



**2020**

**Business  
Project Plan**

**Speed Noodle Limited**

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## 1. Summary of the Report

SNL is a fast-food chain noodle restaurant with stable development. It is difficult to seek new development and expand new storefronts due to the **increasing cost** and **COVID-19**. The **budget control** of its catering business department also has some problems. Therefore, the report puts forward suggestions on **franchise** business model, **foreign exchange fund pool**, **comprehensive budget**, and relaxation of **credit policy**.

Regarding the **minimum wage issue**, Vicky should reply to Lucy as soon as possible, promising to abide by the minimum wage system and encourage employees to improve performance.

In summary, this report focuses on the improvement and continued growth of SNL's performance, thereby ultimately realizing the **dream** of Matthew and his wife.

## 2. Business Analysis

We conducted **internal** and **external, financial** analysis of SNL.

### 2.1 External Analysis— PEST

#### Politics

- The "Food Safety Law" promulgated
- 2007 "Commercial Franchise Management Regulations"
- 2011 "Regulations for the Management of Food Inspection Institutions in Catering Services".
- The "Twelfth Five-Year Plan"

#### Economy

- Affected by the COVID-19, the whole economic environment is in a downward trend in 2020
- The **global financial crisis and** economic situation has worsened
- Inflation affects the **price** and the cost

#### Society

- Residents' **income** continues to increase. Population and employment are generally stable
- The **consumption structure** of residents has been upgraded.
- The pace of life is accelerating, the demand for fast food increases.

#### Technology

- Food **supply** chain is gradually complete.
- Innovative and upgraded distribution , such as delivery service and mobile APP order.
- The development of **Internet technology** strengthens modern business management.

## 2.2 Internal Analysis— SWOT

Analysis of the **internal** environment of SNL is based on “SWOT” model.

### Strengths

- The brand positioning
- Concentrated ownership
- High staff retention rate
- High accounts receivable turnover rate
- The good reputation of the founder family

### Weaknesses

- Cost control
- The company's working capital management ability is weak.
- Poor cash utilization
- Poor budget preparation

### Opportunities

- The large overall operation scale of the company
- Markets in second and third tier cities
- The certain brand competitive Advantages
- Change the existing direct sales model

### Threats

- The slow and difficult market penetration in the United States
- The small territory and high rent in Hong Kong.
- Highly competitive fast food companies in North America

## 2.3 Financial Analysis of SNL

Financial information<sup>4</sup> (Calculated and compared in Appendix 1)

<b>Profitability</b>	• Operating income rose by 12%, net profit margin fell by 3.71%.
<b>Gearing</b>	• The current ratio is 729.37%, much higher than the same industry. The debt-to-asset ratio is 13.71%, which is relatively low.
<b>ROI</b>	• EPS is 76.10% lower than last year
<b>Liquidity</b>	• The payback period of accounts receivable is short, which is much lower than that of Ajisen Ramen in the same industry.

