Café de Coral:
Being Happy Together Across the Globe?

1. Introduction

As Mr. Michael Chan, Chairman and CEO of the Café de Coral group, thought about the directions his company should take, he felt a bit uncertain. The company, clearly the most popular Chinese Quick Serve Restaurant (QSR) in Hong Kong and a local success, had just celebrated twenty years as a public company. This success and longevity in the cut-throat world of fast food was remarkable, but Mr. Chan did not want the company to rest on its laurels.

At his meeting this afternoon with senior management, Mr. Chan planned to suggest that the company needed to move outside of Hong Kong and follow a much more aggressive plan than it had followed when it had moved slowly into China (with both Café de Coral outlets in neighboring Guangdong Province and recently New Asia Dabao in Shanghai) and also into North America (by buying into and then purchasing outright the Manchu Wok chain) over the last several years. He knew that the company needed a very clear globalization strategy in order to move to the next level of growth and to find sustainable growth opportunities away from Hong Kong. Mr. Chan had no clear plan at this point and he needed input from his managers and the Board.

Mr. Chan reflected on how Café de Coral was a household name in Hong Kong and was the most popular QSR in its home market. The company dominated the market in Hong Kong and continuously improved its brand image through innovations in food preparation at its centralized food processing and distribution centers in Hong Kong and across the border in Guangdong. It also had perfected methods of offering large menus (up to 150 items) that changed four times over the course of every day with different items added and other items taken off the menu two to three times a week to provide variety as well as fresh and delicious food in a quick-serve environment to its huge and discerning customer base.

Mr. Chan wanted to build on the company's expertise in high volume and cost efficient food preparation and distribution and in offering great variety because he believed that these were the company's unique capabilities that added value to the company's success. But where should he do this building and how could he be sure that what worked in Hong Kong would work in markets around the world?

Of course, North America, where fast food started and was still thriving, was a logical answer, but would Café de Coral be able to compete in a market that did not value menu variety, as far as fast food was concerned? As Mr. Chan thought about the big names in fast food in America, he concluded that the smaller the menu in North America, the more successful the place. Should he gamble on taking Café de Coral's huge and ever-changing menus to a place where a few variations on a hamburger, on fried chicken or on a taco were what sold? In addition, the company had experience in North America with the limited menu format of Manchu Wok, which it now owned completely.

What about Europe where there were some American fast food outlets and some interest in fast food but also where the market was not very accepting of the idea of fast food? There was no question that varieties of cuisines were welcome in Europe but the food had to be done with a certain flair. Could Café de Coral sell its big menu, as good as he knew it was, where the market distrusted the very concept of fast food?

And what about greater expansion into China and the rest of Australasia? The company's cautious expansion into Southern China, where tastes were very similar to those in Hong Kong, had proceeded very well over the last ten years or so and the careful strategy through joint venturing in Shanghai with the New Asia Dabao brand had been successful in the last three years. But how should the company move across China and Australasia? It was good to be in the coastal and more affluent areas of China, but to succeed there and elsewhere in China and across Asia meant having a broader customer base. He also did not want to forget that there were real possibilities of expansion into Australia and New Zealand where there were many Chinese immigrants and where the market might be ready for a Hong Kong-style fast food chain and not just interested in American fast food.


Café de Coral
大家樂
CAFÉ DE CORAL



These were the questions that Mr. Chan planned to raise when he met with his managers that afternoon. He knew that the thorniest issue for the company was franchising. The company had succeeded in Hong Kong through owning 100% of all the outlets while at the same time using a districting management strategy that awarded bonuses to district managers and chief chefs for meeting and surpassing performance goals in their districts. But even though the company gave some autonomy to the district managers and chief chefs, there was still central control at the head office. The idea of relinquishing some of this control was a bit troubling, even to Mr. Chan. A franchising model would certainly require relinquishing control over food quality, food safety and service standards, but franchising seemed the only way to succeed in the huge (in terms of geographic expanse and in the number of customers) markets of North America, Europe, China and Australasia. Would shareholders and the Board of Directors be able to accept franchising of the brand?

It was true that the company had some experience with expanding far away from Hong Kong with the Manchu Wok chain in North America. Franchising was working for Manchu Wok, but was franchising the only model for expansion? Mr. Chan himself was struggling with this idea because he wasn't sure he liked the idea of losing control over the brand that the company had worked so hard to build over the last thirty years.

Related to the franchising issue was food production and distribution. Part of Café de Coral's success in Hong Kong was the centralized production and distribution system that the company had developed. Something like 80% to 90% of all food preparation occurred away from the actual outlets, which meant that the staff at the outlets could concentrate on customer service. Café de Coral was known for its huge menus and for having something for everyone at all times. This was possible through off-site preparation and through the carefully developed two-stage ordering process at the stores. Could this expertise in production and delivery be transferred to other markets? Expansion into vast markets across the global meant huge investments in food production and distribution centers and backend IT support systems. Could the company make these investments without compromising its commitments to its shareholders at home?



Franchising and investments in food preparation centers were the basic problems that the company faced in determining its expansion strategies, but there were other problems to think about as well. Which place first? Who were the target customers in these markets? Should the company insist on selling variety in these markets or should it tailor its menu to local tastes? What Mr. Chan was looking for was information about the markets across the globe that he couldn't get just from reading reports and statistics. He needed North Americans, Europeans, Mainland Chinese, Southeast Asians, Australians and New Zealanders and, yes, even Hong Kongers (he could never forget about the company's home market because the company needed to stay ahead of the game there) to tell him what they liked and what they wanted to eat, what they knew about fast food and the fast food business in their home markets, and what they saw as the strengths, weaknesses, opportunities, and threats in their markets. He needed time to gather more information, but time was something he didn't have a lot of since his meeting was that afternoon. There was never enough time, he thought, as he sat back for a moment and thought back to the days when Café de Coral was a very local restaurant in Hong Kong…


Manchu WOK
FAST & FRESH CHINESE CUISINE
Drive-Thru
Chinese Food
ManchuWOK
Eat In · Take Out · Delivery
905·967·0269
2 5:28 PM


Manchu WOK
Manchu WOK


EXIT
ManchuWOK

2. Company Background – The Café De Coral Group

In 1968, a new company with a French-sounding name, Café de Coral, was incorporated in Hong Kong. Owner of the new company chose this name to capture the meaning of three Chinese characters, 大家樂, to encompass the company's vision of having all its stakeholders (including shareholders, customers and employees "all happy together" in this new enterprise. The company started small, with one restaurant in Causeway Bay.

The company spent the next ten years creating a market for the new concept of a quick-serve Chinese food restaurant and building through innovation. By 1976, the company was advertising on television and spreading the word about Chinese fast food. In 1979, the company built its first centralized food processing plant to meet growing demands. And then in 1981, the company made the unique move of opening restaurants in several public housing estates across Hong Kong to take its food to a broad base of his customers.

By 1986, the company had grown to 32 restaurants across Hong Kong and Café de Coral was a well-known place to buy a quick but flavorful bite to eat. With this success under its belt, it was time for the company to be listed. In its first report as a public company after listing in 1986, Café de Coral reported profits of approximately HK$37.2 million.

In the twenty years since its listing, Café de Coral grew from a local company with 32 restaurants to a global diversified business group with some 562 operating units extending beyond fast-food outlets to institutional catering, specialty restaurants and a food processing and distribution business in Asia and North America. In 2006, the company, under the direction of Michael Chan, its CEO and Executive Chairman, reported profits of HK$320 million.

