

A strategic marketing



This is a strategic marketing report for Pancake On The Rock restaurant entry to Hong Kong Market. We are the going to set up a international headquarter in Hong Kong, which named “ The Rock (HK) Ltd”. Pancake On The Rock is an Australian restaurant, which provides the dessert and food service since 17th August, 1975.

Pancake On The Rocks foresee Hong Kong is a potential market to bring its pancake culture to Asian country. Hong Kong was a British colony back in the 19th century. The city has influenced deeply by western culture. It has a highly developed capitalist economy; it identities as a cosmopolitan centre where east meets west is reflected in its cuisine, cinema, music and traditions. Based on the market research and competitive analysis, the company will slightly adjusted the menu to most suitable to the taste and style of the consumer in Hong Kong Market.

Methodology:

This report has been conducted by using primary data and secondary data research.

Secondary Data Research:**1. Exploratory research:**

The researchers will conducted an exploratory research to have a better understanding on the current situation for the consumer behaviour after the global financial crisis in Hong Kong. The researcher will find the information from both of the sitology magazine or article, and the realistic official statistical data research.

Primary Data Research:**2. Face-to-Face Interviews:**

Research will have face-to-face interviews to 100 public in an intensive location of Hong Kong. Each interview will be approximately 3 minutes and there are about 10 questions to ask. The number of range successfully completed face-to-face interview is 100 people roughly.

3. Focus Group:

To understand and research about the behaviour of Hong Kong consumer, the researcher will conduct a focus group to study about the price and quality perception of food. The research will pick up 10 participants by judgment sampling (qualitative, representative sample) and invite them to take in a 20 to 30 minutes discussion about the price and quality perception of food.

After we collect the data, we will use PEST model and Porter's Five Force model to analyze the internal and external environment respectively, to find out the factors affecting the company's performance. Then we will use SWOT matrix to analyze the opportunities, threats, advantages and threats for Pancake On The Rocks, combined with the analysis on marketing research, to set up a suitable marketing strategy and the detailed enforcement instructions for Pancake On The Rocks.

Consumer Behaviour:

In Hong Kong, the consumer's expectations of product quality in general have been steadily rising, owing to the increase in income and sociological forces, which have prompted high expectations of a better lifestyle. Hong Kong consumers today are looking for aesthetic and social value instead of just fulfilling on the basic needs of warmth and the protective function of

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products (reference 16). Department stores are now crowded with people, but with only a few of the shoppers are serious buyers. Hong Kong consumers are eager to see what is available, especially from among foreign products. Hong Kong consumers have a lot of time to browse, and therefore are disinclined to convenience or impulse buying.

Another aspect of Hong Kong culture that influences buyers' behaviour is the reluctance to pioneer (reference 10). The typical Hong Kong consumer does not want to be among the first to try a new product, but the discomfort of being 'behind the times' may make them think that if the neighbors have tried it, they had better follow suit soon. The strong collective characteristics may imply that informal channels of communication are important in Chinese society. Chinese consumers tend to rely more on word-of-mouth communication because of the high contact rate among group members; thus, communication of a given product idea is quick to circulate within these informal channels.

Situation Analysis:**Internal Analysis:****Company structure:**

Pancakes On The Rocks is a privately owned company established in 1975. It operates four restaurant based in Sydney regions. The restaurant in The Rocks is a 24/7 operates and its extended trading hours have been one of the crucial attractions to its consumer's highlight that attracts our main customer to visit the restaurant.

Product description:

Pancakes On The Rocks provides consumers with a diverse range of pancake kinds including origins and delicious flavoured pancakes, and a complete regular menu such as pizzas, a new range of salads, crepes, pancakes and the famous ribs with special house sauce. With an additional kid's menu designed for family dining and breakfast menu for dedicated customer who interested in early breakfast as well. They also offer a selection of pancake mix, quality merchandise and gift packs.

Target Segments in Australia:

The target market segments in Australia are mainly focused on family group, children, and young adults. Therefore, the menu has introduced specific dishes to suit our target customer's tastes and needs. The company has a strong reputation and is rewarding as it won gold awards of " Best casual/ family dining restaurant" from 2003 to 2009. The award represents a milestone to the company that has been targeted to correct market segments in the past years successfully.