## 3. Strategic Solutions

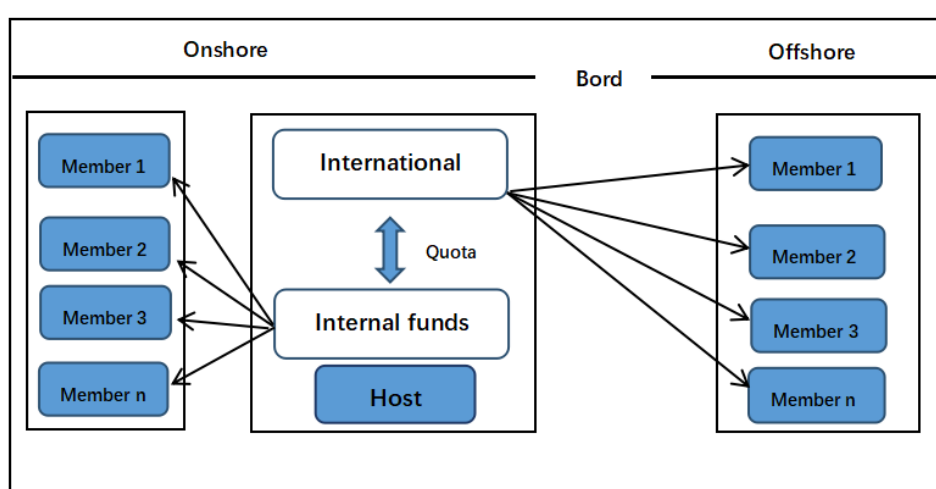
### 3.1 Financial Strategy

#### 3.1.1 Centralized Operation of Foreign Currency Funds

Because the company has business in North America, Hong Kong and Chinese mainland, the management of foreign exchange funds is one of the important contents

of financial work. The company's current policy is to hold cash in the three currencies in which the company operates, but it is easy to cause an increase in opportunity costs, and the exchange of various currencies will also cause a large amount of exchange **gains** and **losses**.

Therefore, we suggest that companies can centralize cross-border funds and establish **foreign exchange pools**.

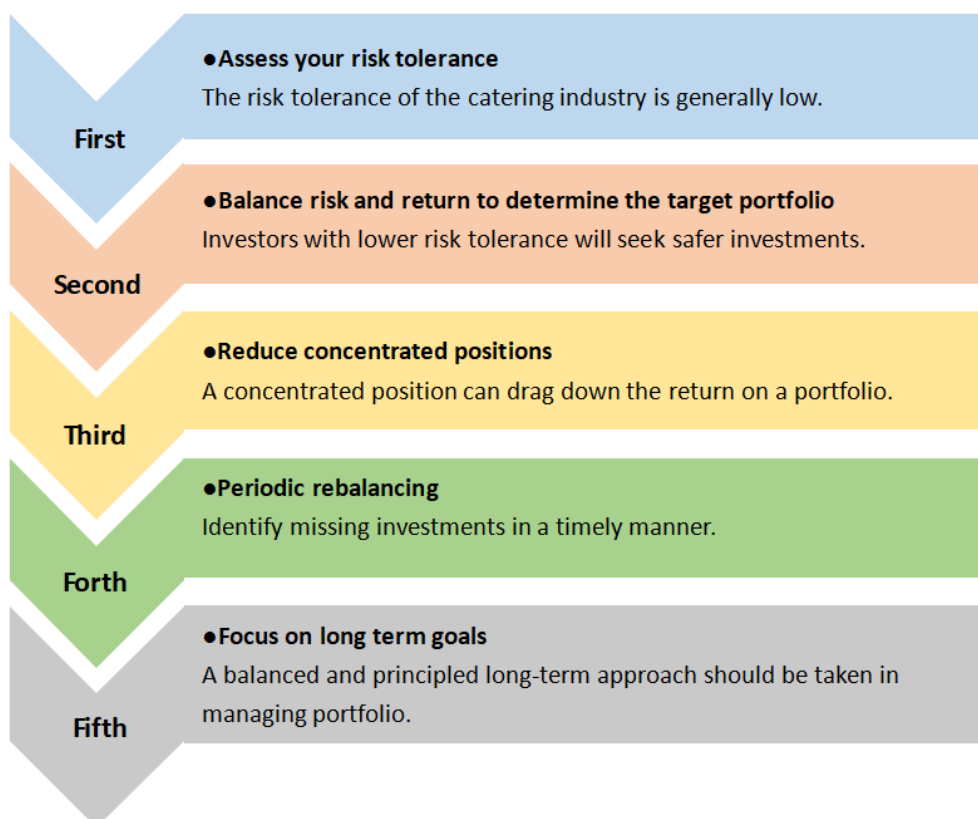


The purpose of the fund pool is to promote the centralization of **cross-border funds** of multinational companies. The foreign exchange fund pool policy stipulates the **maximum amount of foreign debt** and **overseas loans** to better manage domestic and foreign group funds, reduce **financing costs**, simplify business **procedures**, and further improve the convenience of using foreign exchange income under the **capital account**.

However, it should be noted that transnational corporations and commercial banks should strengthen **risk control** and **operate prudently**.

