

Speed Noodle Limited



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1. Executive Summary

In this report, we have analyzed the current situation of Speed Noodle Limited (SNL). The analysis was done by problems identification. We have used SWOT Analysis as tools to analyze SNL market environment.

Also, we have found in our financial analysis that the SNL's gross profit and net profit have a downward trend. Besides, the employee cost is high as well. However, the SNL's efficiency is good financially.

Moreover, we have made some suggestions to SNL based on the minimum wage incident. We suggest that the company should immediately increase the wages of all employees to HK\$37.5 per hour to reduce employee turnover and to increase the goodwill and must important, to avoid violating the law. Also, we suggest that we should establish a complaint mechanism for employee to express dissatisfaction. Besides, we suggest that the management of Corporate Catering unit may adopt a more participating style of leadership. Moreover, we recommend that the company should organize some activities to employees and management regularly to enhance their sense of belonging.

In addition, we provided suggestions on various business strategies including to join food delivery platform, add standing areas, convert outlets with poor business performance to takeaway format, launch vacuum packed food and food coupon to attract customers. Also, the company may install the self-service ordering and payment machines in some outlets.

In the last part of the report, we have designed an implementation plan and budget plan for the above recommendations for the next three years.

2. Financial Analysis

We have performed financial analysis on profitability, assets utilization ratio, liquidity, and solvency of SNL.

2.1 Profitability				
Ratio	Formula	2019	2018	Change
Gross Profit Ratio	$\frac{\text{Gross profit}}{\text{Sales}}$	14.28%	18.54%	-4.26%
Net Profit Ratio	$\frac{\text{Net profit}}{\text{Sales}}$	9.43%	13.85%	-4.42%
Operating Margin	$\frac{\text{Operating profit}}{\text{Sales}}$	9.00%	13.41%	-4.41%
Return on capital employed	$\frac{\text{Profit before tax}}{\text{Net Capital Employed}}$	17.34%	22.98%	-5.64%

In terms of profitability, all ratio goes downwards. It indicates that the profitability has decreased.

2.2 Efficiency Ratio				
Ratio	Formula	2019	2018	Change
Inventory Turnover Ratio	$\frac{\text{Average Inventory}}{\text{Cost of goods sold}}$	12.83 days	13.90 days	-1.07 days
Trade Receivables Ratio	$\frac{\text{Trade receivables}}{\text{Sales}}$	2.91 days	2.73 days	+0.18 days
Trade Payables Ratio	$\frac{\text{Trade payables}}{\text{Purchases}}$	9.82 days	11.44 days	-1.6 days

For the efficiency ratio, the inventory turnover ratio was 12.83 days and 13.9 days in 2018 and 2019. This shows that the sales in 2019 was faster than in 2018. Moreover, the trade receivables ratio was 2.73 days and 2.91 days in 2018 and 2019. Both ratios in these two years are at a low level. It shows that the debtors settle the accounts promptly. The trade payables ratio was 11.44 days and 9.82 days in 2018 and 2019, both figures are small. However, it seems that the company may settle its trade creditors too soon and does not fully utilize the trade credit. In general, the company can repay its loan within 30 days. Overall speaking, the efficiency of the company was good.

2.3 Liquidity				
Ratio	Formula	2019	2018	Change
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liability}}$	2.76:1	2.79:1	-0.03
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liability}}$	2.38:1	2.47:1	-0.09

The current ratios in 2018 and 2019 are 2.79:1 and 2.76:1. In addition, the quick ratios in 2018 and 2019 are 2.47:1 and 2.38:1. In conclusion, although the current ratio and quick ratio in 2019 is slightly lower than that in 2018, they are still in the acceptable level. The company has sufficient short-term assets to repay short-term liabilities.

3. Internal Strategic Analysis

3.1 Strengths

1. Wide network of outlets

Up to now, SNL has established 135, 56 and 24 outlets in Hong Kong, Mainland China and United States respectively. The outlets in Hong Kong spread all over each district to form a huge outlet network, which can attract customers from different regions and make a deepen impression on customers. It is easy for customers to patronize.

2. Profound experience in operating

Core management team of SNL is able to deal with different operational problems with rich operational experience.

3. Low staff turnover rate

Employees feel satisfaction due to the good working environment. Therefore, the employee turnover rate is low. Most of the employees have been working in the company for a long time and they are familiar with the internal working process and operation, so that the overall operation of the company will be smoother, which is beneficial to the development of the company.

