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CATHAY PACIFIC
CATERING SERVICES

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Cathay Pacific Catering Services: Preparing for a Different Future

As Jenny Lam, General Manager of Cathay Pacific Catering Services (H.K.) Ltd. (CPCS) walked through the halls of the firm's headquarters at the Hong Kong International Airport, she reflected on how much had changed since she joined the company in August 2008. Historically, CPCS had been operating under a stable market environment with a secured customer base and business volume. Having taken the lion's share of the local flight catering market with steady turnover derived from its parent company, Cathay Pacific Airways (CX), the primary focus of CPCS used to be operational excellence. Many employees were contented with working in a functional-oriented environment. Some were satisfied with the status quo and were not aware of the need to prepare for a different future. Others were feeling adrift as they were a little confused as to where the business was headed. There was uncertainty over CPCS's growth strategy in the long term. Should the company confine itself to a cost center model to serve CX primarily or should it pursue a profit centre model? If a profit-oriented growth strategy was adopted, should the company devote more resources to venture into the uncharted territory of non-air catering sectors?

Upon taking charge, Jenny was keen to work with the CEO Alex Chau and other senior executives to bring forward ideas that could rejuvenate the company. CPCS's management believed that in the absence of a proactive culture, the company could deteriorate to the point of stagnancy and lose its edge in the fast changing and increasingly competitive market. Drawing on her experience gained from CX, Jenny worked closely with Alex Chau and other senior executives to develop growth action plans and workshops. The objectives of these programs were to cultivate a creative, customer-oriented mindset required to transform CPCS from an operational focus organization to a customer focus one. By August 2010, CPCS had made some progress with its refined growth strategy and profit-centre model. The management team hoped that CPCS's renewed entrepreneurial spirit and growth were sustainable when the new CEO Philippe de Gentile-Williams took the helm in September 2010. The management team was also eager to share proposed solutions to various challenges with the new CEO.

Mary Ho prepared this case under the supervision of Prof. Winnie Peng solely as the basis for class discussion. This case is not intended to serve as an illustration of effective or ineffective management.
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Background of CPCS

HISTORY

CPCS's roots could be traced back to 1967 when CX, the Swire Group, and Hong Kong & Shanghai Hotels set up a cooperative joint venture known as Air Caterers Ltd at the old Kai Tak Airport in Hong Kong. As a result of the acquisition by John Swire and Sons in 1974, the company changed its name to Swire Air Caterers Limited. In 1992, CX purchased the entire shareholding from John Swire and Sons. The company then became a wholly owned subsidiary of CX and was renamed as CPCS. In 1998, CPCS moved into its state-of-the-art facility at Chek Lap Kok when the Kai Tak Airport was replaced by the Chek Lap Kok Airport.

CPCS was a member of the Swire Group and also an integral part of CX's successful operations [see **Exhibit 1** for the group structure]. John Swire & Sons Limited was the UK-headquartered parent company of the Swire group, dating its history to 1816 and the set up by John Swire of a small import-export business in Liverpool. His son, John Samuel Swire took the firm overseas, opening offices in various countries and in Hong Kong in 1870.[1] The Swire Group was engaged in a wide range of business activities and its investments spanned five continents. Hong Kong was home to publicly listed Swire Pacific, whose core businesses were property, aviation, beverages, marine services, and trading & industrial. CX, the flag carrier of Hong Kong, was one of the world's leading airlines and was publicly listed.

BUSINESS OVERVIEW

With more than 40 years of experience in providing quality flight catering services, CPCS catered to 36 international carriers in Hong Kong in August 2010 [see **Exhibit 2**]. It was the leading commercial air caterer in Hong Kong and enjoyed a 62% market share of all meals supplied. CPCS's flight kitchen in Chek Lap Kok occupied a floor area over 50,000 square meters [see **Exhibit 3**]. It was one of the largest and most sophisticated flight kitchens in the world. In 2010, CPCS produced around 60,000 meals per day, representing about 80% of its total capacity in Hong Kong. With advanced operational control, management information system, storage and other facilities, CPCS was capable of managing the logistics and production of over 20 million meals per annum. Its bakery and specialized kitchens were well-equipped to ensure effective and efficient use of resources. CPCS had clearly defined operating principles, namely quality, safety and environmental awareness. Since 1999, CPCS had become an ISO 9001 certified company. It was also the first airline caterer in Hong Kong to be accredited with ISO 14000 in 1996.

[1] Swire Group website: http://www.swire.com/eng/about/headquarters.htm (accessed 15 August 2010)

In addition to preparing airline meals, CPCS offered logistics services in delivering food and beverages and other commissary items onto aircraft. Food processing and catering, food logistics (production to aircraft) and flight handling (cabin services) were the core products of the company. However, as the airline catering industry became less location specific and more competitive, it was necessary for CPCS to explore new opportunities for growth.

Industry Background

The history of flight catering began in August 1919 when the first regular aircraft passenger service commenced operation between England and France.[2] In 1938, the first catering center was established by Imperial Airways. Since then, meals had become an essential part of flight experience. With the launch of the Boeing 707 jet aircraft in 1957, significant developments in flight kitchens and services on board began to take place.[3] Food and beverage service were promoted as a feature of air travel. In the mid-1980s, airlines began to divest their investments in flight kitchens and outsource food production. In response to economic and market pressures, some airlines reduced their spending on meals. Nevertheless, there were airlines that pursued premium feeding strategies to fulfill passengers' expectations of value for money. Some airlines worked with caterers to produce alternative meals to meet the special needs of passengers with restrictive diets. Passengers normally had to order such meals in advance. These included religious or cultural meals (such as Kosher, Halal, Hindu, Buddhist, etc.), infant meals, medical diets and vegetarian diets. Since higher altitudes and pressure could change the taste of the food and the function of the taste buds, airline meals had to be prepared by special cooking methods to enhance or maintain their normal flavours. Caterers had to ensure a very high standard of food safety because any food poisoning incident or even bio-terrorism happened in the air could result in serious consequences.

In America and Europe, the aviation industry widely adopted a model of contracted-out catering. However, major Asian airlines chose to operate their own flight catering facilities, especially out of hub airports.[4] The retention of flight meal production was a strategy to retain cultural identity and enhance competitive advantage. For instance, Korean Air took pride in growing the farm-fresh food served on their flights.[5] Japan Airlines had set up a flight sushi bar.[6] As a result of the consolidation of the flight catering industry in America and

[2] Wright, C. (1985) Table in the Sky: Recipes from British Airways and the Great chef, W.H. Allen & Co.: London.
[3] Jones, P. (2004) Flight Catering, Butterworth-Heinemann: Italy.
[4] Jones, P. (2004) Flight Catering, Butterworth-Heinemann: Italy.
[5] Dana, L.P. (1999) "Korean Airlines", British Food Journal, Vol.101, no.5/6, 365-383.
[6] Dana, L.P. (1999) "Korean Airlines", British Food Journal, Vol.101, no.5/6, 365-383.

Europe, several global catering giants had emerged. In 2010, Gate Gourmet was the world's largest independent provider of catering and provisioning services for airlines and railroads. Gate Gourmet had its roots in Swissair and was headquartered in Zurich. It cemented its leading position through various acquisitions, including the flight kitchens of Aero-Chef, SAS, Varig and British Airways. In 2010, Gate Gourmet served more than 200 million meals per annum to over 270 customers at some 120 airport locations around the world.[7] It was listed on the SIX Swiss Exchange in May 2009. LSG Sky Chefs, a subsidiary of Lufthansa AG, was the world's second largest flight caterer. Headquartered in Neu-Isenburg near Frankfurt, LSG Sky Chefs produced around 405 million airline meals for more than 300 airlines worldwide.[8] The company was formed after the takeover of Sky Chefs, American Airlines' former catering subsidiary and it grew through various acquisitions. Gate Gourmet and LSG Sky Chefs together captured over half of the global market share in the flight catering industry as of 2010. The rest of the market was fragmented into regional and national companies. Other top airline catering companies included CPCS, Emirates Flight Catering, SATS Catering (part of the Singapore Airlines Group), and Servair (a subsidiary of Air France).