The Australian Competitors:

The company has possessed a large amount of market share in the industry. Pancake On the Rocks has developed its brand image remarkable through the popular dessert dishes. Comparing to the other competitors, namely Hooter, Lone star, Sizzler and Hurricane, they are mainly concentrated on their regular menu such as steaks and have a minor fraction in advertising desserts. As well as the 24/7 trading hour has made Pancakes On The rocks a distinctive restaurant due to the fact that restaurant rarely operates 24 hours a day in Sydney region.

Cost Structure of Industry (Hong Kong):

High variable costs:

Labour in Hong Kong per person:

Cook: HKD 11883, Junior Cook: HKD 5993, Waiter/ Waitress: HKD 8190,

Supervisory: HKD 9007

Raw Material: spot rate and seasonal price;

Overhead: Electricity: HKD 0. 755 per plate; Water rate: HKD 1. 43 per cu. m.; Gas rate: HKD 0. 685 per meter (reference 39); Logistics: 122. 1 per 25kg approximately.

Low fixed costs:

Rent: spot rate and regional price; Cost of Merger: HKD 48800 – HKD 58800;

Advertising and Promotion Budget: AUD 7000000

Market Analysis:

Political Factors:

1. Flexibility of regulation:

The government has adopted the strategy of “ stabilizing the financial system, supporting enterprises and preserving employment” to helped stabilize the local economy.

The government’s role has made flexible adjustments in response to market needs and remove the barriers for local businesses. The Government stated that to adhere to the principle of “ Big Market, Small Government” which implies to boost domestic demand and increase employment opportunities. As a result, Pancakes On The

Rocks has advantage in low costs and conducive in the timing of entry by the flexible policy changes.

2. Low and simple tax regime:

Hong Kong has a lowest and simple tax system in Asia Pacific and third lowest in the world, with a maximum 16.5% corporate income tax and maximum 15% salaries tax. As high development costs of new business, low tax regime is a great advantage and ease of financial difficulty for Pancakes On The Rocks.

Economics Conditions:

3. Current GDP and forecasted economic growth:

Hong Kong has entered in an initial stage of recovery after the impact of worse global recession. The overall situation has been improving further in third quarter of 2009. By its trend, the economy is likely to show further sign of improvement in the future. The Table 2 has shown GDP rose by 1.2% from second quarter to third quarter in 2009. According to the latest private consumption expenditure in Table 3, Hong Kong people are increased gradually in private spending by 1.3%. In terms of the notable changes, it is a favorable opportunity and significant timing for setting up a business in Hong Kong economy.

4. Inflation rate:

Consumer price inflation turned slightly negative to -0.3% from 1.2% due to the global financial crisis. The forecast of consumer price inflation rates remain unchanged, at 0.5% and 0.9% respectively for 2009 as a whole.

5. Unemployment rate:

According to the labour force statistics, the seasonally adjusted unemployment rate decreased slightly to 5.3% and it shown that the youth unemployment situation is improving progressively. The government has advocated new start up of business in order to create quality job opportunities.

6. Interest rates:

Hong Kong ranks as first in Asia and second in the world in terms of providing access to capital. “ Its general financial environment is among the world’s best, with a sound banking system, a relatively large equity market and diversified sources of business funding, including venture capital.” (The Capital Access Index) The composite interest rate slightly decreased by two points to 0.11% at November 2009, from 0.13% at October 2009. (Appendix 6) The best lending rates is positioned at 5.25% per annum in December 2009. Hence, Pancakes On the Rocks has beneficial to capital funding in the running of business.

Social and Cultural Factors:**7. Cross cultural change in management:**

As Pancakes On The Rocks has operated their systems and models well in Australia but introducing to different country would require a lot more considerations. The company may struggle in culture diversity because Australia’s culture does not fit into Asian country. To be able to survive in overseas, Pancakes On The Rocks required to modify and test the overseas market that most suitable for the particular groups.