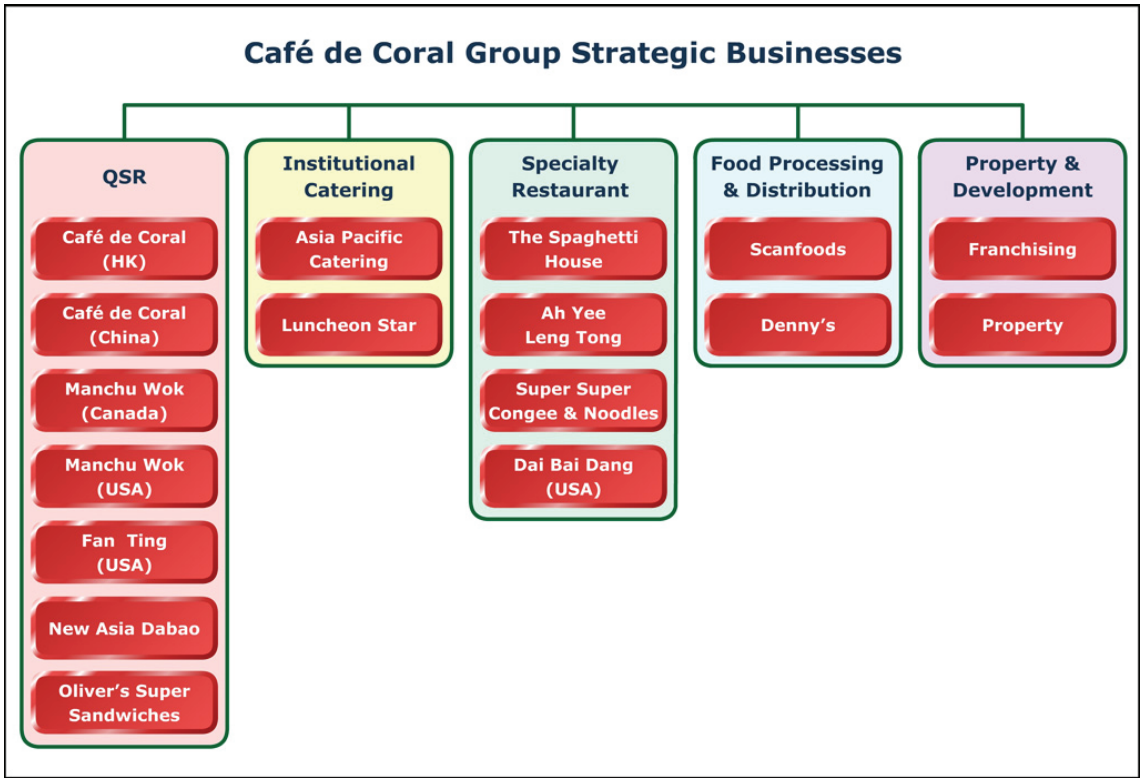
With its motto, "A Hundred Points of Excellence," Café De Coral sees profit as only one mark of its success, however. As the world's largest publicly listed Chinese Quick Service Restaurant (QSR), Café De Coral prides itself on leading in product innovation and marketing excellence, with uncompromised standards of quality, unconditional service to its customers, staff and shareholders, and undivided commitment to excellence.

With its base in Hong Kong, the company has expanded into Asia and North American over the past five years through mergers and acquisitions (Manchu Wok in North America and New Asia Dabao in Shanghai). It has also expanded its Hong Kong brands and has focused on its specialty restaurants, The Spaghetti House and Oliver's Super Sandwiches. The restaurants owned by Café de Coral are as follows:

Brand	Segment	Country/ Region
Café de Coral	Chinese Quick Service Restaurant (QSR)	Hong Kong, China
Manchu Wok		North America
New Asia Daobao		Shanghai
Oliver's Super Sandwiches	Western QSR	Hong Kong
Fan Ting	Chinese QSR	USA
Bravo le cafe	Premium Chinese QSR	Hong Kong
The Spaghetti House	Italian specialty restaurant	Hong Kong, China, SE Asia
Ah Yee Leng Tong	Chinese restaurant, specialized in serving Chinese soup	Hong Kong
Super Super Congee & Noodles	Chinese restaurant, specialized in Cantonese congee & noodles	Hong Kong
Dai Bai Dang	Chinese restaurant	USA
Asia Pacfic Catering	Institutional Catering	Hong Kong
Luncheon Star	Lunch box catering	Hong Kong

Restaurants Owned by Café de Coral

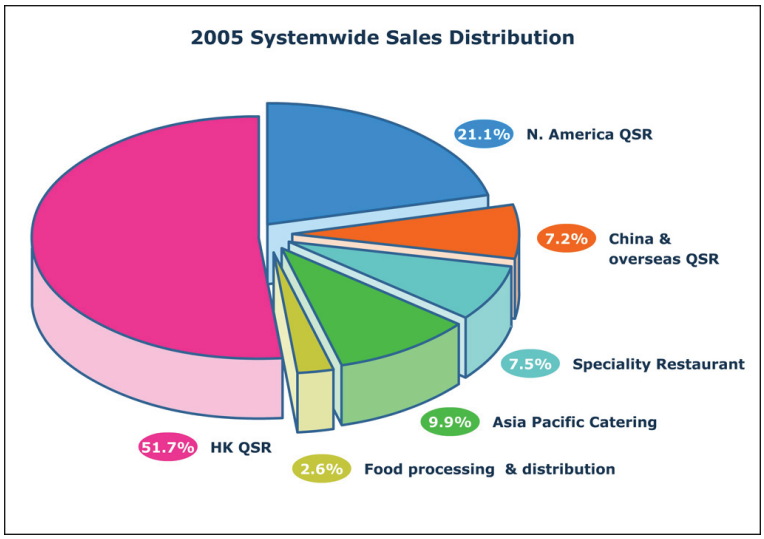
To build its business in China, the group has also focused on building food processing capabilities in Guangdong, across the border from Hong Kong. The company's current businesses are divided as follows:

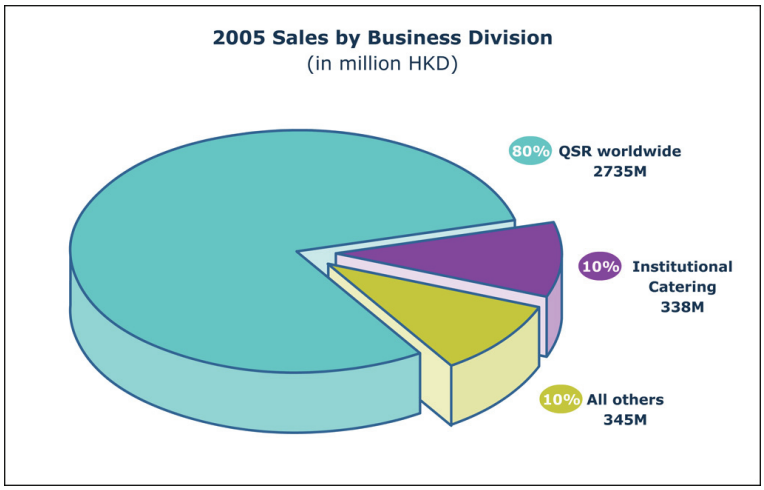


Organization Chart of Café de Coral's Strategic Business Units

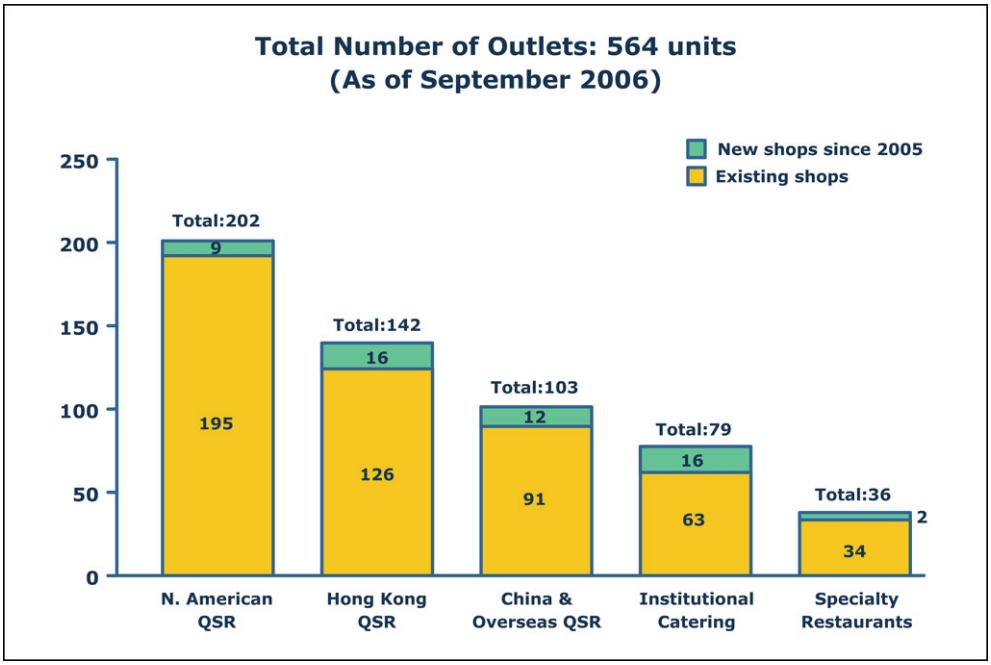
Currently Café de Coral is the top Chinese fast food chain in Hong Kong. It serves over 300,000 customers a day in Hong Kong, with 129 outlets located throughout the territory in residential, commercial, leisure and tourist locations.