### 3.1.2 Diversified Investment

Since most of the company's main business is settled in **cash**, the company has sufficient cash and should use cash for **investment** to **reduce** the opportunity cost of **holding cash**. At present, the company's investment is limited to the purchase of British government bonds, so company's investment diversification should be **improved** both in **horizontal** and **vertical** aspects.



### 3.1.3 Capital Expansion

Since the Chan family has absolute **control** over the company, SNL can appropriately increase capital and expand **shares**, the dilution of shares will **not threaten** the control of the Chan family.

We suggest that SNL can establish a **close cooperation relationship** with the upstream of the **industrial chain**, that is, **raw material suppliers**. By absorbing them

to become **shareholders** of the company, we can reduce the purchasing cost of raw materials to a certain extent and enhance the **profitability** of the company.

## 3.2 Business Strategy

### 3.2.1 Combination of direct operation and franchise

Although SNL's current operating conditions are **relatively stable**, taking the impact of external environment and internal strategy into account, SNL must find a new point for the **expansion** of the company to ensure that the company maintains long-term operations. But its **direct operation model** limits the further development of SNL enterprises to a certain extent, so we propose a **combination** of **direct operation** and **franchise**.

In case to the **saturation** of the catering industry in **first-tier cities**, the company needs to establish **new outlets**. Increasing **cost** of labor and materials, the continuous trend of **rising rents** are the main factors which limit the expansion and development of SNL's direct business model.

Factors affecting expansion	Advantages of adopting this business model
<b>Funding requirements for establishing new outlets</b>	The <b>initial investment funds</b> shall be borne by the franchiser and the operator, and the <b>subsequent operating expenses</b> shall be borne by the operator.
<b>Cost of labor and materials</b>	The franchiser does not need to participate in the <b>personnel management</b> of the operator. Due to the substantial increase in demand, it can also <b>cooperate</b> with suppliers strategically to reduce the unit price of materials.
<b>The saturation of the catering industry in first-tier cities</b>	The market in the <b>second and third tier cities</b> is still to be explored. The choice of location, rent, labor cost and market competition among competitors all have more room for exploration than the first-tier cities.
<b>The continuing trend of rising rents</b>	The franchiser can set a <b>certain ratio</b> to share a series of expenses such as rent with the authorized person, and second-tier and third-tier cities can choose more store <b>locations</b> , and can occupy the geographical location suitable for business at the lowest cost.

### 3.2.2 Standardized Control

If the franchise business model is not properly managed, problems such as **food quality** and **brand reputation damage** will occur. In order to prevent this situation, SNL headquarters can formulate a series of **standardized controls**, which mainly include the formulation of franchise **contract content**, catering **production process**, and **cost budgeting methods**. By controlling the standardization of these three aspects, each franchise store can be **organically and unified** managed, and **problems can be discovered and rectified in time** to maintain the reputation of the SNL brand.

### 3.2.3 Development of New Channels

SNL should adopt a method that conforms to the **consumption habits** of local consumers for the promotion of products. In a long period, SNL has used a single **offline direct sales** model in North America and Hong Kong. In China, **the combination of online and offline** can be both used. In 2019, the market size of the **food delivery** is expected to account for nearly 18% of the catering industry. With continuous expansion, SNL's market scale will continue to expand.

Therefore, SNL can consider starting online sales from **two aspects**.

Delivery App	Mini Program
Entering Meituan, Ele.me and other <b>takeaway apps</b> , these apps have a large user base, but they need to pay a certain <b>commission</b> .	Developing own brand of WeChat mini program. Customers can <b>order directly</b> in mini program to <b>reduce</b> the cost of commissions paid to the food delivery app. However, in the early stage of operation, the <b>user base</b> is small.