Before the relocation of the Hong Kong International Airport, CPCS saw steady business growth year on year. Due to its leading position in the industry and the proximity of relationship with CX and Swire Group, CPCS enjoyed strong bargaining power in procurement. It also derived benefits through reciprocal leverage as airlines and their affiliated caterers established mutual servicing agreements across jurisdictions. For instance, Korean Air Catering offered services to CX in Korea, while CPCS offered services to Korean Air in Hong Kong. In 1998, the Airport Authority granted additional franchises for handling and logistic supplies, thereby increasing designated flight catering suppliers from two to three. Even though CPCS had managed to secure its leading position in the Hong Kong flight catering market, it had to face tougher competition from Gate Gourmet and LSG Sky Chefs. These competitors were global players and were equipped with flexible resources to cope with disruptions or changes in economic environment. In 2005, CPCS lost a key customer, British Airways, to LSG Sky Chefs in an open tender. This was largely because LSG Sky Chefs had more extensive networks across the globe. Rising airport charges also put pressure on CPCS's margins as such costs might not be fully passed on to customers. **Exhibit 4** presents the airline catering market share information in Hong Kong.

[7] Gate Gourmet Company Website: http://gategourmet.gategroupmember.com/ (accessed 15 August 2010)
[8] LSG Sky Chefs Company Website: http://www.lsgskychefs.com/en/about-us.html (accessed 15 August 2010)

New Direction

ORGANIZATIONAL STRUCTURE

CPCS had a team of about 1600 staff operating in a fairly flat organizational structure that comprised four hierarchical levels, namely senior executives, department managers, supervisors and general staff. About 80% of its employees were low-skilled operational and production operatives. **Exhibits 5A and 5B** show the organizational and governance structure of CPCS. The management of CPCS was led by the Executive Committee (Excom) and the CPCS management board. As a wholly owned subsidiary and strategic supplier of CX, the Excom of CPCS comprised appointees from both CX and CPCS senior management. The Excom played the key role in corporate governance whereas the CPCS senior management board developed strategies and managed the business. The carefully designed management structure comprised an appropriate blend of experience and provided a strong base for maintaining strategic alliance between CPCS and CX.

At CPCS, Jenny carried the title of General Manager and was responsible for managing the daily operations in Hong Kong [see **Exhibit 6** for Jenny's biography]. She functioned as a Chief Operating Officer and reported to the CEO regularly. She had to ensure that the local business operations were efficient and effective and that resources were properly managed. Alex Chau, the CEO, was CPCS's strategist and ambassador. He was mainly responsible for overseeing CPCS' investments outside Hong Kong and spread over Vancouver, Toronto, Ho Chi Minh City, Taipei and Cebu (see **Exhibit 1**). Although the CEO was the primary driver of investment strategies, he also ensured that the General Manager and the key executives participated in the process of identifying investment opportunities. Acting as the external representative of CPCS, the CEO set tones and direction for relationships with key external constituencies, which included the Swire Group and the Airport Authority. The CEO also served as the board member of CPCS's joint ventures and affiliates. Clear reporting relationships and role differentiation between the CEO and the General Manager helped to ensure successful governance of CPCS.

ORGANIZATIONAL STRUCTURE

When Jenny took charge as General Manager of CPCS, she worked closely with the CEO and other senior executives to usher in a cultural change with an "open-door" management style. For a long time, some senior executives and general staff had been brought up under a more parental management system. They generally possessed excellent technical skills and were good at problem solving at or after the event. They also had the tendency to follow strict disciplines and adhere to lines of authority. Some employees were accustomed to receiving specific instructions and email authorizations from their supervisors. Others were

not used to make decisions independently.

At that time, CPCS's management culture appeared to be more routine or functional-oriented. Some employees preferred to stay in their comfort zone and were not motivated to anticipate problems or identify opportunities for the company. New staff joining CPCS tended to learn from their supervisors and emulate their management styles for years to come. If they could only see reactive management in certain parts of the organization, they might accept or even perpetuate that culture. Rather than sitting back and moping about the lack of initiatives among certain employees, Jenny was eager to promote a proactive culture that could function like a greenhouse where ideas might get seeded, sprout up and flourish. Jenny was blessed with pleasant, stylish looks and personal charisma. With her friendly, open-door management style, Jenny actively approached her subordinates and made it clear to them that she welcomed new ideas and suggestions. She encouraged other senior executives to create the right ambience for employees to think out of the box and put their creative feet forward. Jenny also made herself highly visible. She worked with other senior management teams to conduct briefings on business updates regularly and participated in focus groups to understand staff needs. Such focus groups provided a platform for staff from different levels and working backgrounds to engage and discuss improvement opportunities in the work environment. The focus groups also enhanced staff learning experiences and fostered staff commitment. The senior management team also maintained regular and open communication with staff through information sharing on notice boards, online bulletin boards and a regular staff magazine.

Employees are encouraged to be outspoken and utilize strategic thinking to prepare for an uncertain future. Jenny raised probing questions to employees to expose the real issues faced by the company. She also wanted them to challenge long-standing assumptions. On one occasion, employees were asked what CPCS ought to do if CX decided to stop buying from the company. Employees were taken by surprise as they had never questioned such an important assumption that could affect the long-term survival of the company. Some employees thought this would never happen because they believed that CX was like the mother of the company. Initially, some employees found the transformation uncomfortable because the refined management culture ran counter to the parental leadership system that they were accustomed to. Moreover, since Jenny's tenure at CPCS was determined by Swire Group's directives, they were not certain if her successor would support or sustain the values that she promoted. It had taken some time for some employees to believe in the refined management culture or to build confidence and do something different. Breeding innovativeness and proactivity was a collective effort and would take some time, but Jenny and the senior management believed that the rewards would be substantial in the future.

Jenny and other senior executives were interested in building employee relationships. They were quick to recognize the contributions of staff and express gratitude. For instance, Jenny distributed awards to staff who received compliments from customers. The monetary awards also came with a letter of recognition from the management. A "thank you note" scheme had been operating since 2007 whereby employees could show appreciation for others' support. Educational sponsorship and souvenirs were offered to young cooks who won external competitions. Senior executives at CPCS were also keen on building a sense of belonging and a caring family culture within the organization. When Commercial Manager Philip Cocks realized that an employee became a finalist in a community singing competition, he went to cheer and show his support for the employee even though the event was conducted in Cantonese and he did not understand the language. Senior management also recognized that spring dinner was a valuable event for them to cultivate personal relationships with staff working in different departments. They made conscientious effort to participate and it was very rare for them to miss such important gatherings. Senior management's attention to personal relationships had enhanced CPCS's managerial effectiveness.

STRATEGY REVIEW

In 2008, Jenny and Philip worked with the production manager, the operation manager and the personnel manager to set up a strategy review group with an aim to conduct a major strategic review exercise. Although CPCS was a local market leader, changes in the competitive landscape and globalization trends left employees feeling adrift. Rising fuel costs, competition from low-cost carriers and the turbulent economic environment had prompted airlines to pass their cost pressures on to catering suppliers. Food cost inflation and changes in the food supply chain in China put further pressures on margins. Faced with these challenges, it was unclear whether CPCS ought to confine itself to a cost center model and serve CX primarily or to pursue a more aggressive growth strategy under a profit centre model. If CPCS had to adopt a profit center model, it would be necessary to find new avenues of growth outside the relatively mature local flight catering market. Although CPCS had been offering catering services to schools through the Deli Fresh brand and had set up an online sales platform known as Deli Delight e-Shop for generating direct retail sales [see **Exhibit 7**], it had not been actively pursuing growth opportunities in these segments in the past. For risk management purpose, CPCS was hesitated to incorporate other non-air catering business into its production facilities in Chek Lap Kok as any hygiene problems arising from the non-air catering units could have a spill-over effect on its core air catering operations and result in disruption. In addition, it was unclear at that time whether CPCS ought to make active investments in other sectors or devote its resources and efforts to function as a catering arm of its holding company only.