In 2005, the proportion of sales by from each business division was: 80% (HK$2735M) from QSR worldwide; 10% (HK$338M) from institutional catering in Hong Kong; 10% (HK$345M) from all others for a total of $3419M.



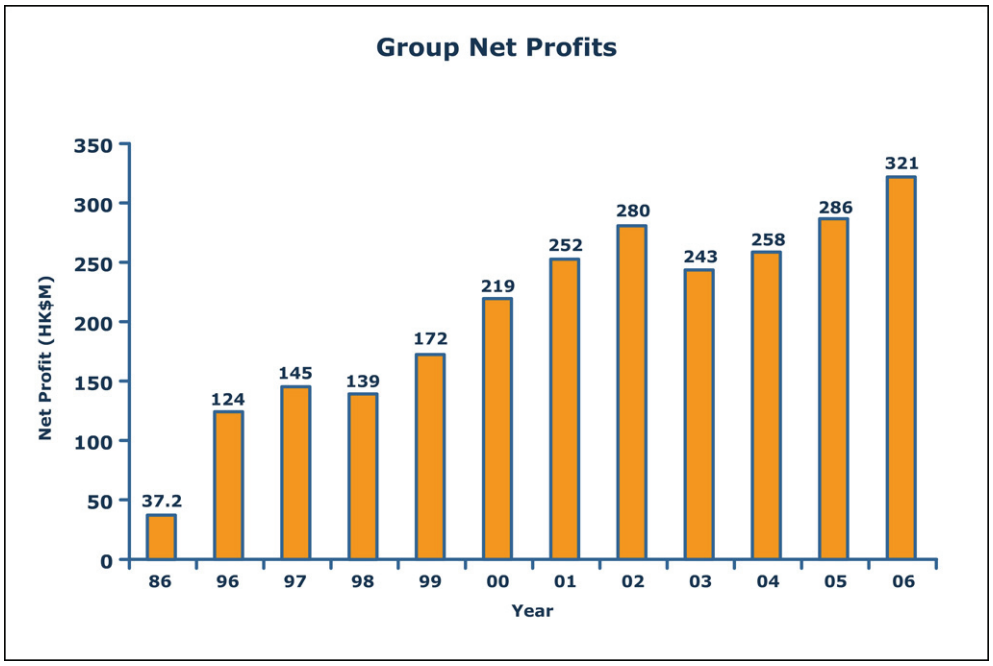


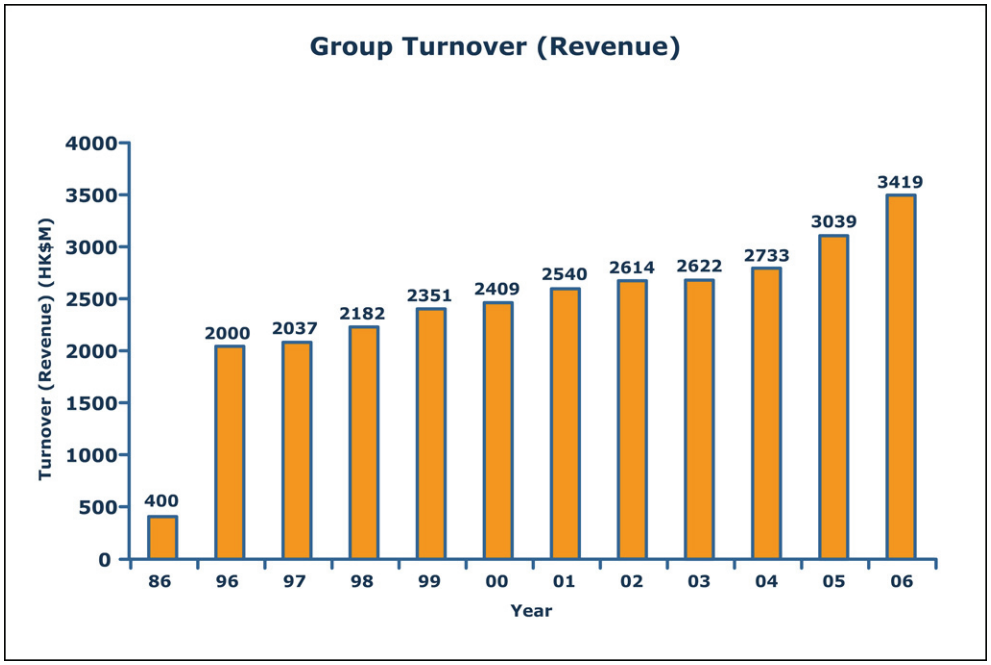
While the QSR units generate the largest revenue, institutional catering in Hong Kong was the fastest growing in terms of unit numbers of the group's business divisions in 2005. The company signed 16 new contracts, which was a 25% increase over the previous year, and operated 79 outlets. The second fastest growing business was China and Overseas QSR. Thirteen new outlets were opened in these markets, a 14% increase over the previous year, from 91 to 104 outlets.



In the ten years from 1996 to 2006, the company's turnover (revenue) increased 1.7 fold and the net profit increased 2.58 fold. However, the company was not immune to the business downturns in 1998 and 2003. There were significant drops in net profits in both years in comparison with 1997 and 2002. One issue that concerned the board was how to protect the company against these sorts of market-wide downturns in Hong Kong that could not be anticipated.

From 1996 to 2006, the group's turnover and profits were:





3. The Hong Kong Restaurant Industry

As a densely populated city built on several islands and across a swath of land on the coast of the Chinese mainland, Hong Kong does not have the space to make living in stand-alone houses possible for most people. Most everyone in Hong Kong lives in apartments. In 2005, the government's statistics (Housing Department) showed almost 50% of the population (about 7 million) lived in public rental housing supplied by the government or in subsidized sale flats that were built by the government and sold to qualified (by income level) buyers. The other 50% lived in private permanent housing, most of that in high-rise apartment buildings.

With nearly everyone living in apartments and most of those apartments quite small (the average living space in a government flat was 7 square meters per person), there is not enough space to entertain guests at home. Eating out away from these cramped quarters is a very common way to for Hong Kongers to spend time with extended family members and friends. In Q2 of 2005, the total number of restaurants in Hong Kong reached 10,962.

Because local people eat out often and also because Hong Kong is a popular tourist stop for Westerners traveling to China and, more recently, for Mainland Chinese who have a growing number of tourism dollars and want to spend them outside of China, the catering industry is huge in Hong Kong. Hong Kong is famous for being a food paradise where tourists and locals alike can find a huge variety of authentic cuisines in one small place. There are many types of Chinese (Beijing, Shanghainese, Szechwan, Cantonese, etc.), Japanese, Korean, South Asian, Western burgers and pizzas, Western steak houses, Middle Eastern, and Continental cuisines available in the central business districts on both sides of the harbor. All this food is available in various store and catering formats, namely full-service restaurants, fast food, cafes/bars, takeaway, street stalls, kiosks and self-service canteens.

Annual per capita spending on various restaurants and bars was HK$9725.7 in 2002.



Number of Restaurants in Hong Kong, 2004

	No. Establishment	Percentage (by number)	Percentage (by receipts)
Chinese restaurants	5,491	50	48
Non-Chinese restaurants	3,590	32	26
Fast food shops	1,026	9	19
Bars	485	4	4
Misc. eating & drinking places	502	5	3
Total	**11,094**	**100**	**100**

Source: Census and Statistics Department, Hong Kong Government

Although the SARS (Severe Acute Respiratory Syndrome) epidemic greatly affected the local economy in 2003, the Hong Kong economy recovered in 2004 mainly from an influx of tourists. In 2004, the total income from tourism jumped 26% from HK$57,137 million to HK$72,181 million due to a dramatic increase in Mainland Chinese tourists visiting the territory. The spending on food by tourists surged from HK$6,762 million to HK$ 8,239 million in 2004.