### 3.3 Cost Strategy

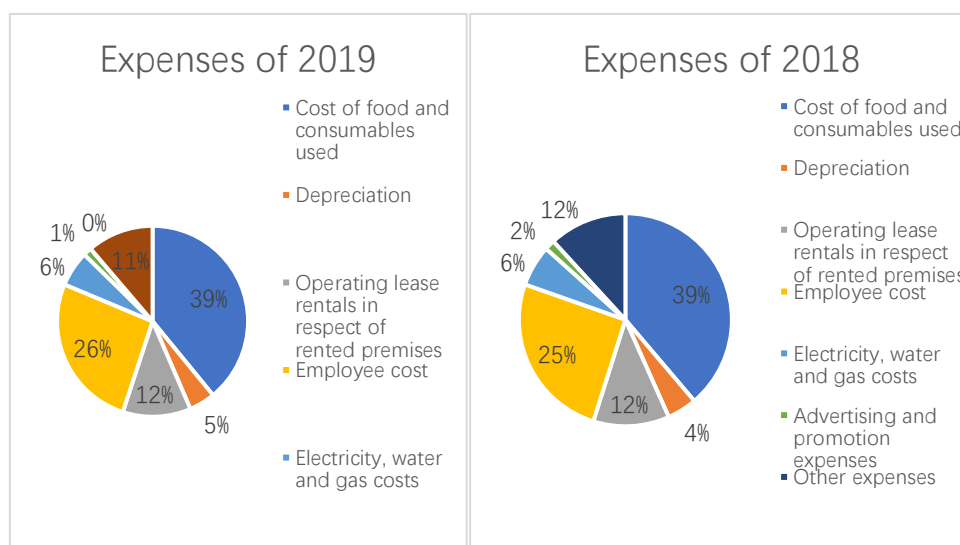
#### 3.3.1 Store miniaturization

With the rapid increase of rental cost and labor cost of catering industry, miniaturization of stores has become the main trend in the catering industry.

We suggest that SNL implement the strategy of store miniaturization for the following reasons.

- **Control costs.** less housing rent and less human capital needs.
- **Expand outlets.** The demand for business outlets in the same location is relatively extensive
- **Meet the needs** of contemporary consumers. The catering industry is developing in a simpler, more professional, and more distinctive direction.
- The development of **brand characteristics.** The flow of customers in fast food restaurants is faster, receiving more customers in the same store area and at the same time.

#### 3.3.2 Company Cost Control



It can be seen from the expense proportion table of the company in 2018 and 2019 that the proportion of various cost items in the total cost of the company has remained **relatively stable** in the past two years.

### 3.3.3 Suggestions on Cost Control

At the overall level, introduce the comprehensive **budgeting method**.

- **Set reasonable budget goals**. SNL should set a reasonable budget target, because the strategic plan of a restaurant chain company usually includes a **development plan** for the next 3-5 years and a **guarantee plan** for the company's safe operation. At the same time, the financial budget can meet the needs of enterprise **innovation and development**.
- **Encourage full participation in budget preparation**. **All** the company needs to participate in the budgeting process. The company should communicate the **budget goals** repeatedly between all levels of personnel to make all employees of the company fully **understand** the financial budget goals.
- Do a good job in **budget management and control**. Financial personnel and management personnel at all levels of catering chain enterprises should pay close attention to the **implementation** of budget indicators. After the budget indicators have **achieved** the expected results, a comprehensive **analysis** of the differences in the budget indicators will discuss improvement **methods** and supervise the implementation of the improvement methods.

- **Carry out actuarial work.** With the increase in operating costs of catering chain enterprises, the catering industry has gradually entered the ranks of **"mean" profits**. The implementation of actuarial calculations promotes the realization of refined management of corporate budgets, thereby **saving** certain cost and investment.

