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Strategic Positioning: Key Point of Business Transformation

—Revelation of Xiangeqing's Transition

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Abstract

Explicit strategic positioning is the most important factor to motivate the development of an enterprise. Based on the specific condition for an enterprise, a unique strategy could be one competitive advantage for it. Furthermore, for the enterprises who want to change their traditional operating styles, a strategy that follows up with current environment is necessary. This essay tries to discuss the importance of specific and renewable strategic positioning based on the failed transformation of Xiangeqing and provide some suggestions for the main problems.

Keywords

Xiangeqing, Failure of Transformation, Strategic Positioning, Clarity, Dynamicity

1. Introduction

At the end of 2012, the Chinese Politburo meeting adopted "the eight rules[1]" on improving work style and building close ties with the masses, proposing to "rigorously enforce the thrift and oppose extravagance and waste". This has resulted in a major blow to high-end food and beverage industry relying on public funds consumption. The national high-end food and beverage industry suffered a cold winter. In April 2013, the Chinese Commerce Department released the result of a sample survey, showing that compared with the same period in 2012, the high-end catering business turnover declined by about 35 percent in Beijing, dropping by more than 20 percent in Shanghai, and falling by more than 30 percent in Zhejiang. Many high-end catering enterprises suffering the impact had embarked on the road of transition, including cutting prices, lowering standard of decora-

[1]The eight rules were identified on Politburo December 4, 2012 meeting, aimed at improving the work style and building close ties between the Party and the people.

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tion, steering public dining areas, and even looking for investment in other sectors, but the effects were not very satisfactory. The loss still swept across most enterprises.

Aimed at "China's first private catering enterprise listing in the domestic A-share"—Xiangeqing's transformation case, this essay tries to analyze the root cause of the failure of its transformation from the perspective of the strategic positioning, and put forward relevant proposals.

The rest of the essay is as follows. Section 2 presents the process of Xiangeqing's transition. Section 3 discusses the cause of Xiangeqing's failure in transition. Section 4 provides several key points of strategic positioning. Section 5 presents the conclusion.

2. Xiangeqing's Metamorphosis

2.1. Leveraging the Official Dinners

Xiangeqing's origin was a 40-square-meter restaurant located in Shenzhen and named "Xiangxiang Restaurant". After struggling to survive in the first year, with the gradual improvement, its business area began to expand. Till 1997, Xiangxiang restaurant had become a 1000-square-meter restaurant, and was officially named Xiangeqing. In 1999, Beijing Xiangeqing Restaurant Co., Ltd. was established with registered capital of 2 million yuan, and began to shift the investment focus to Beijing. The strategic development idea was to develop nationally centering on Beijing.

Beijing's dining lacked an intermediate grade with slightly upscale environment and intermediate prices at that time. Hence, Xiangeqing put its first store in Beijing at the place where eight ministries were intensive. Xiangeqing adjusted the business model, adding Cantonese and seafood in the original basis of Hunan cuisine and Hubei cuisine, and blending other cuisines. It turned to the high-end line, aiming directly at official banquets market. In 2000, Xiangeqing opened two new stores in Beijing, similarly near the location of the government units. "Around any store, there must be one of the ministries" almost became Xiangeqing's standard template of development in Beijing. Clear market positioning brought Xiangeqing huge profits. In 2002, Xiangeqing's annual turnover reached 55 million yuan, having become the industry's dark horse. Till the end of 2008, Xiangeqing had owned 13 direct stores and 8 franchise stores in China, and the sales in 2008 reached 612 million yuan. Xiangeqing also became an important commercial banquet venue for government officials and well-known CEOs at home and abroad.

Subsequently, booming Xiangeqing chose listing in order to gradually open stores in China and grab more market share. In November 2009, Xiangeqing landed on the Shenzhen SME board[2] and became the first private restaurant chain in A-share market.

2.2. Leveraging the Capital Markets

After listing, Xiangeqing received huge investments. Its business grew rapidly, and the business area expanded gradually. In order to keep the growth of main business, Xiangeqing stepped up opening direct stores, while promoting the development of the franchise business. The successful implementation of the business model made Xiangeqing obtain adequate funding, and began to plan lateral layout actively.

In July 2012, Xiangeqing acquired 100% shares of Beijing Long Dehua catering management limited, marking it began to enter the group's meal business. In August 2012, Xiangeqing completed acquiring Shanghai Wish Doing Food Development Co., marking the establishment of its fast-food business. At this point, on the basis of four divisions—Chinese food division, group's meal division, fast-food division and food industries division, comprehensive catering service had become the next major development direction of Xiangeqing.

2.3. Recourse to Business Transformation

At the end of 2012, Chinese Central Communist proposed to restrict "the three public consumptions[3] "and introduced "the eight rules". The policy made Xiangeqing suffer a heavy blow which was still dependent on offi-

[2]Shenzhen SME board is relative to the main board with large mature companies, which mainly serving small and medium enterprises and high-tech enterprises. It was established by Shenzhen stock exchange in order to encourage innovation. The companies in it generally have features of faster income growth, strong profitability and high technology content with good stock liquidity and active trading. It is regarded as China's future "NASDAQ".

[3]Consumption of public funds on three major private purposes--cars, banquetsand oversea visits.

cial banquets market. In the first quarter of 2013, Xiangeqing occurred the first loss since listing with the quarter operating income of 251 million yuan, down 33.42% than the last quarter. And the net loss was about 68 million yuan, down sharply around 250% than the previous quarter.