8. The increase of health-concerns:

According to pattern of using health supplements, 22.8% of the population aged 15 and over aged 15 had taken health supplements in Hong Kong. The main findings shown female and person with higher monthly household income and higher education attainment had greater tendency of having taken health supplements. (Reference 22) Based on the statistics, the growth rate in health-concern is one of the big issues that influence the consumer buying behavior. This trend will directly affect the company in concern of operation activities and the design selection of menu in a health-conscious style.

Infrastructure/ Technology Indicators:**9. Excellent infrastructure:**

Hong Kong International Airport was the world's busiest international cargo airport for the continued 12 years (reference 40). The port of Hong Kong has always been an essential factor in driving Hong Kong's prosperity, which strategically located at the heart of Asia. Hong Kong has one of the world's busiest container ports as well as ranked as one of the most e-ready economies in the world (Economist Intelligence Unit).

10. Quality and facilities of the transport/Road network:

Hong Kong has a well-developed and sophisticated rail and road network to cover every corner and keep people and goods on the move. Hong Kong's roads have nominated as one of the highest vehicle densities in the world. Over four millions of passenger travelled through the public transport during 2008. In addition, there were over 578,000 licensed vehicles and only 2,049 kilometers of roads in 2009.

Other relevant indicator:**11. Lowest costs of doing business and business risk:**

Hong Kong has kept up its competitiveness and continues to have the best opacity in Asia Pacific and second in the world. The Opacity Index measures high frequency and low-impact risks based on five main factors, underlining the country's stable regulatory environment, low levels of corruption and high compliance with international standards for accounting rules and practices. It indicates Hong Kong has low costs of doing business as well as business risk.

Demographic trends:**12. Population Size:**

Hong Kong is one of the most densely populated places in the world, with population estimated at seven million in 2009. Almost 95% of Hong Kong population is Chinese by place of origin. People in Hong Kong have a high literacy standard of 97.1% (98.7% male, 95.4% female). In addition, there has been a rapid growth in education attainment in higher education attainment rapidly in the past decades. (Appendix 2) It indicates higher qualifications are tended to go for healthier choices and premium goods; as well as a high degree of concern in nutrient value and higher expectation in quality of life.

13. Ageing Population and Low birth rate:

Ageing population and decreased birth rate become the demographic challenges in Hong Kong. The ratio of the population under age of 15 has dropped rapidly, in the meanwhile, between 15 and 64 has indicated a marked increase and the group over 65 has

more than a double. The supply of children in Hong Kong is at an all time low, at 0.966 children per woman.

Porter's Five Forces Analysis:

- **Intensity of rivalry / competition:**

1. Exit barriers:
2. Exit barriers of Pancake On The Rocks in Hong Kong are low because it isn't manufacturing industry but a kind of service industry.
3. Industry concentration:
4. Foodservice industry is well developed and there are approximately ten thousand restaurants are in Hong Kong. Moreover, many famous family restaurants are entered (e. g. T. G. I Fridays, Outback Steakhouse and Tony Roma's etc.) and also trying to enter the market. Therefore, industry concentration of Pancake On The Rocks is low in Hong Kong.
5. Fixed & variable costs:
 - Fixed costs:
 - Generally fixed costs of foodservice business to open a restaurant are included professional fees, insurance, premises costs, staffing and employment, stock, sales and marketing and finance etc. (Reference 42) However, a restaurant does not require high fixed costs as much as a manufacturing business because it needs lesser staff, premise and insurance costs etc than manufacturer.
 - Variable costs:

- Variable costs of foodservice business are such as actual cost of product, shipping of product, packaging, remuneration and commissions and direct wages etc.

It depends on how the company purchases fresh and good ingredients at lower costs than competitors in order to get competitive advantage.

6. Industry growth:

7. Population of Hong Kong is about 7 million and approximately 29.

5 million tourists visited the country in 2008. Tourism industry and foodservice industry have a very close relationship and local people usually tend to eat out because sub-tropical climate of Hong Kong makes it difficult to store up foods for a long time and many women include married women are working. There are almost 10 thousand of restaurants in the industry but it is not enough to handle demands of local customers and tourists.