During the review, CPCS's management had identified several major drawbacks for adopting a cost-center model. First, it could be difficult for CPCS to attract and retain young talents if they could not see any future growth potential of the company. CPCS saw comparatively high turnover rate for staff within three years of service. Talented people might find their job boring if they could not see any strategy or challenge. Second, it could be difficult to motivate employees to improve productivity and keep costs low. Given a guaranteed customer (CX), employees might not see the need to enhance or improve their services. In view of capacity limitation, CPCS might need to give up profitable contracts with other customers if it had to devote more resources to serve its holding company. In the long-term, CPCS's value might not be sustainable. The results of the review showed that it would be in the best interest of CPCS to pursue a profit center model for future growth. In February 2009, the refined growth strategy was successfully endorsed by the Excom. CPCS was then empowered with confidence to explore new business opportunities.

GROWING AND RETAINING TALENT

To sustain organizational growth, it was critical for CPCS to grow the business and the employees as a whole. CPCS had thus developed a well-defined workforce strategy for the short-term and the long-term. The short-term strategy focused on staff retention whereas the long-term strategy focused on leadership development and succession planning. Even though 80% of CPCS's employees were low-income, low-skilled labor, they were always considered valuable assets of the company. As Jenny commented,

> *"The performance of our low-skilled labor could have significant impact on our quality of service. Given the complexity of the airline catering operations, it takes time to train our employees and to get them familiar with specific procedures, including tray layout and presentation, dish and menu specifications. For instance, CX operates flights to a number of regional and international destinations. The way of packing and delivering food, utensils and other items for different routes were also different. We have over 30 airline customers. Each airline has its own standards and configurations. We need our staff to meet those requirements consistently and to perform such mundane tasks every day."*

New employees of CPCS were initially engaged on a one-year contract before they became permanent staff of CPCS. They had to participate in a one-day orientation and induction program. Such program was designed to help new employees to learn various standards including legal and ethical behavior, hygiene and safety, as well as general working conditions.

CPCS was by far the only handling company that had not established any staff union. The staff turnover rate at CPCS was maintained at a manageable level. The fact that CPCS had a high number of long service staff for many years also showed that employees generally enjoyed working in a caring and trusting environment. According to Jenny,

> *"With an overwhelming majority of our staff falling into the low-income labor category, pay difference of a small monetary amount could mean a lot to them. The reason why they work for CPCS is not because we pay the highest salaries. The reason why they work for us is because we have a caring and trusting family culture. Every employee is part of our family."*

As part of the company's long-term workforce strategy, the management had also designed a learning and development model to support leadership development and succession planning. Under this model, employees were divided into four levels: department heads (L4), managers (L3), supervisors (L2) and general staff (L1). L3 and L4 employees were expected to have strategic and managerial competence to manage business and environmental challenges. L2 employees were expected to develop competence in coaching and communication when dealing with daily operational issues. L1 employees were strictly guided by the core values, customer service culture and operating procedure. CPCS's front-line employees received multi-skill training in order to undertake different tasks as and when required. Programs were designed to enable trainees to rotate to different sections so that they could obtain a comprehensive understanding of different operations and develop a variety of useful skills. Such programs could enhance team spirit and increase workforce flexibility. Talented employees were identified and groomed for supervisory or even management roles. Some of the key in-house training and development programs organized by CPCS included the Cook Trainee Program and the Supervisor Trainee program. Nominated employees were also invited to attend external courses offered by professional institutes. These courses covered various topics including cooking skills, food management skills and hygiene management skills. CPCS had stopped running its internal management trainee program for some time because past experience showed that the trainees developed under such program might not be exposed to the wide range of issues faced by other Swire Group companies. To facilitate learning of outstanding employees, CPCS had chosen to nominate them to participate in the Swire Leadership and Development program. Analysis of training needs was conducted annually by each functional department. The training department would then consolidate findings and summarize the corporate needs. To breed innovativeness within the organization, CPCS sponsored delegates to visit overseas catering service suppliers, logistic suppliers and food suppliers. These programs proved to be real eye-opener for the delegates. They could learn

new technologies, benchmark other suppliers' processes and explore process improvement opportunities. CPCS also sponsored purchasing executives to participate in overseas food shows to explore new sources of supply. Despite the financial pressures posed by the economic crisis, CPCS continued to invest in training and development with expenditure increasing by over 20% in 2009.

DEVELOPING CUSTOMER-ORIENTED MINDSET

CPCS contended that one of the most critical facets of ensuring good customer service lied in developing a customer-oriented culture. Hence, CPCS's employees were trained to be familiar with customer service principles and be prepared to live up to them. Jenny recognized that customer service training had to be extended to all employees who interacted with customers, not just those in high profile positions. On the need to sustain a customer-oriented culture, Jenny remarked:

> *"In the past, we had developed operational procedures for our staff without considering what our customers really want. We placed a lot of emphasis on timely performance. For instance, if our customer gave us 40 minutes to upload meals and items to an aircraft, we developed procedures for our staff to deliver within the timeframe. Our staff could deliver on time by following the procedures, but they might have damaged the aircraft when they rushed to push the carts into the aircraft and stow them into the galley. Obviously, this is not what our customers want. Instead of focusing on operational procedures, we have to develop guidelines to ensure that we deliver quality services consistently. We take the initiative to check and rate our services internally, identify failures and take corrective action promptly. We do not want to wait for our customers to tell us what we have done wrong. We have to anticipate and exceed our customers' expectations"*

CPCS had established dedicated account management teams for core customers. These teams met on a regular basis to monitor the overall customer service performance, including on time performance, food quality, product safety, loading accuracy, customer inventory management, and equipment quality and audit compliance. They were also responsible for designing corrective actions and working with operational teams to implement refined working procedures. While dedicated account managers served as the direct point of contact with customers, CPCS also made use of other channels to communicate with its customers and collect feedback. These included site visits, meal presentations, audits and website. Gathering feedback from customers was an essential process for understanding industry and market trends and maintaining competitive practices.

CPCS had a sophisticated system for handling customer complaints. Notification of complaints were received by the system administrator and processed by the customer feedback system. The system triggered an action notification to the account management teams for acknowledgement, investigation and correction. The system also set predefined response times to ensure that the team handling complaints could meet the investigation and response time targets. To CPCS's management, ensuring satisfaction of a customer was not confined to fixing complaints associated with operational failures. Providing quality customer service was a way to enhance value and nourish sustainable relationship with customers. For instance, CPCS proactively designed a new soup and congee pouch to help its airline customers to reduce weight and improve safety. Being able to sustain deep customer satisfaction could further enhance customer loyalty. Indeed, a number of international airlines had already established a considerable degree of comfort level over time with CPCS. For instance, Singapore Airlines had engaged the service of CPCS for about 30 years. Other airlines that had a need to offer quality cultural or religious cuisines also found it difficult to switch to other catering suppliers because CPCS was the only catering service provider with fully accredited Halal and Kosher kitchens in Hong Kong. CPCS also had a well developed Japanese kitchen to cater to the cultural needs of Japanese passengers. Over the years, CPCS had sustained long-term relationships with major international airlines and had received a number of industry awards [see **Exhibit 8**]. Although airline catering had become more budget-driven, CPCS did not want to court customers with price alone because it would be unwise to trigger a price war in the industry. Pleasing customers with quality and innovative services was more important in establishing and maintaining the good reputation of the company.

