichuan cuisine chains still purchase separately. We can see from Figure 6 that, in 2013, the proportion that catering enterprises who have realized centralized procurement of raw materials in Chengdu is lower than half. [26] Therefore, catering enterprises still have room to improve their operations.

(2) Low ratio of centralized cooking Cooking is the core competitiveness of catering enterprises. This competitiveness mainly depends on the skill of cooks in the traditional independent business mode. However, with the development and growth of Sichuan cuisine enterprises, the number of restaurants and also the demand for cooks in the chain increases gradually. Nevertheless, due to the long period for one to become to be an excellent cook, the speed to cultivate cooks is far behind the development speed of enterprises. Therefore, it easily occur the phenomenon that the same food in different restaurant tastes differently, which may have an adverse impact to the long-term development of catering enterprises. At the same time, the rising wages of outstanding cook also create a strong pressure on enterprises. The continuous rising costs of wage is also the bottleneck in the development of Sichuan cuisine chain operation. Some hot pot enterprises address this problem by adopting centralized cooking to cook bottom materials of chafing dish. But other ingredients, such as vegetable, meat and so on are processed in each restaurant separately, which has not fundamentally resolved the problem. Apart from this, the cooking processes of cleaning, cutting and stir-frying are quite tedious and require a lot of manpower, which also results in high costs. We can see from Figure 7 that, in 2013, the proportion of catering enterprises in Chengdu that have built central kitchen to realize centralized cooking is only 25.64 percent [26]. Compared with MacDonald, all its productions are prepared into semi-manufactures in its central kitchens. That was why MacDonald has such high profits.

(3) Low ratio of centralized distribution For the transformation of catering enterprises from traditional independent business mode to chain operation, logistics distribution is playing an important role. However, the raw materials of many restaurants are delivered by suppliers directly, which may lead to the high logistics cost. In such operation mode, restaurants have to arrange the unloading, checking, counting and moving operations many times. The staff in restaurants cannot focus on their own work and the service level declines. This also results in the complicated management process. Therefore, to increase profit, catering enterprises have to consider the centralized distribution mode. From figure 8, we can learn that in 2013, the proportion of centralized logistics distribution is 39.74 percent in catering enterprises in Chengdu, while the proportion is generally more than 80 percent for international advanced catering enterprises [26]. Comparing with these foreign catering enterprises, the proportion in Chengdu catering enterprises is still very low. At present, how to promote the proportion of centralized distribution to reduce the logistics cost and realize the rapid growth of profit is a significant problem for catering enterprises.

5. Conclusion
In this paper, we analyse that Sichuan cuisine enterprises are appearing the following trends. First, the scale of Sichuan cuisine enterprises are expanding continuously, whereas the growth rate falls quite considerably in recent years. Besides, more and more foreign-funded catering enterprises are entering Chinese market, which makes catering industry more competitive. In addition, the profit decreasing sharply because of the increasing costs of rents, human resources and raw materials. Furthermore, the
backward operation mode brings about lots of difficulties to manage catering enterprises, which enhances the cost of catering enterprises again. Logistics and supply chain management play an important role in Sichuan cuisine chain operation. To promote the chain operation innovation of Sichuan cuisine, we propose the solution from the perspective of logistics and supply chain management. That is, to take the way of chain operation, catering companies should realize the centralized procurement of raw materials, centralized cooking of dishes and centralized distribution of products, which may lead to low cost, high efficiency and high service level.

Acknowledgments

This work is supported by the National Social Science Foundation of China (No. 13CGL056), Development Research Center of Sichuan cuisine, Sichuan (No. CC13SJ02). We also thanks Chengdu City of Gastronomy Association (CCGA) for the valued data.

References


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