Therefore, the industry could be growth steadily in the future, if the industry is not influenced by financial crisis and swan flu seriously.

8. Product Differences:

9. As foodservice industry is well developed and still developing, there are various cultural foods from other countries and fusion in Hong Kong. For that reason, high level of product differences are existing and many restaurants are still trying to invent special menu to attract local customers and tourists.

10. Switching costs:

11. As it noted above, there are many famous foreign family restaurant chains and local restaurants as main competitors of Pancake On The Rocks in the industry and the main menu is not that different between them. For that reason, the industry is high competitive market that customers can easily switch from one restaurant to another.

12. Diversity of rivals:

13. Pancake On The Rocks is family restaurant that similar with general family restaurants (e, g. T. G. I, Outback and Tony Roma's etc) and those companies are from western countries. However, there are various countries and fusion restaurants are operating in Hong Kong. For example, Japanese, Thai, and Vietnamese foods are appropriately adapted and also Korean foods are trying to inroad into the Hong Kong market with the aid of Media (e, g. dramas and movies etc).

- **Threat of Substitutes:**

As it mentioned previously, there are many famous foreign family restaurant and local restaurant chains in the industry and it can be direct substitutes because the main menu and price are very similar and each restaurant chain is generally operating all the restaurants of the chain with same recipes, ingredients, interior design and promotion etc. moreover, many people prefer healthy foods as a trend currently. For that reason, customers can easily switch from one restaurant to another by not price change but promotion such as various set menu,

coupons and events etc and trends. Direct substitutes are such as T. G. I Fridays, Tony Roma's, Outback Steakhouse, and so on.

Indirect substitutes also exist temporarily that as currently financial crisis, people could be suffered by financial difficulty and should make choice between eating out at family restaurants and shopping or leisure activities. Moreover, swan flu is prevalent around world presently, so people hesitate to go public places such as department stores, restaurants etc. indirect substitutes are such as theatre, shopping mall, sports and possibly hospital etc.

- **Buyer Power:**

The buyer power in foodservice industry of Hong Kong is strong because Hong Kong has so many different choices of restaurants, which are about ten thousand restaurants in the market place (Reference 15), combination of Asian cuisine centralized at the same place. Therefore, the consumer's buying power is stronger that they can have so many different choices.

- **Supplier Power:**

The supplier power is weak relatively as buyer power is strong in the industry. Although there are large number of tourists and local people as a consumer, they can have various choices of restaurants that buyers have strong power than supplier. For example, if customers turn their mind from a restaurant in any reason, the restaurants could be damaged seriously.

- **Barriers to Entry / Threat of Entry:**

1. Government policy:

2. Hong Kong is one of the freest markets and especially there are no tariffs or duties laid on imported food and beverages. However, local food laws and regulations such as Bacteriological or microbiological standards, contamination regulate imported food and beverages by harmful substances, food labeling regulations, and nutrition labeling regulations and so on.
3. Switching costs:
4. As it noted above, there are many famous foreign family restaurant chains and local restaurants as main competitors of Pancake On The Rocks in the industry and there is no great difference in the main menu between the restaurants. For that reasons, the industry is high competitive market that customers can easily switch from one restaurant to another.

Relatively, hospitality, tourism and service industries have lower entry barriers that there is larger number of smaller firms because the firms could easily obtain resources and skills etc. In this manner, there are ten thousand restaurants and many foreign restaurant chains that are trying to enter the market.

Porter's Diamond Model Analysis:

1. Factor conditions:

Hong Kong's foodservice industry is well developed and still developing and has very similar factors with Australia's tourist industry and foodservice industry that huge number of tourists visits the country and various countries' foods and restaurants are exist. Therefore, it could be predicted people adapt different kinds and countries food

easily than other counties. In Hong Kong, for example, there are one can find a diverse kinds of restaurants such as Thai, Mexican, Vietnamese, European, American, Chinese, Korean and Japanese in a single building. According to the country's climate condition, not only tourists but also local people usually tend to eat out.