DEVELOPING EMERGENCY READINESS

CPCS had developed a business contingency manual to ensure that its employees and work system were well prepared for disasters and emergencies. The manual covered procedures for handling various possible crises to ensure business continuity and customer support. These included breakdown or operational failure of key facilities, systems and equipment, food poisoning, food shortages, staff disruption and natural disasters. Resumption plans were also included in the manual to assist smooth restoration of normal operations. Since 2000, the management had developed over 40 business continuity plans. The plans were reviewed regularly to ensure that the procedures were up to date and to accommodate changes in organizational, procedural and customers' needs. The crisis management strategy and process were managed by a crisis management team led by Jenny. Major risks were recorded and prioritized on a risk register.

Over the years, CPCS had successfully overcome various major crises without disruption.

These included the SARS crisis in 2003, the avian flu crisis in 2007, temporary electricity stoppage and water stoppage in 2007 and 2008 as well as the suspension of land transportation to the airport due to landslide in 2008. In 2009, CPCS had developed a plan to manage the swine flu crisis [see **Exhibit 9** for an excerpt of the plan]. CPCS also shared the most updated information about the crisis with its customers. Such value-added services enhanced customers' satisfaction.

The Future – Beyond Strategic Vision

Since CPCS moved its operations to Chek Lap Kok in 1998, the financial results had been impressive and had always exceeded targets (see **Exhibit 10A to 10G**). Despite turbulence experienced in the aviation and flight catering industry, the company had fully repaid its shareholders' initial investment in the new catering facility within 7 years after the migration. The introduction of cost control, productivity and efficiency enhancement measures had proved to be successful in sustaining profitability of the business. With its core business concentrated on flight catering, CPCS's fortune was inextricably linked to that of the aviation sector. Revenue derived from flight catering was largely dependent on the demand for airline meals, and such demand was in turn influenced by a number of factors. These included passenger numbers, airline policies and their catering strategy and market competition. Airlines' catering strategies were also affected by internal (e.g. flight duration) and external factors (e.g. competitors' offerings).[9] As many budget airlines stopped to provide free in-flight meals, traditional airlines and caterers also began to rethink their catering strategies from a cost and marketing perspective. Gate Gourmet, had for example, reacted by offering fully disposable meal box, ready-made sandwiches and taking over retail sales on board for some airline customers.[10] A number of large caterers, including SATS and LSG, had also set up frozen food manufacturing plants to capture opportunities provided by new technology. Some international caterers were exploiting opportunities in double catering, and had expanded into the railway and other general catering and institutional markets. To meet new demands and exploit new opportunities, CPCS had to develop a versatile growth strategy.

In the first half of 2010, the aviation and flight catering industry saw an upturn in business as the economy had gradually recovered from the financial meltdown. Nevertheless, Jenny perceived that various industry issues and market trends could have an impact on CPCS's business in the short term or the long term. The price of oil and taxation on air travel were major external pressures faced by airlines. There were also growing concerns about food safety, pandemic outbreaks, security management and the need to reduce packaging and weight for environmental and cost reasons. During the economic downturn from 2008 to 2009, the industry saw an increase in single class seat airlines as business passengers traded down from premium to economy seats. While traditional airline customers faced uncontrollable challenges and increased competition, CPCS was similarly affected. Additional clouds on the horizon for CPCS were food cost inflation, renewal of airport franchise by 2013 and labour shortage. As the unemployment rate in Hong Kong continued to decline against the backdrop of economic recovery, it could be increasingly difficult for CPCS to recruit staff because of its relatively remote location. In fact, CPCS's staff resources were always maintained at a level that was slightly below requirement. It was also for this reason that the company did not need to introduce redundancy or other staff cost cutting measures during the recession.

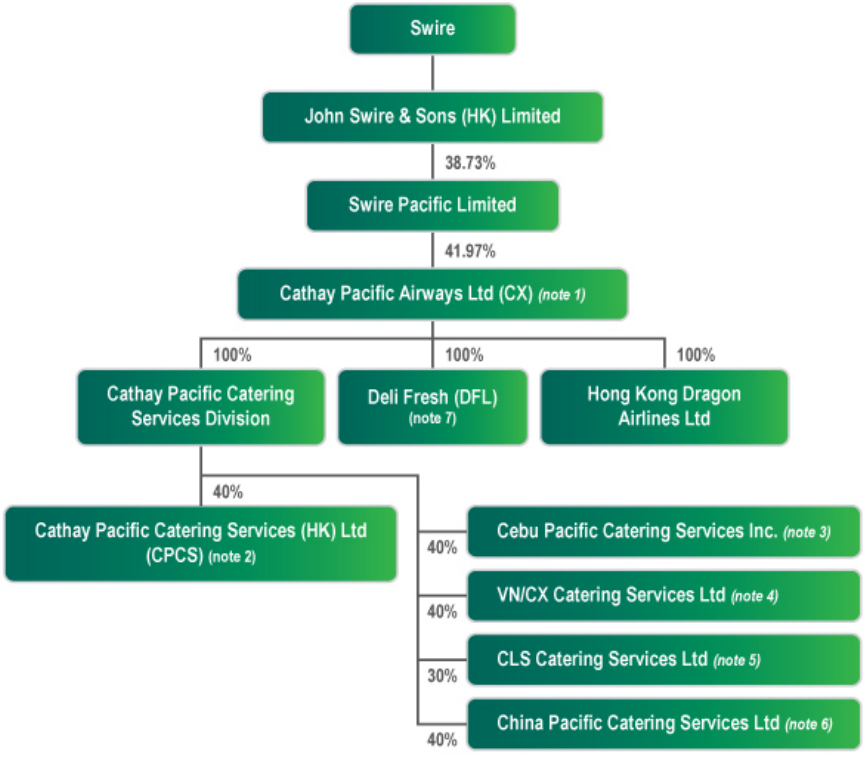
In August 2010, Jenny and the senior executives were preparing for the arrival of the new CEO following the departure of Alex Chau. Jenny thought it was critical for her to share CPCS's strategic plans and operational issues with the new CEO as soon as possible. During the past several months, Jenny had various meetings and discussions with the senior management team about the opportunities and threats faced by the company. They also had begun to assess the expansion costs associated with the growth strategy, and plans to manage new services with the setting up of new business units or companies. Jenny had a number of questions in mind. What must CPCS do to get ahead of the game? How best to shape the relationship with CX being a major customer and a shareholder? If business is to succeed by anticipating and meeting future demand, what is the future direction for CPCS? How can CPCS shape the culture to embrace a different future? How could CPCS convert weakness or threats into strength and opportunities?

[9] Johan, N. and Jones, P. (2009), Travel Catering Research Centre Annual Market Intelligence Report 2009, University of Surrey.

[10] Rowe, M., "New challenges for in-flight food sector as market recovers", *Just-Food*, 4 January 2007.

Exhibit 1

SWIRE GROUP STRUCTURE (AUGUST 2010) (SELECTED AVIATION AND CATERING BUSINESS)



Note 1: CX's major shareholders also include Citic Pacific Limited (2.99%) and Air China Limited (29.99%).

Note 2: CPCS has minority shareholdings in catering units in Canada, Taiwan, Vietnam and the Philippines.

Note 3: Cathay Pacific Catering Services Division has a 40% shareholding in Cebu Pacific Catering Services Inc., based at Cebu in the Philippines.

Note 4: Cathay Pacific Catering Services Division has a 40% shareholding in this joint venture with Vietnam Airlines. The company has a daily capacity of 23,000 meals, and serves 24 airlines.

Note 5: Cathay Pacific Catering Services Division has a 30% shareholding in two in-flight catering facilities in Vancouver and Toronto, in partnership with LSG Lufthansa Services. The two facilities have the capacity to produce 12,000 and 25,000 meals a day respectively.