4.The company has a good reputation

SNL has established a good image because the company is keen to fulfill its corporate social responsibility. Additionally, the chairman Mr. Matthew Chan is an outstanding person in the retail industry, and enthusiastically participate in public welfare.

5.The image of the brand deeply rooted in the hearts of the people

The company has been established in Hong Kong for 39 years, with a large number of outlets, and it has become a listed company, making the brand deeply rooted in the hearts of the people.

6.Sufficient cash

The company's income from the outlets is mainly in cash and the company has sufficient cash on hand. The cash balance of the previous financial year was over HK\$470 million.

3.2 Weakness

1.The core management team may have more experts to join

The core management is experienced in managing fast-food restaurants. However, to handle the challenges in the present stormy business environment, they may need I.T. experts etc. to join the core management team.

2.Most of outlets are operating at leased premises

The rental price of the outlets is adjusted every two years. The leasing agreement of most of the outlets are almost expired and need to have the price adjustment. Also, Hong Kong's rental price are at an extremely high level, and the rental price keep on rising.

3. Dependency on labour

SNL's operation is labour intensive and relies on a large number of employees. Therefore, the expenditure of the labor salary accounts for a significant proportion of the company's total expenditure.

4. External Environment Analysis

4.1 Opportunities

1. Fast food trend

Fast food culture is very popular in Hong Kong. Hong Kong people are pursuing convenience and speed in everything. SNL can provide delicious noodles for customers in a short time.

2. Asia culture

Noodle are a staple food in Asian culture, so that the people in Hong Kong and China mainland would be willing to patronize the outlets of SNL. The demand of noodle would not decline.

3. Technological development

The technological development could reduce the dependence on labour. Therefore, the cost of wages could be reduced.

4.2 Threats

1. Social instability

As the Hong Kong Government proposed the “Fugitive Offenders and Mutual Legal Assistance in Criminal Matters Legislation (Amendment) Bill 2019”¹, the citizens of Hong Kong and the government hold different opinions, and many citizens express their dissatisfaction and opinions in the form of demonstrations, assemblies, sit-in etc. These social movement reduce the desire of foreigners to invest in Hong Kong. Therefore, the operation of the outlets has been affected.

2.The impact of coronavirus disease 2019(COVID-19)

Under the influence of the COVID-19, people have less to go out for meals. Restrictions imposed by the Government on gatherings², restrict opening hours of restaurants and dine-in services banned after 6pm and can only offer takeaway services, which has resulted in a direct decline in turnover in many eateries.

3.Operating expenses are getting higher

Hong Kong’s prices and property prices are one of the most expensive cities in the world. According to the 《Worldwide Cost of Living 2020》 by Economist Intelligence Unit³, Hong Kong is one of the most expensive districts in cost of living around the world. Besides, the property prices of Hong Kong are the top one in the world. The cost of food, wages and rents are also rising, making companies bear higher operating costs, leading to a reduction in profits.

4.The competition is intense

¹ https://www.legco.gov.hk/yr18-19/english/rescinded/bc/b201903291/papers/b201903291_ppr.htm

² https://www.coronavirus.gov.hk/eng/social_distancing-faq.html

³ <https://www.eiu.com/n/campaigns/worldwide-cost-of-living-2020/>

The competition in catering industry is very intense due to the fact that Hong Kong has a lot of similar fast-food chains. They offer many choices for people and make the industry very competitive.

5. The business is difficult and the market penetration is slow in USA

Western and Chinese food cultures are different. Although the fast-food culture is also popular but Westerners like to eat burgers. It is difficult to attract Westerners to patronize. In addition, regional issues also pose challenges to SNL development, with SNL having only established outlets in New York and New Jersey in the United States.

5. The minimum wage incident

The minimum wage incident was caused by a request by a junior chef of Corporate Catering, who asked her boss for a raise salary up to the minimum wage, and was opposed by the management. The junior chef was greatly dissatisfied, leading to the incident.

The management of the Corporate Catering unit insisted on not raising the wages.

The following recommendations are formulated by us:

Short Term

5.1 Immediately increase the wages of all employees to the statutory level

According to the Minimum Wage Ordinance, Chapter 608⁴, employees should be guaranteed with the statutory minimum wage. Therefore, the Corporate Catering unit should increase the wage to the statutory level (i.e. \$37.5) immediately. Moreover, the

⁴ <https://www.labour.gov.hk/eng/news/mwo.htm>

management of this business unit may send an email to inform employees of the salary increase arrangements and respond appropriately to the previous email.