2. Demand Conditions:

As it noted previously, Population of Hong Kong is about 7 million and approximately 29.5 million tourists visited the country in 2008.

Moreover, local people usually eat out because sub-tropical climate of Hong Kong makes it difficult to store up foods long time and many women include married women are working. For the above reasons, there are huge demands and it is why most people consider Hong Kong as a paradise of foodservice industry. There was a change in Hong Kong's foodservice industry that people moved from good taste and atmosphere to health when they choose restaurants or menu.

Therefore, well being food and beverage are very famous currently and restaurants are changing to satisfy customers' needs.

3. Related and Supporting Industries:

There are roughly ten thousand of restaurants and each restaurants are operating by not only one owner but also 3~5 owners and they have very well formed strategies to operate the restaurants effectively and get a competitive advantage in the market. Generally, restaurants outsource many parts such as purchasing ingredients, maintaining and cleaning to manage effectively. As outsourcing is formed well in the market place, there are many dependable outsourcing companies and restaurants can concentrate on only cook and sale.

4. Firm Strategy, Structure and Rivalry:

5. Government:

The one of the reasons that local people are usually eating out is the country's climate condition that foods are easily tainted and it can be same problem to restaurants. However, people usually eat out two or three times per day and it can be possible by Hong Kong government that they inspect sanitary conditions of restaurants very strictly.

Therefore, even very small restaurants are using dishwasher and control their sanitary conditions through automation systems.

SWOT Analysis:

Strength:

- Strong brand Awareness in Australia.
- Cost leadership.
- Over 35 years pancake making experiences.
- High quality product and services.
- One of Australian largest western food restaurant.
- Diversified product portfolio for different customers.
- A new and innovation product and service to Hong Kong market.
- Exclusive access to high grade resources.
- Good reputation among customers.

Weakness:

- Lack of international marketing expertise.
- Undifferentiated products or services.
- Lack of brand awareness in Hong Kong market.
- Lack of local property in HK.
- Lack of cross cultural management experience.

Opportunity:

- The recent financial crisis gives a good chance for us to entry Hong Kong market.
- Operating into an economics growth rapidly city, such as HK.
- Hong Kong is a special Administrative region of china, their is closely consist with each other in business and social area, so there are high chance to gain the Chinese customer through HK.
- There are less direct competitor and low competition of Pancake restaurant in HK.
- There are unfulfilled needs of pancake restaurant in HK.
- Opportunities to develop strategic alliance and franchising system.
- Self merchandize the products.

Threat:

- New competitor entry to pancake restaurant market.
- Cross cultural and taste barriers.
- Raw material pricing fluctuation.
- Shifts in consumer tastes away from the our products.
- Over spending in advertising and promotion.

SWOT Matrix:**Strength-Opportunity Strategy:**

With the existing opportunities over the target market, the organization has two perspectives for short-run and long run respectively.

In short run, the company will continuously extend and maintain its strength within the target market, by regularly invent new and innovative products and integrate with local and international manufacturers of food and drink,

and brand franchising to manufacturers of other goods and services, so as to enhance the existing business and facilitate the entry of new target segment – the working group, and also to help to obtain a well-known reputation over the target market.

In long run, the organization is planned to as well emerge in Asian market, as Asian market will also give rise to a great potential benefits as what have been discussed in the related opportunity paragraph. The organization aims to create a worldwide reputation over the world in the future decades.

Weakness-Opportunity Strategy:

Asia and Hong Kong markets are believed to have incessantly potential opportunities for western business to invest in Asia, as Asia is progressively more western culture and custom tended and the economy is still constantly growing, the company should not only focus and dependant on its main competitive advantage, the retail of pancakes and steaks. In future, the company will thus to diversify into different other sectors on its product and service to meet the various needs arise.

Strength-Threat Strategy:

The company will use its competitive advantage over the specific product – pancakes, to influence and to push forward the culture of eating pancakes into the target market culture and trend, also to deepen the western leisure activity into the Asian customs, to strengthen and sustain the market for pancakes. Moreover, in order to prevent replacement of pancakes and customers will give chance to incline to substitute products, the company will strongly promote and acknowledge its product – the original and orthodox pancake to the customers.