Note 6: This flight kitchen business is a subsidiary of Taiwan's flag carrier, China Airlines, in which Cathay Pacific Catering Services Division has a 49% interest. The shareholding was held under trust by Swire for political reason. Located adjacent to Taipei's Taoyuan International Airport, the company's highly automated facilities have the capacity to produce up to 30,000 meals a day. Currently, the kitchen serves 21 international airlines in addition to China Airlines and Cathay Pacific Airways. The company also provides outside catering and terminal catering services.

Note 7: DFL is a member of the Swire Group and whilst wholly owned CX, is actually managed by CPCS.

Source: Swire Group and Cathay Pacific company websites

Exhibit 2

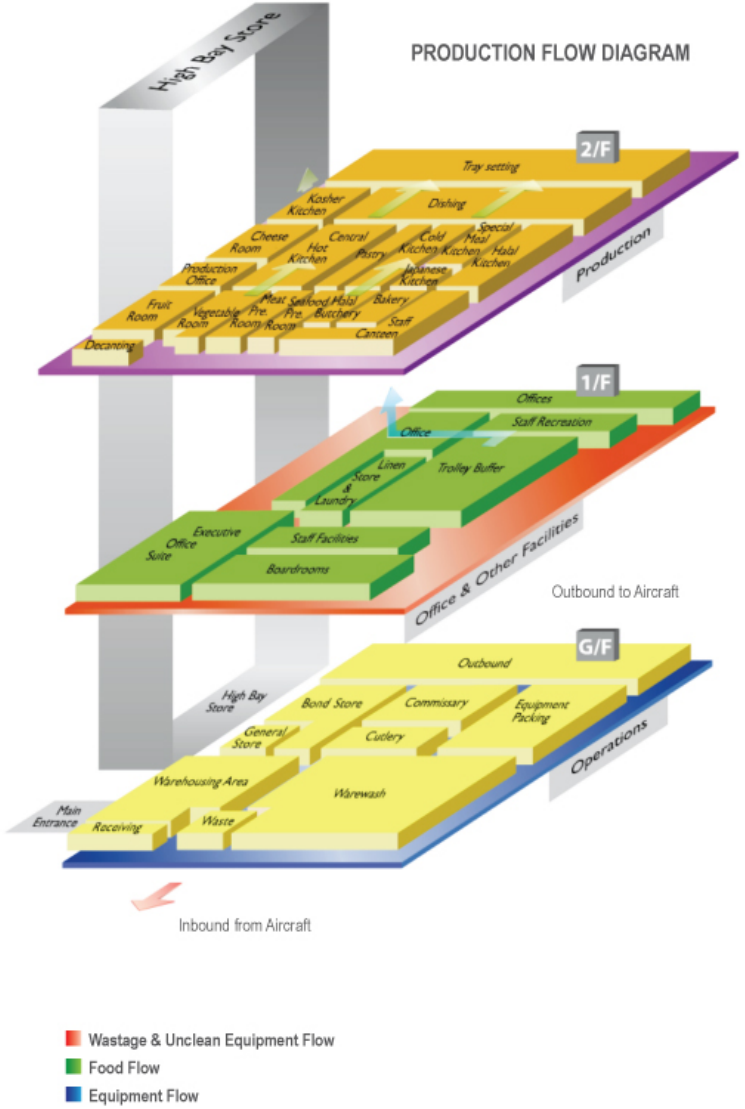
AIRLINE CUSTOMERS OF CPCS

ACT Airlines	Kartika Airlines
Aeroflot Russian Airlines	Korean Air
Air Atlanta – Icelandic	Malaysia Airlines
AirBridge Cargo	Mandarin Airlines
Air China	Metrojet
Air Hong Kong	Nippon Cargo Airlines
Air Niugini	Philippine Airlines
All Nippon Airways	Privat Air
Bangkok Airways	Qatar Airways
Biman Bangladesh Airlines	Royal Brunei Airlines
Cargolux Airlines International	Royal Jordanian Airlines
Cathay Pacific Airways	Shenzhen Airlines
China Airlines	Singapore Airlines
El Al Israel Airlines	Tesis Airlines
Emirates Airline	Thai Airways International
Ethiopian Airlines	TNT Airways
EVA Airways	Turkish Airlines
Evergreen International Airlines	Vietnam Airlines

Source: Company Website

Exhibit 3A

CPCS'S FACILITIES IN HONG KONG



Source: http://www.cpcs.com.hk/eng/facilities_e.html (Accessed: 15 August 2010)

Exhibit 3B

CPCS'S FACILITIES AND PROCESS WORKFLOW IN HONG KONG



Source: CPCS

Exhibit 4

AIRLINE CATERING MARKET SHARE INFORMATION IN HONG KONG

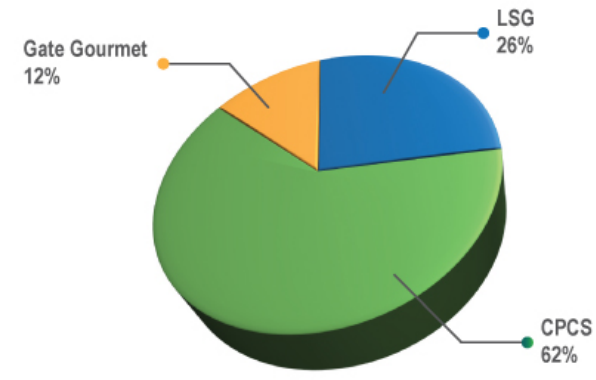
Market share information: 1st quarter 2009

	CPCS	LSG	Gate Gourmet
Year of establishment	1967	1946	1998
Affiliates	100% wholly owned subsidiary of CX	32% owned by KA[11] 20% owned by CNAC 38% owned by LSG Lufthansa Service Asia Ltd. 4.41% owned by Maxim's 2.45% owned by MU[12] 2.94% owned by Dayee	listed on the SIX Swiss Exchange since May 2009
Total investment (HK$)	$1.6 billion	$660 million	$382 million
Size of unit (sq. meter)	50,400 sq. m	20,150 sq. m	9,000 sq. m
Total production capacity per year (meals)	80,000	30,000	12,500
Average meal production per day (meals)	61,600	26,104	11,500
Facility utilization (%)	77%	87%	92%
No. of staff	1,600	700	280

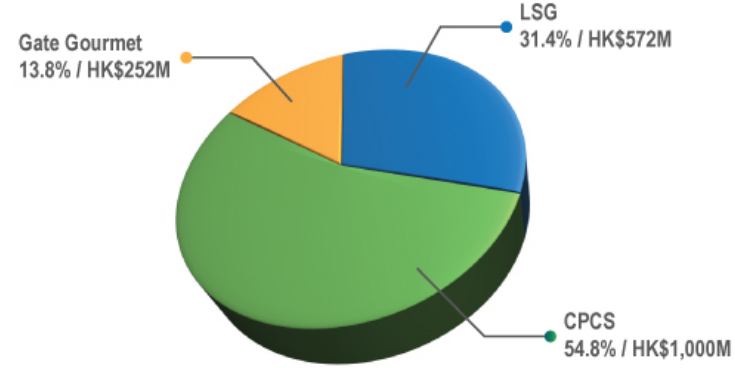
[11] KA = Dragonair
[12] MU = China Eastern Airline

Source: CPCS and Airport Authority

Market Share - HK Airline Catering (based on average daily meals produced)