Long Term

5.2 Establish a complain mechanism

Employees can express dissatisfaction via the complaint mechanism. In this way, the professional team can know their demands, and can conduct an immediate evaluation to find a mutually satisfactory solution. The company may set up an online platform to allow employees to make complaints and express their dissatisfaction and opinions through electronic forms. A team is responsible for handling employee complaints and problems, including accepting any opinions and dissatisfaction, evaluating, and solving problems with employees.

5.3 More participating management style should be adopted by the management of Corporate Catering unit

The incident shows that the management of Corporate Catering unit did not duly consider the staff opinion. Therefore, we suggest that the management of this unit should adopt a more participating style of leadership. The company can hold regular gatherings to encourage employees to express their opinions and increase their participation. The operation is like the "quality circle" in Japan. It can increase employees' sense of belongings and make them have more motivation to work.

5.4 Organize company events regularly

The company can organize activities regularly, such as team building and charity activities for employees and management to participate, so that they can integrate into the company and facilitate mutual communication.

6. Recommendation on business strategies

6.1 Introduce self-service ordering and payment machines

Introduce self-service ordering and payment machines can reduce dependence on labor and enhance customer's feeling of freshness. Self-service ordering and payment machines can provide diversified payment modes and facilitate different types of customers. In addition, it can ride on the current society's trend towards new technologies.

6.2 Join food delivery platform

Due to COVID-19 and social instability, many people do not prefer to eat outside. Therefore, the company may join the online food delivery platforms to attract more people to patronize. The company can join food delivery platforms such as foodpanda, deliveroo, and Uber Eats. Although there is a fee to join the food delivery platform, it can be outweighed by the increase in revenue. It cannot only increase the company's sales volume but also increase its popularity. At the same time, it also provides one more sales channel to reach customers, which can attract more new customers and potential customers to try new products.

6.3 Add standing area

It is suggested that some of the seats in the better-business outlets and the more popular outlets shops will be converted into standing areas. This allows more customers and raises the turnover rate of customers. This will increase the store's sales business volume, and ease the burden of rising rent costs.

6.4 Convert some outlets to takeaway formats

Due to COVID-19, many people choose to takeaway and order food through online platforms. Therefore, the company can convert some outlets to takeaway formats. As the floor area of them is much smaller, the rental costs can be reduced.

6.5 Vacuum packed food

People would like to stay at home and avoid going out because of COVID-19, so the company can introduce vacuum packed food to attract customers. The vacuum packed food can focus on the company's signature dishes and it contains seasoning, processed food materials and detailed cooking methods. Customers only need to re-heat it. The selling point of it would be simple and fast, and has a long expiry period. Even simple cooking at home can also enjoy food. This can follow the current self-cooking trend so that they can use the original materials to create a unique dish.

6.6 Vending Machine

It is suggested to set up to sell vacuum packed food. These vending machines can be set up in MTR stations to attract office workers who need to work late at night. They can also be set up in rural areas without food delivery services to attract more new customers.

6.7 Food coupon

The company may launch food coupons to attract customers. The price of food coupons will be cheaper than the price of a single item. For example, a single purchase costs \$40, but they only need \$35 on average for food coupons. There are 10 food coupons in a set. The customers can use it not only in stores but also on the online platform.

6.8 Stamp collection program

The company can implement a stamp collection program. For example, as long as the customer spends the specified amount in the outlet, a stamp will be collected. When the collection card is full of ten stamps, you can be given discounts in purchase and have a side dish. The period of each collection card is 30 days. If the ten stamps are not collected within the time limit, a new collection card will be issued for collection again. After the program is implemented, the discount may become one of the factors that people consider when choosing restaurants.

6.9 Promotion on social media

Due to COVID-19, many people spend a lot of time on social media, so companies can promote its business on different social platforms, such as, Facebook, Instagram, YouTube, etc. This will increase the company's exposure and competitiveness.