Weakness-Threat Strategy:

As what have been discussed in the above paragraph, the company will apparently use the above-discussed strategies have to avoid its weakness to take place while operating the business when facing the threats.

Objectives:**Short term Objectives (1-3 years of operating in Hong Kong):**

- **Launches all the product in Hong Kong within 1 operational year:**

The first objective is launching the product of Pancake On the Rocks to Hong Kong, which is requiring the advertising and promotion department to announce to the market. Moreover, need to adjust the taste of product to adopt the Hong Kong market.

- **Create the customer values:**

Pancake On the Rocks would create the customer value by reduce the cost, eliminate the necessities, raise the product value and create the new opportunities of the brand. In addition, Pancake On the Rocks would increase the customer satisfaction to build up a good relationship to customers. For example, quality and services, which are out of their expectations that can create positive and attitude and feelings to them.

- **Achieve the break-even point within 1.5 operational year:**

The most important objective for Pancake On the Rock is recoup the investment, research and development cost. Therefore, the main objective of 1.5 year operating for Pancake On the Rock is achieve the break-even point within 1.5 operational year. In addition, the break-even point analysis is shown below in international pricing strategy.

Long term Objectives (3-6 years operating in Hong Kong):**1. Build up the Brand Equities:**

Establish the brand loyalty by the Customer Relationship Management system and programs to reduce marketing costs and attracting more customers that are new or retain short-term customers to become long-term customers. Build up brand awareness by the investing in appropriate advertising. In addition, the product quality also can create the effect of word of mouth.

2. Achieve to 10% Market Share in the dessert market of Hong Kong:

For internal forces, Pancake On the Rocks' will conduct the marketing strategy toward the customers in the target market in order to create perceived value and generate a positive response to increase the market share.

For external forces, Pancake On the Rocks will conduct the marketing researches to understand the market overview and change in Hong Kong. Therefore, Pancake On the Rocks can utilize the competitive advantages to increase the market share and change the suitable strategies according to the market or competitors' actions.

3. Set up minimum 15 local restaurants within 6 operational year in HK:

Pancake On the Rocks wants to expand its business in Hong Kong, therefore, its final objective is that build up a wide range chain store network within 6 operational year.

Target Market:

Pancake On the Rocks produce various of pancakes, dessert and western foods, also Pancake On the Rocks provides the kid's menu, breakfast menu. Therefore, its target market can be a big range, such as middle and high-income groups in any ages. However, for its advertising campaigns, Pancake On the Rocks will mainly focus on the generation Y at the age 18 - 38 rounded, because they are the innovative enthusiasts and venturesome that are most willing to adopt and try new products, and they are the most consumable group in Hong Kong.

Market Positioning:

According to the official information, Hong Kong does not have any pancake restaurant existing, so Pancake On the Rocks puts our competitive concentration on the other dessert restaurants.

The position of Pancake On the Rocks as a range of high value (include quality and others factors) with premium raw materials, which provide a good taste than other restaurant. Moreover, Pancake On the Rocks will introduce the especial new range products for Asian tastes to customers in the long run, which will discuss in product strategy. On the other hand, Pancake On the Rocks will charge an appropriate price to the customers who willing to pay. In addition, Pancake On the Rocks will maintain the high level service by the rigorous operation system. Furthermore, Pancake On The Rocks is the new entrant of Hong Kong market, so the network coverage is not high, but it will get closer to the convenience position.

The key differentiates advantage included:

- Brand equity.

- Food offering.
- Product quality, price, place and promotion activities.

The reasons of the intended position, Pancake On the Rocks ultimate target is to be more competitive in the market, Pancake On the Rocks also want to attract more customers, build their confidence to our brand and brand awareness.

Market Entry Strategy:

Market Selection:

Since this is the first time of Pancake On The Rocks to globalize its business, Pancake On the Rocks will choose Hong Kong to