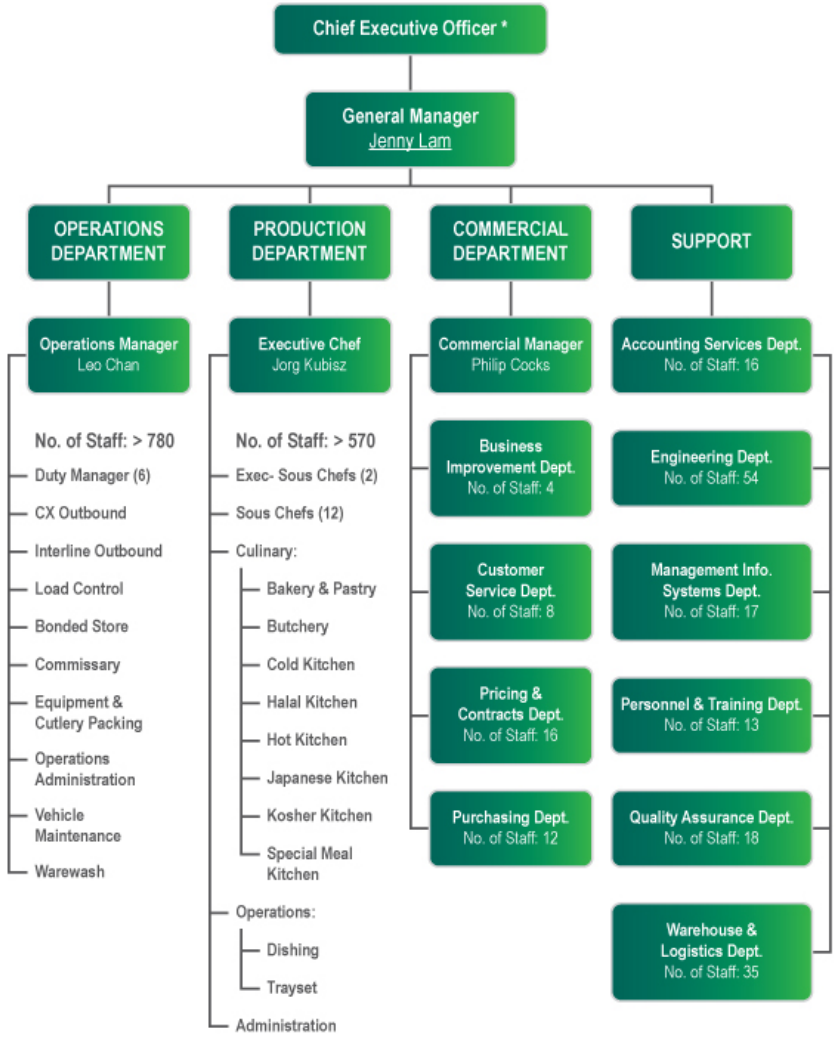
Market Share - HK Airline Catering (estimated annual revenue in HK$ million)



Source: CPCS and Airport Authority

Exhibit 5A

CURRENT ORGANIZATIONAL STRUCTURE OF CPCS



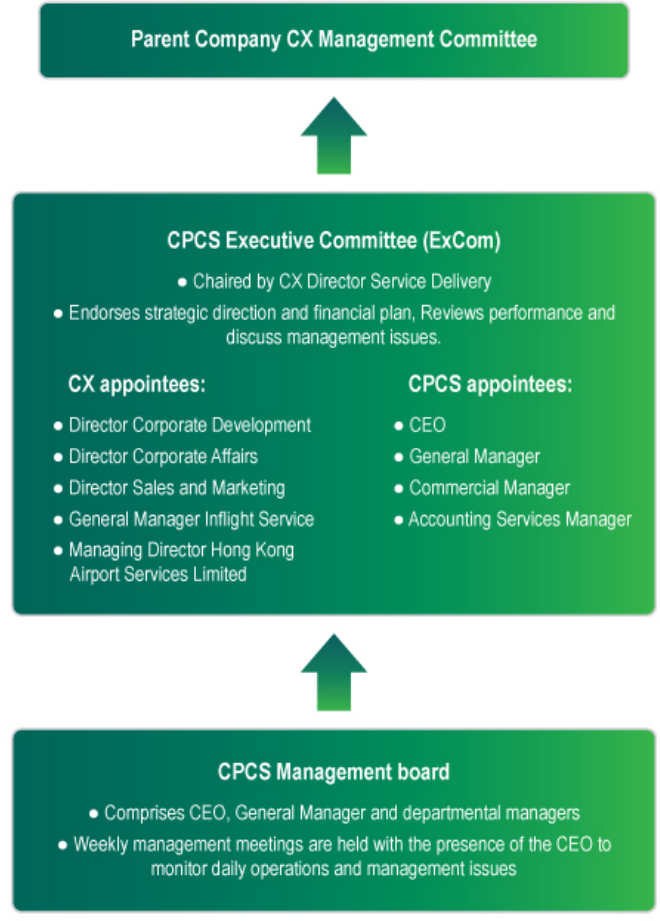
Total no. of employees: around 1,600 as of August 2010

* Philippe de Gentile-Williams took the helm as CEO in September 2010. The former CEO Alex Chau was posted to another CX's subsidiary Hong Kong Airport Services Limited (HAS) as CEO, after 7 years' serving as CEO in CPCS.

Source: CPCS

Exhibit 5B

ORGANIZATIONAL GOVERNANCE OF CPCS



Source: CPCS

Exhibit 6

BIOGRAPHY OF JENNY LAM



Jenny Lam is a certified accountant by profession. She started her career with Cathay Pacific (CX) in 1988 as an Assistant Accountant. She was posted to the Singapore CX office in 1989 as Accounts Controller to oversee the accounting function of CX Sales and Operation in Singapore. She was transferred back to CX head office in 1993 and took up various positions including Treasury Accountant, Manager Service Accounting and Manager Business Improvement. The major projects that she was directly engaged were the outsourcing of CX IT mainframe operations in Australia, the evaluation of acquisition of Dragonair (KA) and the CX/KA integration. She was seconded to Cathay Pacific Catering Services (CPCS) as the General Manager with effect from August 2008. With Jenny's experience in finance and process improvement, she supported the Hong Kong Management Association Quality Award as a member in the Board of Examiners for six years to promote quality management in Hong Kong.

Source: Jenny Lam

Exhibit 7A

OTHER BUSINESSES OF CPCS

Deli Fresh



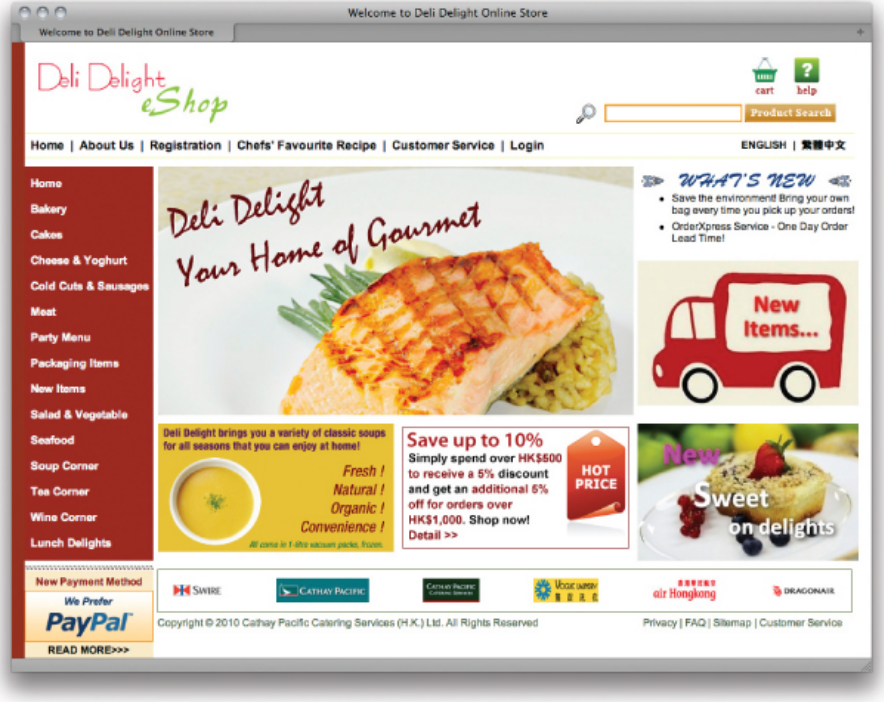
Deli Fresh (DFL) is a member of the Swire Group and whilst wholly owned by Cathay Pacific Airways is actually managed by Cathay Pacific Catering Services (H.K.) Ltd. It began life in 1998 and was established off-site in Tuen Mun as a contingency strategy to offset labour shortage risks at the new airport site (Chek Lap Kok). It was also serving as a low labour cost food process supplier option of fresh processed meat, vegetable and fruits solely to Cathay Pacific Catering Services (CPCS) for airline catering. DFL has since expanded its business to now also provide institutional catering and canteen services.