7. Implementation Plan

	Details	Duration	Budget
<u>2020</u>			
Nov	Promotion on the social platforms		
	Design advertisements	2 weeks	/
	Advertisement on Facebook	12 months	\$35,000
	Advertisement on Instagram	12 months	<u>\$45,000</u>
	Total		<u>\$80,000</u>
Dec	Join food delivery platform		
	Franchise fee	25 months	<u>\$5,500,000</u>
	Total		<u>\$5,500,000</u>
<u>2021</u>			
Jan	Establish complaint mechanism		
	Construct the website	1 month	\$17,000
	Training expenses	1 week	\$5,000
	Maintain and examine	Every 6 months	<u>\$15,000</u>
	Total		<u>\$37,000</u>
Feb	Vacuum packing and sealing machine		
	Vacuum packing and sealing machine	1 month	\$72,500
	Total		<u>\$72,500</u>
	Set up the self-order and payment machine		
Apr	Set up the self-order and payment machine	36 months	\$9,396,000
	Total		<u>\$9,396,000</u>
Jun	Team building		

	Adventure training	Once a year	\$100,200
	Workshop training	Once a year	\$15,000
		Total	\$115,200
Jul	Food coupon		
	Design dining voucher	12 months	\$400
	Printing cost	12 months	\$18,000
		Total	\$18,400
Aug	Add standing area		
	Renovation costs	3 months	\$1,000,000
		Total	\$1,000,000
<u>2022</u>			
Feb	Vending Machine		
	Purchase vending machine	1 month	\$50,000
Mar	Rent venues for vending machine	33 months	\$9,570,000
		Total	\$9,620,000

8. Financial Projections

Budget Statement of Comprehensive Income for the year ended 31 December

	Notes	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000
Revenue	1	3,402,786	4,185,427	5,189,929
Cost of sale	2	(2,814,518)	(3,405,567)	(4,120,736)
Gross Profit		588,268	779,860	1,069,193
Administrative expenses	3	(181,341)	(217,609)	(239,370)
Operating profit		406,927	562,251	829,823
Income tax expenses	4	(66,958)	(92,606)	(136,756)
Profit for the year		<u>339,969</u>	<u>469,645</u>	<u>693,067</u>

Note 1: By the reference of growth rate in 2018 to 2019 is 12%, assume turnover growth rate is 14% in 2020; 23% in 2021; 24% in 2022.

Note 2: Because of the reference of the average growth from 2018 to 2019 17.86%, assume an increase in 10% in 2020; 21% in 2021 and 2022.

Note 3: Assume an increase 15% in 2020; 20% in 2021; 10% in 2022.

Note 4: The tax rate for the first 2 million is 8.25%, and the tax rate for balances other than 2 million is 16.5%. According to the information of the website of IRD, the tax concession for 2019/20 is HK\$20,000 deduction⁵.

9. Services provided by us

The following services provided by us may be helpful to your company in implementing the recommendations.

9.1 Consulting

Setting up communication and complaint handling mechanism

We can help your company to set up a staff communication and complaint handling mechanism. Internally, opinion collection from employees can help the management know their dissatisfaction and difficulties. The company can take appropriate actions based on the opinions and make improvements as soon as possible. Externally, understanding the views of customers is equally important. We can help to set up such mechanism to improve the quality of service to customers and enhance customer satisfaction.

Applying technology in business operations

We may help your company to apply technology in business operations such as the introduction of self-service ordering & payment machines and vending machines. We can provide training and help employees to adapt to the use of such technology.

9.2 Advisory

Risk evaluation

⁵ <https://www.gov.hk/en/residents/taxes/taxfiling/taxrates/profitsrates.htm>

We can help you analyse the risks when establishing new outlets in Hong Kong and abroad. The geographical advantages and the food preference of people will be analysed. We can also analyse the costs and benefits for development in various geographical locations.

10. Conclusion

SNL has the advantage of wide network of outlets, profound experience in operation, low staff turnover rate. The company has a good reputation. The image of the brand has deeply rooted in the hearts of the people and it has sufficient cash. However, the company was affected by social events and COVID-19, which caused the deterioration of profitability. On the other hand, SNL's efficiency and liquidity are good.

In order to improve SNL performance in the coming three years, we recommend that the company should adopt the technological equipment such as vending machine and vacuum packing and sealing machine. This is not only convenient for customers, but also increase the company's revenue. In addition, the establishment of complaint mechanism and team building are important because those can facilitate mutual communication and can make the company's internal operations improve. Furthermore, we suggest that company should launch food coupons and enhance promotion in social media which can increase public awareness of the company and the company's revenue. Moreover, we recommend that the company should join the food delivery platform and add seating area, which can increase company's revenue.