Spending on Tourism 1999-2004

HK$ million, current prices

	1999	2000	2001	2002	2003	2004
Accommodation	16,892.4	19,058.4	20,029.9	20,133.0	13,866.0	18,139.0
Entertainment	698.0	730.0	935.0	1,612.0	1,287.0	1,593.0
Excursions	1,239.0	924.0	923.0	1,384.0	437.0	1,172.0
Food	5,396.0	5,287.0	5,729.0	8,047.0	6,762.0	8,239.0
Shopping	18,320.0	19,516.0	19,778.0	25,321.0	31,543.0	38,756.0
Travel within country	3,536.6	3,215.6	3,554.1	3,667.0	3,242.0	4,282.0
Total	46,082.0	48,731.0	50,949.0	60,164.0	57,137.0	72,181.0

Source: *1999-2003 Euromonitor International from Hong Kong Tourism Board; 2004 Euromonitor International estimates*

Notes: *Entertainment includes attractions and evening entertainment*
Food includes restaurants
Includes spending by incoming tourists as well as domestic tourists

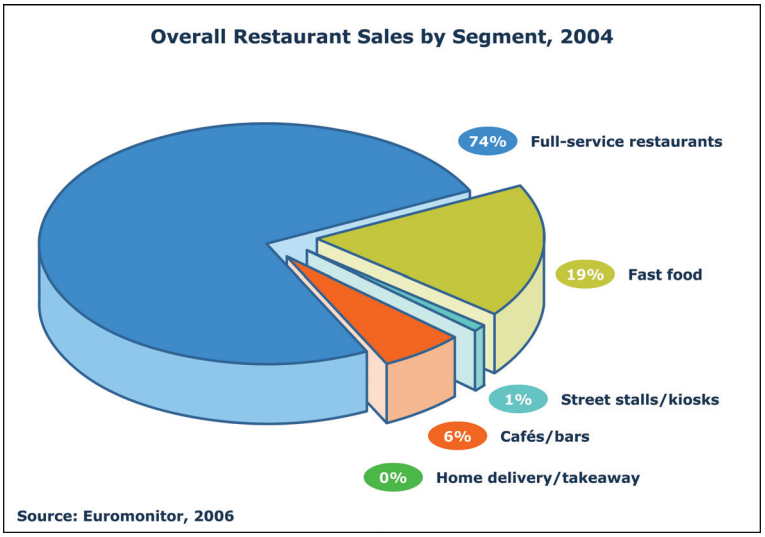
Although tourist spending rose 22% in 2004, the overall catering industry grew a mere 1% in sales in 2004 to reach HK$53 billion.

The overcrowded catering market is characterized by fierce competition. Restaurants of all types compete through continuous product innovations, marketing campaigns, renovation of stores, and price wars. While the focus on product innovations, marketing campaigns, and renovation of stores built strong brand image and sales across the market, price wars eroded the profit margin and decreased overall sales.

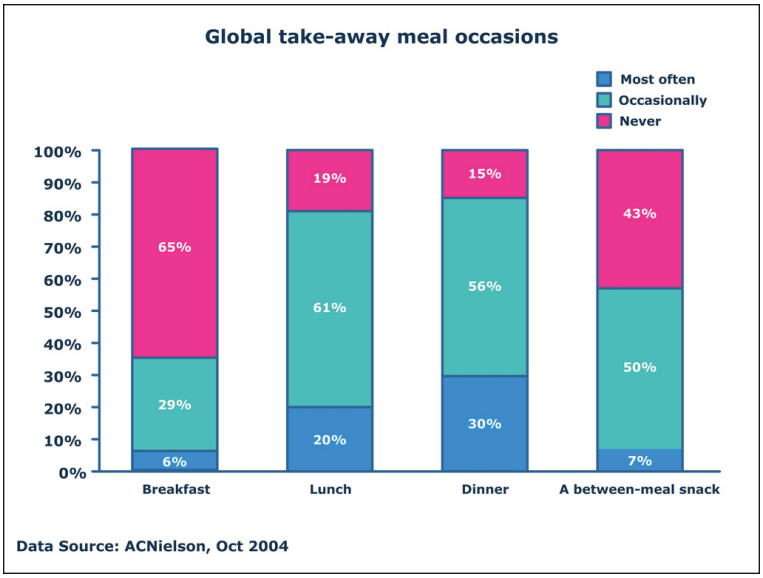
According to Euromonitor, the catering industry will continue to grow in Hong Kong at a compounded annual growth rate (CAGR) of 2% in sales value and nearly 3% in both store numbers and transactions between 2005 and 2009. On this saturated and competitive turf, fast food chains, especially Chinese fast food chains, have out-performed the industry average and are expected to lead the growth.

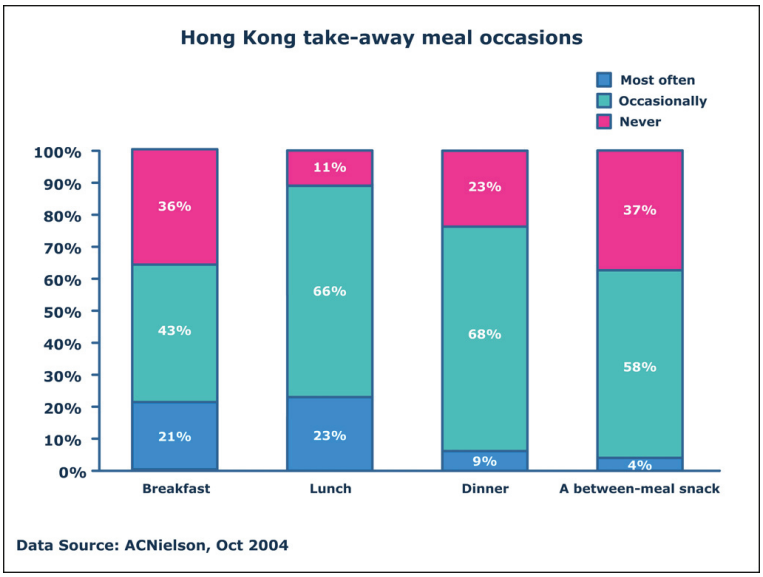
4. Fast Food in Hong Kong

The fast food industry in Hong Kong is successful because it offers cheap and fast food, which is a perfect match for the busy and hectic lifestyles of the Hong Kong people. Fast food restaurants account for 19% of the overall restaurant sales in Hong Kong:

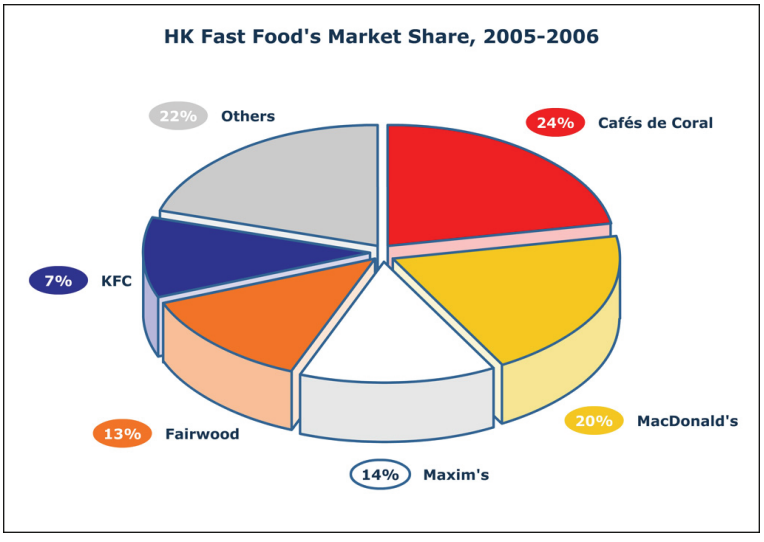


According to AC Nielson's consumer consumption habit report, Hong Kongers were the most frequent fast food eaters in the world. In 2004, 61% of Hong Kong adults ate at a take-away restaurant at least once a week.





While Western fast food giants, such as McDonald's, Burger King, KFC, and Wendy's, are very successful in the worldwide market, the Hong Kong market is dominated by Chinese fast food chains. Local fast food chains control over 50% share of the Hong Kong QSR market, with Café de Coral leading with a 24% share. McDonald's is the only Western fast food giant to gain a stronghold in Hong Kong in second place with 20% share, whereas KFC enjoys less than 10% of market share in Hong Kong. Café de Coral is one of the only two brands in the world that can out-complete McDonald's on its local turf. Jollibee in the Philippines is the other.



Despite years of trying to penetrate into the Hong Kong market, many international players, such as Burger King, Wendy's, Subway and Jack in the Box, have not been successful. Most of them backed away from their investments in Hong Kong. Burger King returned recently with a single outlet inside the Hong Kong International Airport.