Source: CPCS

Exhibit 7B

OTHER BUSINESSES OF CPCS

Deli Delight eShop



Deli Delight eShop was established in 2003, which is wholly controlled by CX and managed by CPCS. The eShop offers an upscale international delicatessen with a distinct menu that includes authentic, hard-to-find raw materials from around the world. The mission of Deli Delight on-line shop is to provide Swire affiliated staff with a combination of quality, authentic, hard-to-find grocery items and prepared foods. Its shop motto is, "Experience first class cuisine". Customers can make convenient purchase via on-line ordering and a convenient pick up either at Cathay City or CPCS staff canteen.

Source: Deli Delight eShop

Exhibit 8

CPCS'S AWARDS AND ACCREDITATION

Awards

All Nippon Airways

Overseas Best Caterer of the Year – Gold Prize (2004)
Overseas Best Caterer of the Year – Silver Prize (2003)

British Airways

Partners in Excellence (2003/2004, 2004/2005, 2005/2006)

Cathay Pacific Airways

Best Caterer Diamond Award (2009)
Most Improved Caterer Award (2009)
Recognition of Excellence Award (2004)
Hygiene Award (2001)
Most Improved Caterer (1994)
Recognition of Excellence Award (1992)
Recognition of Support & High Standard of Service (1990)

Delta Airlines

Gold Seal (1995)

Emirates

Service Excellence Award (2009)

El Al – Israel Airlines

Outstanding Catering & Food Handling Services Award (2003)

Hong Kong Airport Authority

Airport Environmental Best Practice Achievement Award (2005/2006)
Ramp Safety Target Achievement Award (2003, 2006)
Airport Environmental Best Practice Competition Merit Award (2004/2005)
Airport Environmental Best Practice Competition – 1st Runner-up (2003/2004)
Airport Staff Safety Recognition Award (2004)
Outstanding Award on Road Traffic Improvement Suggestion Scheme (2001, 2003)
Ramp Safety Award (1999)

Hong Kong Awards for Industries

Environmental Performance Certificate of Merit (1997, 2005)
BEC Certificate of Merit in Environmental Performance (2001)
Trade and Industry Department Quality Award (1999, 2001)
Environmental Performance Award (1996, 1999)
Quality Certificate of Merit (1997, 1998)

Hong Kong Council of Social Service

Caring Company (2003 – 2009)

Hong Kong Labour Department Award

Effective Staff Communication – Silver Award (1998)

Hong Kong Management Association / Hong Kong Institute of Personnel Management

HKMA Quality Award Bronze Award (2010)
Award for Excellence in Management / Supervisory Training (1994)

Korean Air

Best Quality and Service Excellence (1992/1993, 1993/1994)

Thai Airways

2007 Gold Award in Excellent Service

Qantas Airways

Qantas Supplier Assessment Program:
Preferred Supplier Award (1999, 2001, 2003)

Accreditation

Det Norske Veritas Classification A/S (Certification Body)
ISO 14001:2004 Environmental Management System (2005 – 2006)
ISO 9000:2000 Quality System (2003 – 2006)
ISO 14001:1996 Environmental Management System (1996 – 2004)
ISO 9000:1994 Quality System (1995 – 2002)
Certified Caterer of Halal Meals (The Incorporated Trustees of Islamic Community Fund of Hong Kong)

Source: Company website

Exhibit 9

CPCS BUSINESS CONTINUITY PLAN FOR HIGHLY PATHOGENIC SWINE INFLUENZA (HPSI)

CPCS Leveled Alert System for Highly Pathogenic Swine Influenza (HPSI)

A. Objective of setting up this Alert Level System

To provide clear guidance to all managers to respond to different levels of Highly Pathogenic Swine Influenza (HPSI) threat.

B. Scope

All the contingency actions are applicable to CPCS. Meanwhile, DFL Tuen Mun, Chai Wan facilities and School meals will adhere to the same standards where applicable.

C. Structure of the plan

Assumptions are made at each alert level. At each level, the contingency actions are drafted based on these assumptions made and are categorized into four areas of 1) Communication, 2) Hygiene and Staff Protection, 3) Operations and 4) Finance. Each action item is assigned a responsible party who is in charge of it.

D. Definition of Alert Levels

The alert levels are drafted based on the information obtained from the World Health Organization (WHO) and Hong Kong Government as well as the potential risk of CPCS having suspected cases. The 5 levels are:

Level 1 Alert

This level is activated when there is outbreak case(s) of Swine Flu in the Pork population confirmed in countries outside HK where CPCS sources her Pork products. There may be case(s) of virus being detected in human but no evidence of human-to-human transmission.

Level 2 Alert

This level is activated when there is outbreak case(s) of Swine Flu in the local Pork population confirmed in HK. There may be case(s) of virus being detected in human but no evidence of human-to-human transmission.

Level 3 Alert

This level is activated when there is outbreak case(s) of Swine Flu in humane outside HK (human-to-human transmission)

Level 4 Alert

This level is activated when there is outbreak case(s) of Swine Flu in human in HK (human-to-human transmission)

Level 5 Alert

This level is activated when there is outbreak case(s) of HPSI confirmed in Hong Kong where human is involved. In addition, CPCS staff, their family member or close intimate is suspected or confirmed to be infected by HPSI.

E. Implementation Mechanism

Quality Assurance Manager and Personnel and Business Improvement Manager will keep monitor the development of Swine Flu. They will recommend the General Manager whether CPCS needs to trigger the alert level or move to another level (either upwards or downwards). The General Manager will make the final decision.

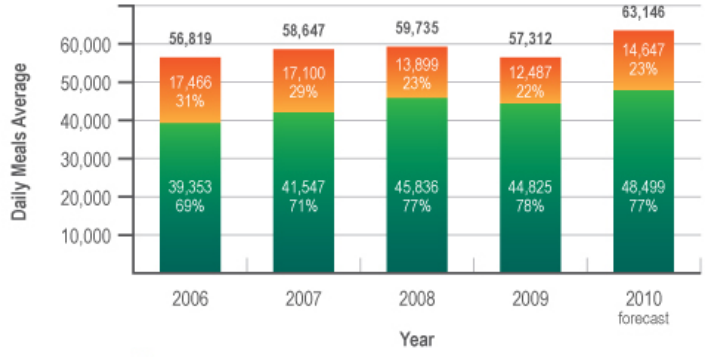
Once the alert level system being trigger, Crisis Management Team will depend on the seriousness of the condition to decide which action items of the correspondent alert level to be activated.

The Responsible Department(s) of each activated action item must ensure that the activated actions are carried out satisfactorily.