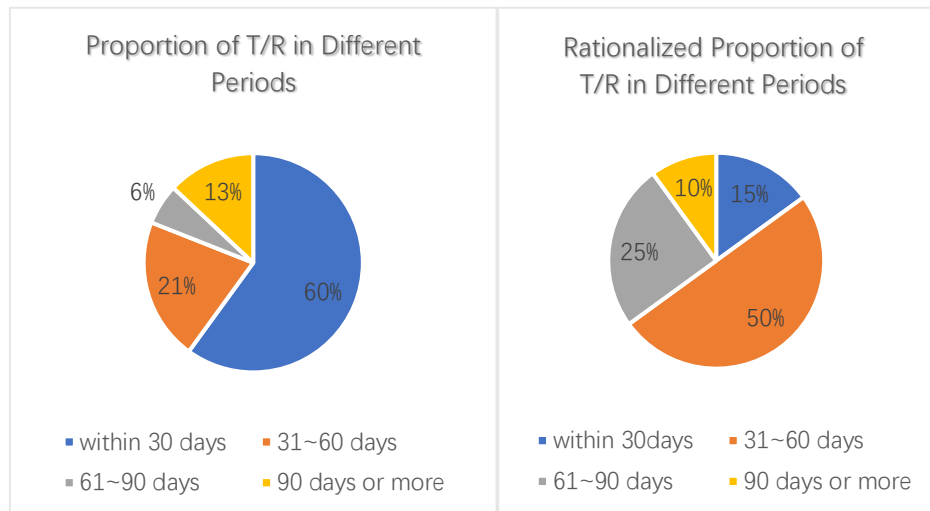
### 3.4 Food and Beverage Department Strategy

#### 3.4.1 Relax Credit Conditions & Increase Credit Sales Income

SNL's catering department is the company's only business on **credit terms**. Its credit sales account for about **7%** of the company's total revenue, and its accounts **receivable turnover rate** is **75.05**.

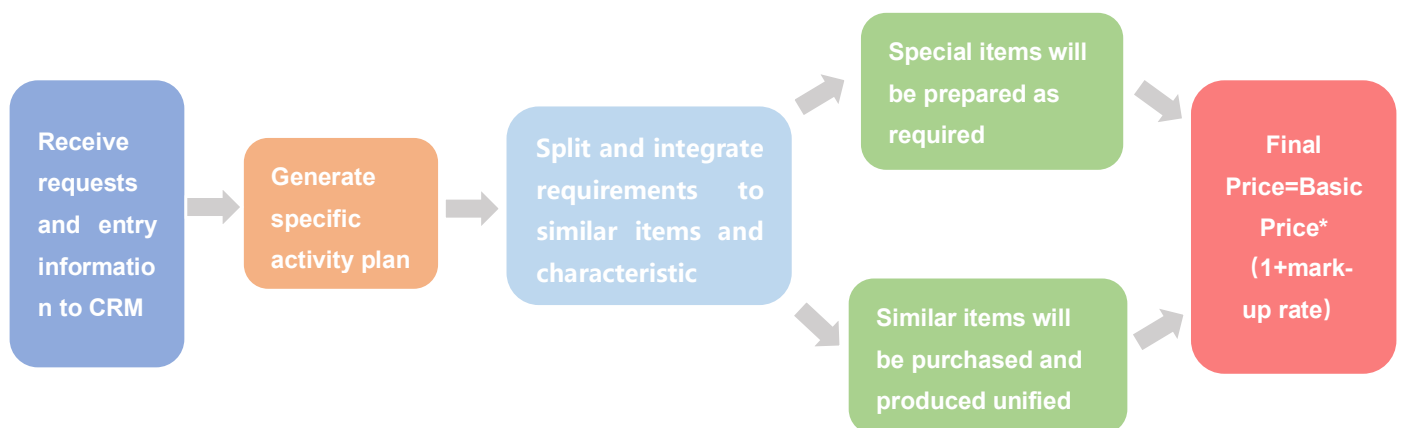
- Compared with the **same industry**, the account receivable turnover rate is too high, the credit status is relatively **high**, and the funds are recovered **quickly**; but it will lead to the **loss** of potential customers.
- Considering the entire **business structure**, SNL's income is mainly **cash**, and **credit sales** should be made full use of to **expand market share**.
- From the perspective of **aging analysis** and **financial statement**, the company should reasonably **adjust** the **composition** of accounts receivable to achieve the most proper and efficient receivable management.

Since the catering business department has established a relatively **good cooperative relationship** with customers, the impairment provision rate of accounts receivable is low. Therefore, the catering business department should **appropriately relax** credit policy to increase sales **revenue**.