5. What Makes Café De Coral Successful? A Look at the Company's Drivers of Success

The failure of many foreign chains in the Hong Kong market is attributed to their inability to adapt to local tastes and to local pricing needs. A quick comparison of local and international fast food operators yields the following observations:

Local	International
1. corporate ownership	1. franchise
2. wide product range, about 150 products a day, with 4 menus	2. limited products, about 40 items, 2 menus a day. offers many give-aways: e.g. Snoopy figures, Hello Kitty soft toys & dolls in Asia
3. response to local needs much faster	3. takes a long time for product development in individual markets, to calibrate with the headquarters product development team.

Comparison of Hong Kong and International Fast Food Operators

But how does Café de Coral stay on the top of its market? What drives its success? The company has worked very hard to focus on product innovation, carefully designed in-store operations to deal with the high volume of customers, centralized global sourcing, centralized food processing centers, up-to-date marketing and branding strategies, performance-based compensation packages for key managers and chefs, and a custom-designed back-end IT support system to stay ahead of the game.

6. Product Innovation at Café De Coral

Café de Coral responds to the local market through its new product innovation capabilities. Product innovation comes from perfecting the recipes of commonly available and favorite dishes, standardizing the recipes so that the portion size for an individual customer is correct, and then determining what it takes to move to mass production.

A case in point is the traditional wintertime favorite for Chinese called clay pot rice. This dish is sold during the winter months at Chinese restaurants and in large portion sizes so that a group of diners can enjoy the hot and fragrant dish together. Rice and toppings, usually preserved meat or Chinese sausages, are cooked in a clay pot and served at the table in the pot.

To add this dish to Café de Coral's seasonal menu during the winter months meant that the company had develop the recipe so that the portion size would meet the demand of a single person ordering and eating the dish. In addition, it had to figure out how to produce and sell the dish on a mass scale of, say, 30,000 sets per day.

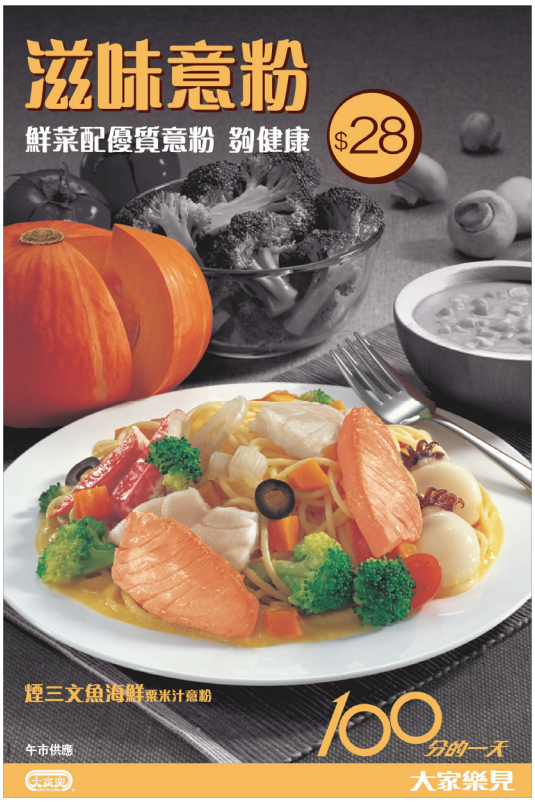
In restaurants, clay pot rice takes 20 minutes to prepare. While they wait for the dish, diners eat other dishes and normally do not notice how long it takes before the clay pot is brought to the table. At Café de Coral, this model of serving dishes as they are prepared (which is very typical of all Chinese sit-down restaurants) does not work.



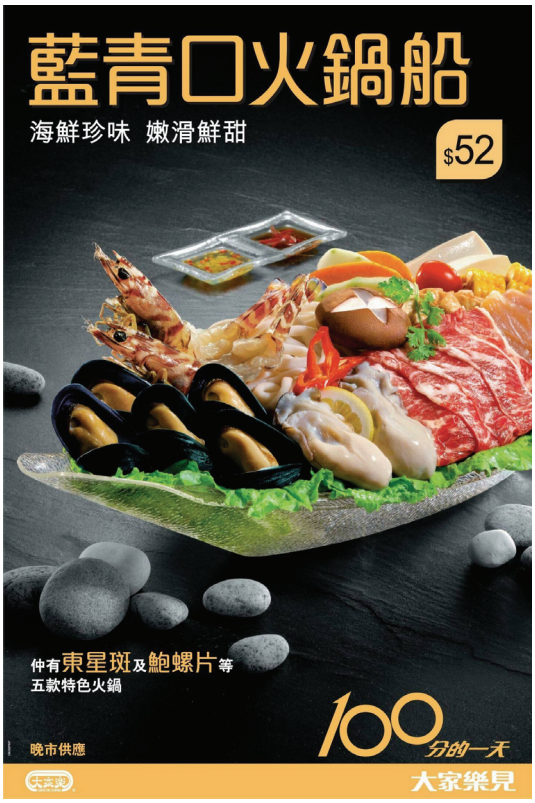
The company had learned through long experience that their customers are seeking efficiency and they will not wait for more than 10 minutes for their food to be prepared and presented to them. To add clay pot rice to its menu, the company needed to determine how to centralize much of the preparation of the dish at the group's central food processing plant so that only the very last steps in the preparation would be done on site.

The development chefs at the central processing plant found ways to shorten the cooking time at the branch level and to turn a well-loved family dish into a seasonal best seller for the group. Customers need to wait for 5 to 10 minutes before enjoying clay pot rice, but this is within the acceptable waiting time.


意大利蕃茄肉醬意粉
茄肉甜厚 別具清新口感
$24
午市供應
100分的一天
大家樂見


滋味意粉
鮮菜配優質意粉 夠健康
$28
煙三文魚海鮮茄米汁意粉
午市供應
100分的一天
大家樂見


香焗龍脷柳
創出獨特新「鮮」味
$26
焗煙腿蘆筍龍脷柳
午市供應
100分的一天
大家樂見


藍青口火鍋船
海鮮珍味 嫩滑鮮甜
$52
仲有東星斑及鮑螺片等
五款特色火鍋
晚市供應
100分的一天
大家樂見

7. In-Store Operations to Support High Transaction Volume

With its success in understanding and adapting to local flavors and the local desire for menu diversity, Café de Coral serves 300,000 customers daily in its 129 outlets, which is equivalent to serving 10 million meals a month.

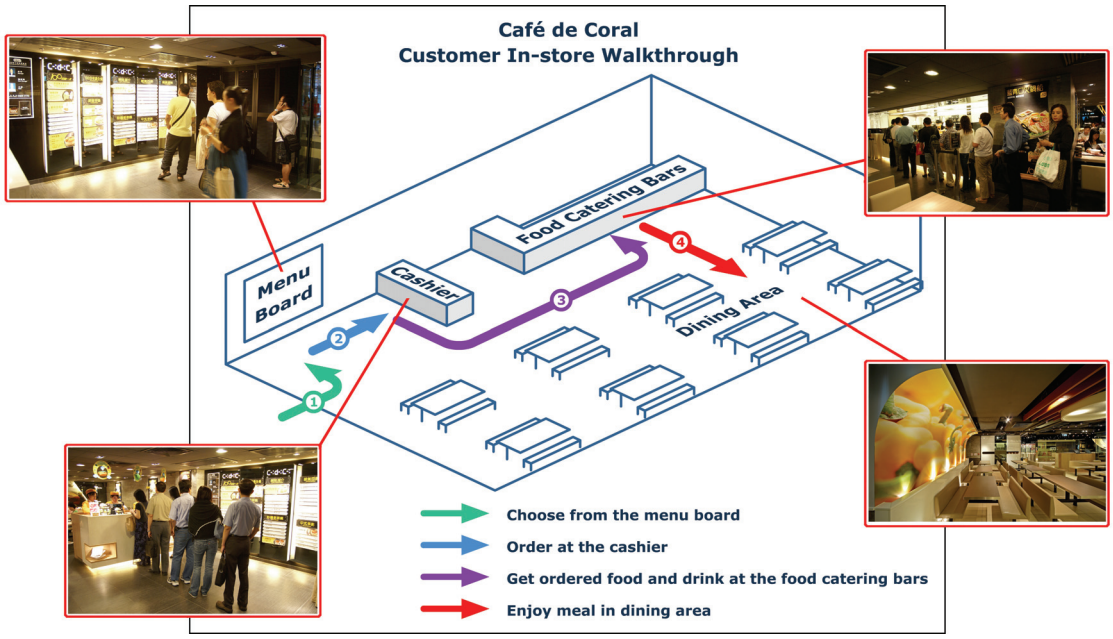
To cope with the this high volume of traffic and still provide a clean dining environment to their customers, the typical shop area is 300 square meters in size, quite a large space for Hong Kong retailers.