Source: CPCS

Exhibit 10A

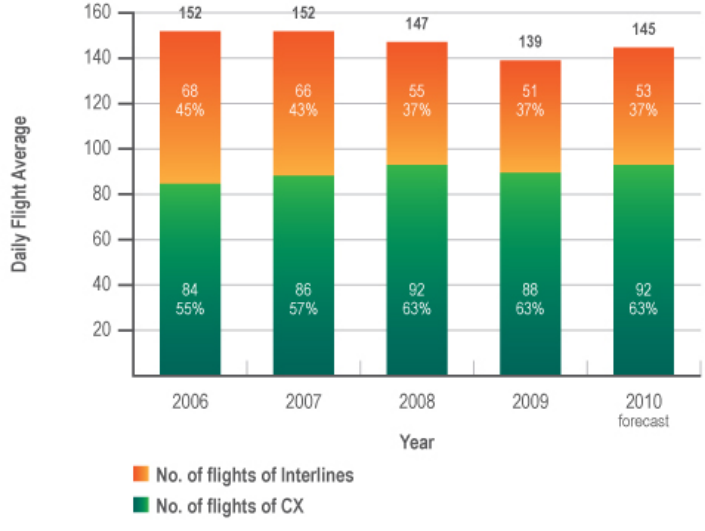
CPCS MEAL VOLUMES (2006 – 2010)



Meal volumes had increased by 11% over the 5-year period contributed by a 23% growth in CX meals. Interlines meals had declined by 16% due to reduced customer base (QF (Qantas), BA (British Airways), UO (HK Express), FT (Siem Reap Airways International) and BR (EVA Airways) double-catering).

Exhibit 10B

CPCS FLIGHT VOLUMES (2006 – 2010)



Flight volumes had decreased by 5% over the 5-year period due to a 22% reduction in interlines flights arisen from reduced customer base (QF, BA, UO and FT). CX flights had been increased by 10% in the same period.

Source: CPCS

Exhibit 10C

CPCS PROFITABILITY (2006 – 2010)

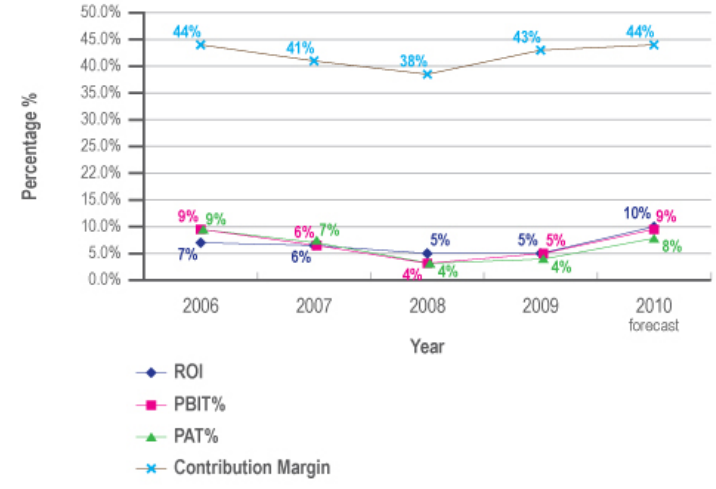
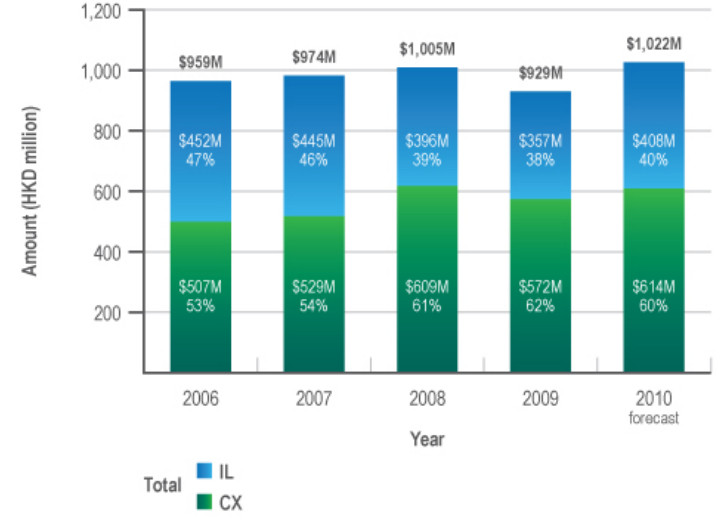


Exhibit 10D

CPCS TOTAL NET REVENUE (2006 – 2010)

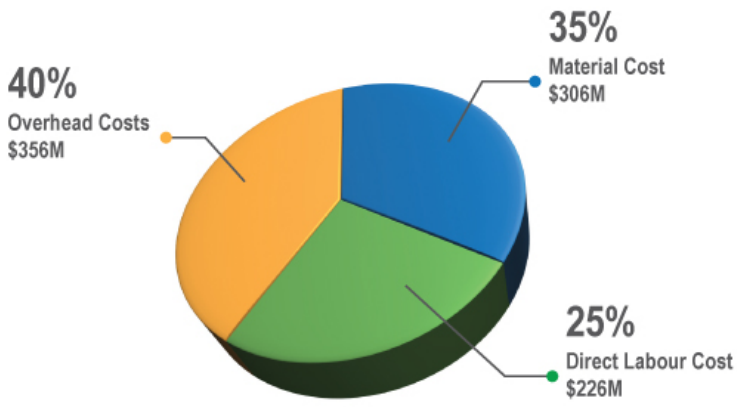


Net revenue had grown by 6.7% over the 5-year period.
Over 60% of revenue stream was contributed by CX while about 77% meal volumes produced was for CX.

Source: CPCS

Exhibit 10E

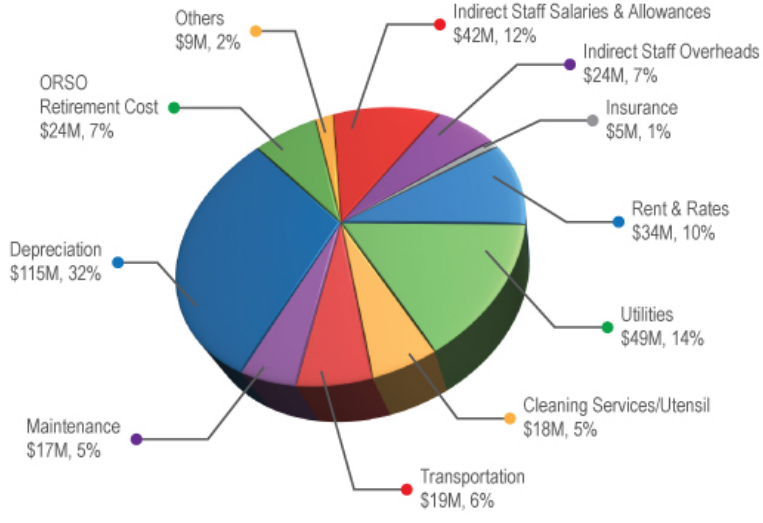
CPCS MAJOR COSTS COMPOSITION (2009)



Total operating costs in 2009 amounted to HK$888 million.

Exhibit 10F

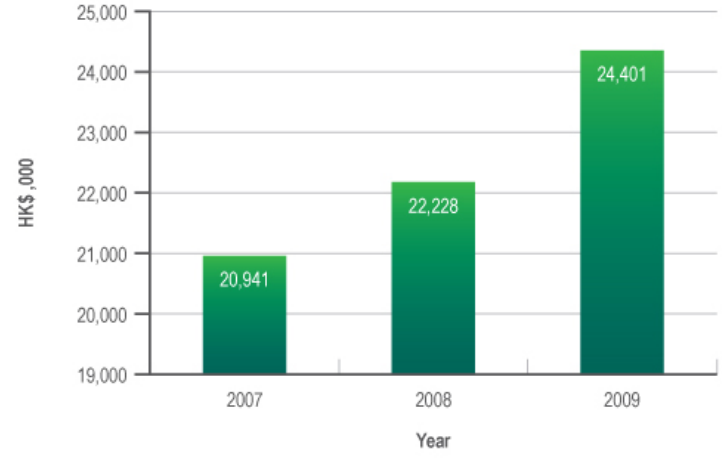
CPCS OVERHEAD COSTS COMPOSITION (2009)



Source: CPCS

Exhibit 10G

CPCS INSTITUTIONAL CATERING SALES (NON AVIATION FOOD SECTOR)



Source: CPCS

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