### 3.4.2 Detailed Customer Management & Cost Control

Vicky emphasizes that customers need high-quality food and personalized services. The catering department should consider **adding personalized and customized value-added services** to the current standardized services to meet the different needs of customers. So we suggest to introduce **customer relationship management system (CRM)**.



## 4. Addressing Ethical Issues

### 4.1 Problem Analysis

Ethical Care	Internal Control	Policy Compliance
<p>Failure to meet the minimum wage could have a <b>negative impact</b> on employees, leading to complaints of strikes and resignations.</p> <p>In addition, Vicky Chan did not promise when wages would rise and did not immediately respond to the incident, which may <b>damage</b> the company's image and hurt employee goodwill.</p>	<p>The catering business as a SNL company did not <b>implement</b> this policy when SNL issued a press release stating that they would continue to <b>support</b> the payment of the statutory minimum wage. Improper internal <b>communication control</b> led to the decision of the Food and Beverage Department to refuse to pay the statutory minimum wage.</p> <p>Vicky Chan is David Chan's daughter, which raises the threat of intimacy and self-interest.</p>	<p>Paying the statutory minimum wage is a compulsory <b>guarantee</b> proposed by the state and unions, and SNL, as a retail leader and member of a charity, should follow.</p> <p>SNL lacks regular inspection of <b>statutory minimum wage compliance payments, particularly for lower-level staff.</b></p>

### 4.2 Solutions

Vicky Chan, David Chan and Matthew should **hold a meeting together** in the company to discuss the issue further. This can make the problem **clearer**.

The catering department of the company should pay a **salary increase** to the staff in accordance with the legal minimum wage. The **legal minimum wage** should be increased as soon as possible to encourage employees to work hard.

- Answer Lucy's email **as soon as possible**

As soon as the solution to the problem is clear, we should reply to Lucy immediately to solve the problem. It should be **promised** that the department will achieve the statutory minimum wage increase, and obtain the understanding of the

staff by **explaining** to the staff that due to the department's **business downturn**, the wage increase has not been achieved. By achieving the wage growth, the company can indicate that business has picked up in the department to **encourage** employees to keep working hard.

- Adjusting the current **wage policy** and **stick to** the statutory minimum wage

A fundamental reason why the catering sector has been unable to achieve wage growth is that the slow development of the company's business is not enough to cover **growing labor costs**. Therefore, it is suggested that the catering department can adjust the current wage policy, but to ensure that the statutory minimum wage policy is implemented. For example, part of the salary can be used as a **bonus** to recognize those who **work hard**.

- Develop a comprehensive **internal control policy** to **avoid** the recurrence of similar **ethical issues**

The internal control system of salary management should be established and checked regularly to avoid similar moral problems.

## Appendix1 Financial Analysis

### Financial Information

Profitability	SNL2019	SNL2018	Ajisen	JiuMaoJiu
Net interest rate	7.88%	11.59%	6.56%	6.91%
ROE	14.56%	/	5.01%	99.28%
Net asset interest rate ROA	3.13%	/	3.71%	13 . 08%

Solvency	SNL	Ajisen	JiuMaoJiu
Current ratio	729 . 37%	254.81	48.28

Cash ratio	185.68%	208 . 69%	16.02%
Assets and liabilities	13 . 71%	30.83%	89.68%

Return on investment(cents)	SNL2018	SNL2019	
Earnings per share	102.99	78.39	-76.10%
Net assets per share	535.53	541.06	+1.03%

Turnover situation	SNL	Ajisen	JiuMaoJiu
Accounts receivable turnover rate	75.05	7.61	19.15
Working capital turnover rate	6.45	2.03	/
Liquid assets turnover rate	4.13	1.30	8.81

Source of information: Juchao Information Network

### Notice:

1. Ajisen stands for Ajisen (China) Holdings Co., Ltd.2. SHANGRI-LA stands for SHANGRI-LA HOTEL (SHENZHEN FUTIAN) CO., LTD.
2. Jiu Mao Jiu stands for Jiu Mao Jiu International Holdings Limited
3. Data for Ajisen and Jiu Mao Jiu are for the year ended 31/12/2019.

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