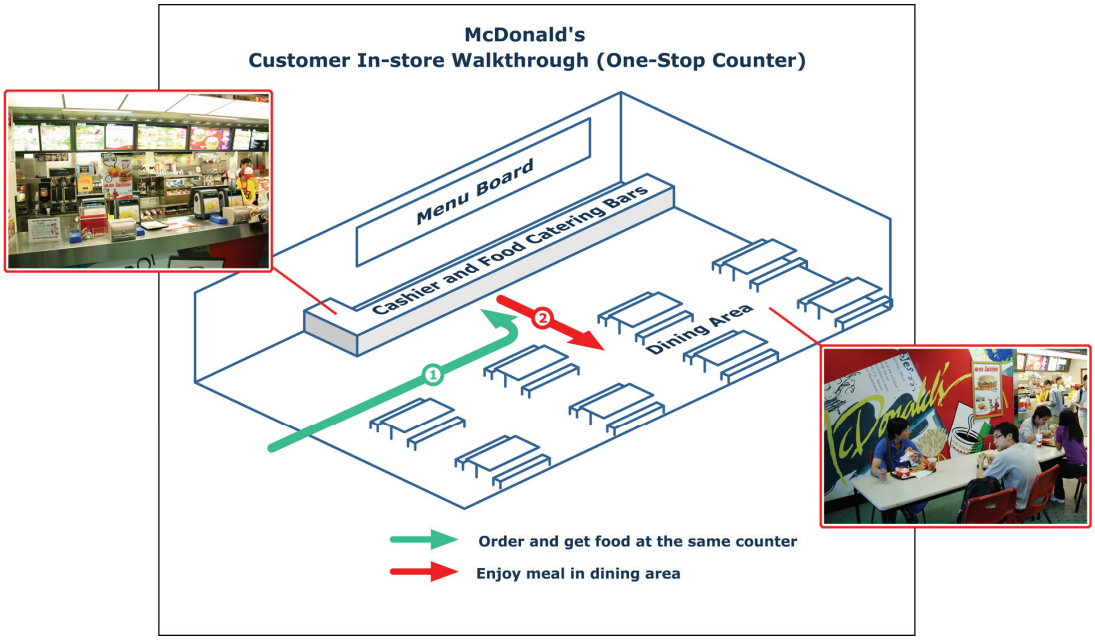




In addition to renting (and recently buying) large shop areas, Café de Coral streams its customers into different queues to control the traffic volume. This is very different from a Western fast food shop's typical all-in-one counter service, where the customer waits in front of one of many cashiers, orders the food from the cashier who rings up the order and then goes to get the food that has been prepared routinely throughout the day. The cashier returns with the food, collects the money and then presents the customer with the food, either in a bag for take away or on a tray for on-site dining.

At a Café de Coral outlet, the customer first encounters the menu board at the doorway and decides on what to order. The customer then proceeds to the cashier who is always next to the menu. The customer places the order and pays the cashier. The cashier gives the customer an order slip. Next, the customer takes the order slip to a food-catering bar, which has received the order through the point-of-sale transaction system. The food preparers prepare the food promptly as it is ordered so that it is always fresh for the customer. The food is then presented to the customer on the spot or it is collected when the customer's order number appears on a digital display.


Café de Coral
Customer In-store Walkthrough
Menu Board
Cashier
Food Catering Bars
Dining Area
1
2
3
4
Choose from the menu board
Order at the cashier
Get ordered food and drink at the food catering bars
Enjoy meal in dining area


McDonald's
Customer In-store Walkthrough (One-Stop Counter)
Menu Board
Cashier and Food Catering Bars
Dining Area
1
2
Order and get food at the same counter
Enjoy meal in dining area

8. Centralized Global Sourcing of Materials

The group has centralized its global sourcing of food and materials for all its Hong Kong and China operations. In fact, 80% of the raw materials are procured from non-China based sources to meet the company's food standards and to take advantage of the global economies of scale. A typical purchase contract runs for three to six months. Within the contract duration, most fluctuations in pricing are absorbed by the global supplier. At the same time, the global supplier needs to guarantee stable supplies.

Under global sourcing, the group imports beef from Brazil, fish fillets from New Zealand, spring chickens from France, and eggs and poultry from the US. Indeed, 10% of the eggs imported into Hong Kong from the US are sold to Café de Coral.

The benefits of Café de Coral's centralized sourcing are stable supplies and costs along with reduced margin pressure and reduced management in the buying process.

9. Central Food Processing Centers

The preparation of Chinese food involves a great deal of chopping and seasoning, along with a variety of cooking methods. Because of its large and complex Chinese menu, Café de Coral has found ways to deal with the huge effort required for food preparation.

To deal with the difficulties of preparing Chinese food in a fast and efficient manner and on a large scale, Café de Coral built its own central food processing centers to do 80% to 90% of the food preparation. The company can save on the high costs of using skilled labor at each of its outlets this way. Only the last-minute cooking and heating of the dishes is left for the individual outlets to do. Executive chefs hand down detailed instructions to branch workers on how to complete the last 10% to 20% of the preparation process.

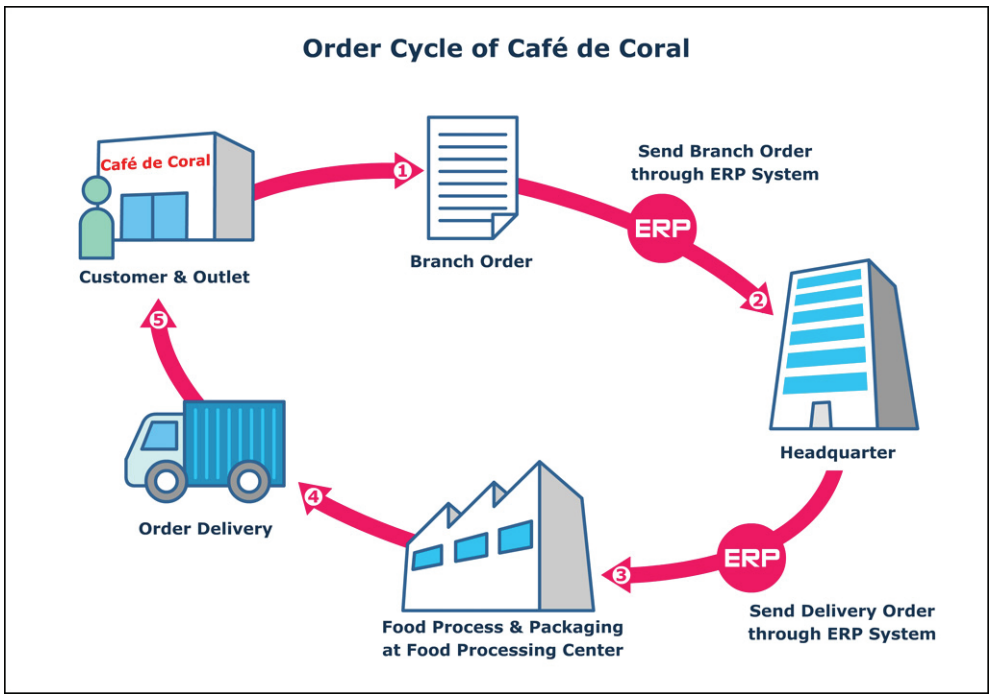
Currently, the company has two central kitchens: one at the Headquarters in Shatin and another one in Guangzhou. These centers support Café de Coral and the group's other restaurants in Hong Kong and Southern China.







Outlets order materials every afternoon. The food processing centers process the orders overnight and deliver the needed semi-finished food and materials to branches the next morning.



Food & Materials Order Cycle of Café de Coral

This backend support system and a fleet of self-owned trucks make this 24-hour order-to-delivery cycle possible, reliable and efficient.

The benefits of the central food processing centers are two fold. They reduce labor costs by cutting the number of chefs in the outlets. Currently there is only one Chief Chef in each district (18 districts in total). In addition, the consistency and quality across all outlets are ensured.

10. Marketing and Branding Strategy

Since Café de Coral offers products that are available in full-service restaurants and from competitors across Hong Kong, it always faces the dilemma of how to lure fast-food eaters into its stores to pay a premium price over what they could find on the street in food stalls and how to differentiate itself from other Chinese fast food shops.

Just recently, the company also grew concerned with its image. It wondered if Café de Coral, though a household name in Hong Kong, had become an old-fashioned brand. As with any brand, Café de Coral needs to rejuvenate its image constantly.





To keep the brand young, the company is seeking to attract teenagers and young adults to become its new and frequent customers. This is the customer segment that is most willing to spend money on social gatherings in a fast food setting.

With its new slogan, “What a Beautiful Day, see you at Café de Coral”, the company seeks to bring in the rendezvousing crowd. It also started an aggressive program of renovating the in-store environments within two years to create a chic, post-modern ambience. The overall design is meant to project hotel-like surrounding that are beyond the customers’ expectation for what they are paying for their food, with a spacious reception area, postmodern art decor, plasma TVs and relaxing music.

In addition, the development chefs have developed special products, such as fondue for two and hot pot for two, to support of the ‘rendezvous’ marketing strategy.

11. Performance-Based Remuneration

To encourage store managers, district managers, and chief chefs to perform at their very best, the company has adopted a performance-based remuneration scheme. Apart from their base salary, a significant portion (up to 50%) of the salaries of these employees is based on the shop's and district's profitability. Each shop is a profit center on its own.

Café de Coral divided its Hong Kong business into 18 districts, with one district manager and one chief chef in each district. These two top-level managers manage around six or seven stores in their districts.

The company gives autonomy to the district manager and chief chef. They are responsible for profits and losses of the stores in their district; they have individual business targets, in-store measures and in-process measures to meet. Mystery shoppers are hired to monitor the food and service quality of each restaurant. Their reports have a bearing on the performance bonuses to be awarded to all members of the management team of each branch.

The chief chef and district manager need to work together on compiling the best menus for their district. While the headquarters produces core menus that must be included in every store, the chief chef decides on the rotation of other regular products on a weekly basis after learning what kinds of fresh ingredients are available through central sourcing and how much they cost. The district manager decides on the production volume for each product based on the cost per product that the chief chef and the central processing plant provide. Store managers further balance the appropriate amount of materials and food to achieve the sales targets at the stores set by the district managers and headquarters.

This autonomy gives flexibility to each store and district to react to the different demographics in each district and to maximize turnover. For example, a store surrounded by schools sells more snacks; a store located in the central business district sells more up-scale meal sets.

At the same time, the bottom-up sales targeting gives the food processing plant and the company's purchasing team accurate and detailed forecasting information to minimize food costs and materials wastage. Food and materials wastage at the branch level is currently less than 1%.

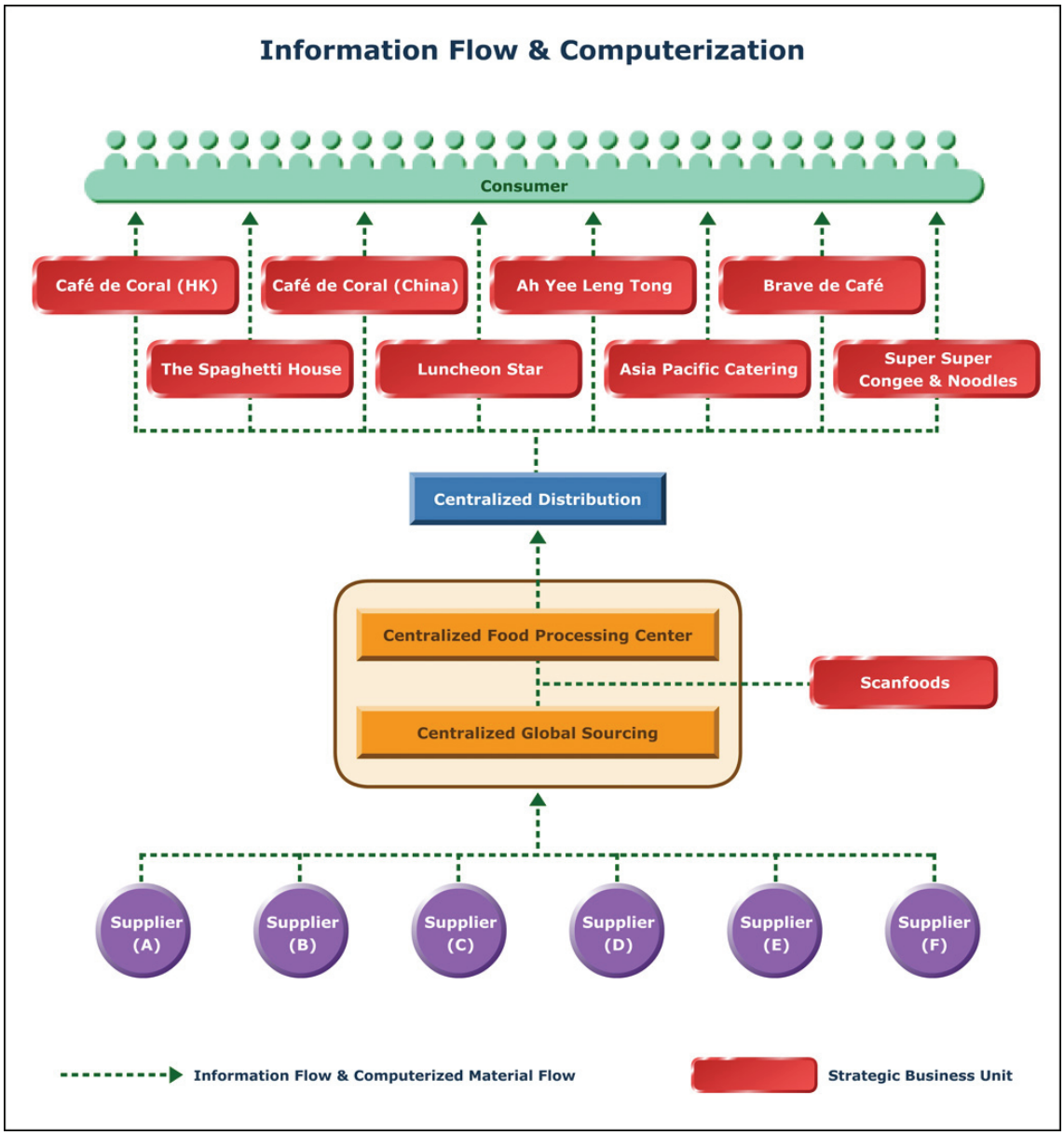
12. IT Support – Operation and Management Decision Making

Café de Coral works on a high degree of collaboration and depends on a detailed feedback loop across different levels to deliver the high profit margin.

The IT department plays a crucial role in facilitating a transparent information flow across all levels and departments. At the heart of this information flow is the Business Management System (BMS), a hub that links individual systems running in different departments.

Another core system is the Point-Of-Sales (POS) system, which was fully implemented in 2003 in all stores. Daily and weekly menus are available in the POS terminals so that in-store employees do not need to memorize any product codes. Any sales order at the cashier is instantly displayed in the kitchen to shorten the communication time, and, in the end, to shorten the customer's waiting time.

Sales, food and materials inventory, costing, and forecasting information are fed seamlessly into the BMS located in the headquarters for centralized sourcing, food processing, and business tracking, and for formulating sales opportunities and other management needs.



Information and Physical Material Flow in Café de Coral

This high level of information integration also facilitates the delivery of timely management reports. Executive management reports and monthly profit and loss reports from the branches are available two weeks after the end of the month.

The BMS system also helps the company to manage ad hoc situations. For example, when a very strong typhoon came through Hong Kong in August 2006, all flights in and out of Hong Kong had to be cancelled or rerouted. As they waited for the typhoon to pass, many passengers were forced to stay in the airport and they flocked to the two Café de Coral outlets there. The two outlets enjoyed abnormally high sales that day, but they also sold out all of their stock within the day. Through the BMS and POS, the

management team was able to locate products and resources from nearby branches to satisfy demand over the next few days. Such flexibility not would have been possible without the BMS, which provides near real-time information at the headquarters to make prompt decisions.

13. Café De Coral Going Global?

The fast food culture is reaching far into the Asia Pacific region. According to ACNielsen's Online Consumer Survey in 2004, "nearly all Filipino (99%), Taiwanese and Malaysian (98%) and Hong Kong people (97%) were fast food patrons".

In a comparison with the rest of the global market on weekly fast food consumption, the East Asian markets scored big among the top ten in terms of patronage.

Top 10 Global Markets	Percentage of Population that eats at Take-Away restaurants at least once a week
Hong Kong	61%
Malaysia	59%
Philippines	54%
Singapore	50%
Thailand	44%
China	41%
India	37%
U.S.	35%
Australia	30%
New Zealand	29%

Source: AC Nielson, Oct 2004

Top 10 Global markets for weekly fast food consumption

In terms of overall sales, Euromonitor's statistics for 2003 indicate that the U.S. is by far the top fast food nation.

Top fast-food markets worldwide, 2003		
	US$ Bn	%
United States	148.61	53%
Japan	13.87	5%
Canada	12.7	5%
United Kingdom	12.1	5%
China	9.76	3%
South Korea	9.24	3%
Germany	7.37	3%
Australasia	5.68	2%
Brazil	5.0	2%
India	4.9	2%
Total Global Market	282	

Source: Euromonitor, Nov 2004

Top fast food markets worldwide, 2003

ACNielsen found that the global drivers of take-away restaurant choice were the type of cuisine, the price of the food and the convenience of the location of the restaurant.

The global fast food market generated total revenues of USD 282 billion in 2003, which was an increase of 20% over the previous five years. More than 96 billion meals were served worldwide in 2003.

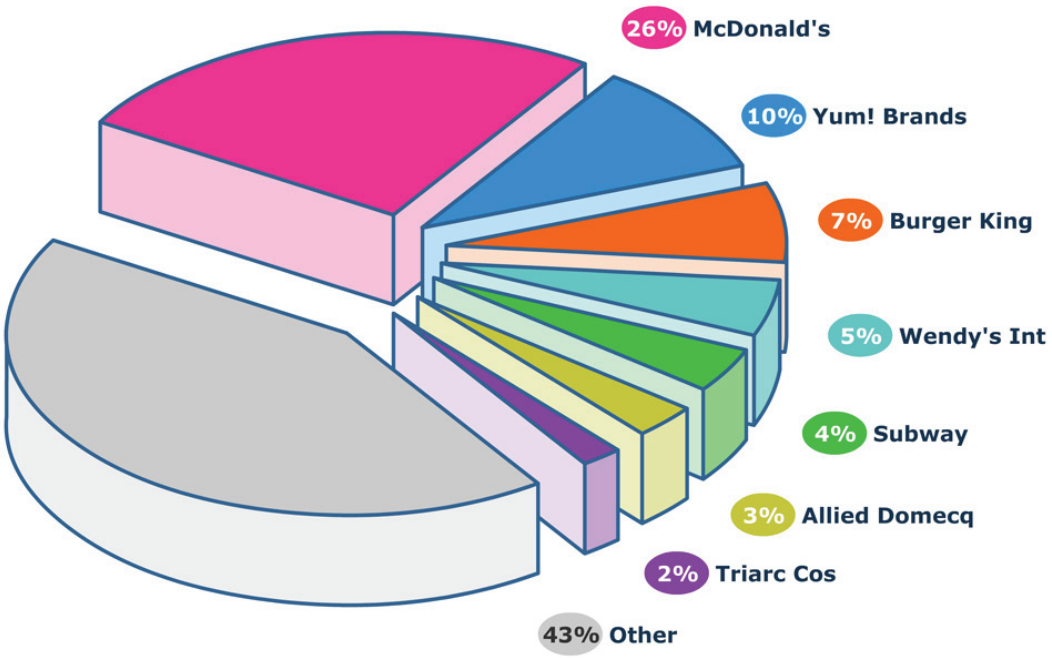
Longer worker hours, changing lifestyles and the continuing disintegration of the tradition of family meals have helped fast food chains to sustain growth worldwide.
The US is still the largest market where over 50% of the global revenues were generated. In emerging markets such as Eastern Europe, Africa/Middle East and Asia-Pacific, there was continued demand for Western-styled food in spite of the higher than average local price tag. By the same token, Americans' annual per capita spending on fast food topped the world at $515 in 2003, and increased to $566 in 2005. This was followed by Canada, the UK and Australia with $456, $393 and $363 annual per capita spending on fast food, respectively. Euromonitor's statistics indicate that Asian fast food is catching up fast on a yearly growth rate of 6.9% compared to a 1.3% yearly growth of burger chains.

The largest three players in the worldwide fast food game are still McDonald's (26%), Yum! (10%), and Wendy's (7%). McDonald's is the world's largest foodservice retailing chain. The burger giant has 31,886 outlets in 119 countries. The company recorded $20.5 billion revenue and a net profit of $2.6 billion in 2005, an increase of 7.3% and 13% over the previous year, respectively.

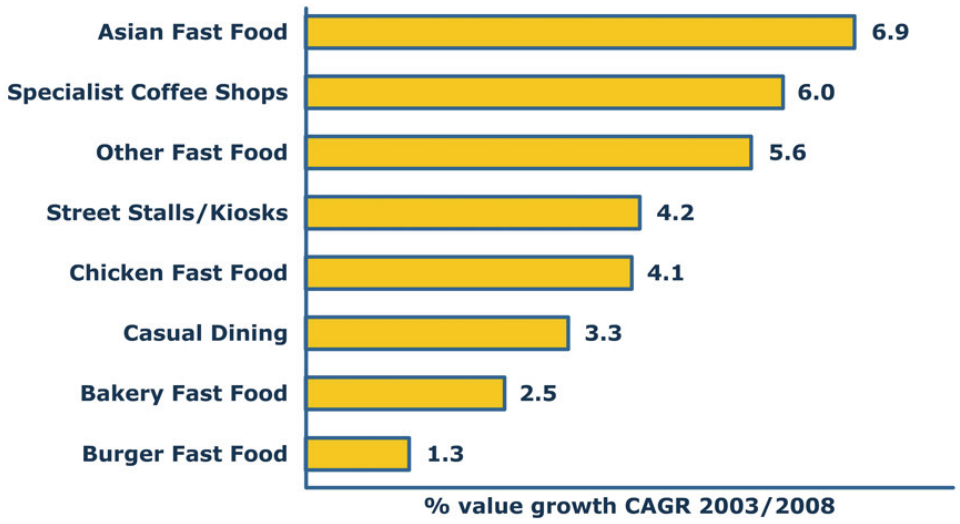
Headquartered in Kentucky, Yum! Brands, Inc owns the world's largest restaurant fleet with about 34,000 restaurants operating in over 100 markets. KFC, Pizza Hut, Long John Silver's and Taco Bell are the company's global leading brands. The company made US$ 9.349 billion revenue and US$ 762 million net income in 2005, a jump of 4% and 3%, respectively, over the previous year. The increase was primarily attributable to the continuous development of franchisee restaurants. In 2005 alone, the multi-brand catering giant opened 4,000 more outlets worldwide.

Wendy's is the third largest fast food company in the United States. There are 6746 worldwide outlets, of which 80% are franchised. Apart from traditional (but square) burgers, Wendy's offers a wide range of alternatives such as baked potatoes and chili. The group also owns Tim Hortons, the Canadian-based doughnut and coffee shop. In 2005, the Group reported sales of $3.772 billion, up from $3.6 billion in 2004. Two-thirds of the sales came from Wendy's brand itself.

Fast Food Global Company Shares 2003



Fast Food and Competing Sectors: Forecast Value Sales Growth



Source: Euromonitor International

14. Conclusion

The very idea of competing with the likes of McDonald's, the huge Yum! group and Wendy's was intriguing to Mr. Chan. But what would be the best strategy to go global? How would the company deal with franchising if it chose that model? Could it invest in the food preparation and distribution centers that would be necessary to make expansion work? Does it need to maintain the same operational logistics and mode of customer flow that it used in Hong Kong to handle high traffic volumes? Would markets outside of Hong Kong and China take to the huge and varied menu that characterized Café de Coral and made it popular among local customers? Which areas in the world should they go to first? Who were the target customers in these markets? How could the company be certain that the drivers of success in Hong Kong would work in outside markets? Would the expansion strategy take away energy and interest in the Hong Kong market? How should the company protect its market share there? There were just so many questions. Mr. Chan needed some answers and soon.