Faced with the grim situation, Xiangeqing began to restructure actively, striving to develop the mass market and turning the focus into public catering services, fast-food meals and group meals. But "the removal of high-end" did not save the performance of Xiangeqing. By the third quarter of 2013, Xiangeqing's loss had reached 303 million yuan.

To turn into profit, Xiangeqing invested in new industries instead to spread the risk. In December 2013, Xiangeqing entered the environmental protection industry by acquiring 51% shares of Jiangsu Sheng Yi Environmental Protection Co., Ltd. and establishing Hefei Tian Yan Biomass Technology Co., Ltd. But at the end of the year, its net profit was −564 million yuan and the loss expanded. In 2014, Xiangeqing didn't learn from the bitter experience, but continued to expand the strategy objectives for diversification. In March, it acquired 51% shares of Beijing CCTV Splendid film & TV Co., Ltd. and Di Nu film& media (Shanghai) Co., Ltd. Shortly thereafter, on May 5, Xiangeqing built a network of new media and a big data joint laboratory with CAS (Chinese Academy of Sciences) Institute of Computing Technology. On May 11, it announced the private replacement of 3.6 billion yuan, of which 2.92 billion yuan was used to expand the company's Internet business. On May 25, Xiangeqing and Shanghai Ying Lian somatosensory intelligent technology Co., Ltd. co-founded the Shanghai Cat new media technology Co., Ltd., and Xiangeqing subscribed 51% registered capital of the new company at least. Thus, Xiangeqing became a company across catering, environmental, film, big data and new media businesses. But soon, in July 2014, Xiangeqing changed its name to "Cloud Live Technology Group Co., Ltd." and decided to divest catering business to focus on new media, cloud services and big data fields. It was called a "second undertaking" by its president. On July 29, the transformation action of Xiangeqing was finally clear—TV boxes.

A series of dazzling and frequent transitions did not bring the same dazzling performance. In 2014, Xiangeqing occurred a huge loss of 714 million yuan. Due to continuous losses in two consecutive years, its stock was specially treated. Its name was changed to "*ST Cloud Live", in the implementation of the delisting risk warning.

3. Cause Analysis of Failure in Transition

Overall, there were two directions of Xiangeqing's transition. One was the shift of target consumer groups, while the other was the format transformation. Neither of them was efficient, which was mainly related to Xiangeqing's strategic positioning. Strategic positioning is the long-term direction of development. It is shown as a certain choice of development path and resource allocation model. Strategic positioning is the core and foundation of strategic management. Only after the establishment of strategic positioning, can enterprises develop appropriate competitive strategies, strategic objectives and development plans. Strategic positioning is relatively dynamic. It is not like competition policy that is subject to changes and acts according to circumstances, nor like deep-rooted cultural ideas remaining the same over a long term. Thus, the strategic positioning should be accurate, matched with the system and appropriate to adjust dynamically [1].

3.1. The Strategic Positioning Was Not Long-Term and Lacked Dynamicity

Initially, Xiangeqing targeted high-end market for the official dinner, and the location of stores provided diners with convenient conditions. At that time the market was not very regulated, and such positioning really brought a good income for Xiangeqing. However, such a development model made Xiangeqing overly depend on the three public consumptions. The source of high profits was not excellent products and services. The profit model was not sustainable. In 2012, Xiangeqing acquired Wish Doing and Long Dehua, hoping to shift the focus of development gradually to group meals and snack businesses. However, the market changed faster than what Xiangeqing expected. In the original plan of "28 convert", Xiangeqing was trying to make the income of fast food business, group meals business and food processing business achieve approximately 80% of total revenue in 3 - 5 years. But before the target was reached, Xiangeqing began to make losses. All market competitions are competitions in product and service quality. Any company should formulate a long-term strategy based on the quality and credit. Thus it can provide consumers with products and services better than competitors. But Xiangeqing ignored the long-term nature of the strategic positioning, and didn't realize the latent risks behind the high profits. Hence, it was difficult to prevent risk factors effectively in the process of development.

In addition, the strategic positioning of Xiangeqing was rigid and lacked dynamicity. Two years after listing, Xiangeqing just opened franchise stores and outlets constantly, and didn't make any positive and effective adjustments of its strategic positioning on basis of reasonable market expectations. So once the policy environment changed, what waited for it must be backwardness and punishment: restaurant business couldn't provide a strong financial security after its main driving force for development was pulled away; snacks and group meals had just started; the new investment for environment, television and other services would take time to cultivate before they could provide a steady stream of financial support. The lagging changes of strategic positioning foreshadowed the defeat of Xiangeqing's transition.

3.2. The Strategic Positioning Was Not Clear

3.2.1. Defeat of Popularization Transformation—No Practical Strategic Positioning

As a high-end catering business turning to the mass market, what Xiangeqing faced was a new target consumer group. It necessarily required new and viable strategic positioning. But Xiangeqing failed in this regard, and it manifested in the following two points.

On the one hand, Xiangeqing lacked consideration on how to gain competitive advantage. Strategic positioning means that companies need to perform activities different from competitors, or perform similar activities in a different way in order to ensure that enterprises achieve real competitive advantage [2]. After entering the low-end market, Xiangeqing just chose a simple low-cost method, not considering seriously on how to distinguish itself from competitors. The 2013 financial statement of Xiangeqing showed that the performance of most stores continued to decline. Seen in this light, the mass consumers didn't enthusiastically go into Xiangeqing after the price cut. Transition of popularization in restaurant business was unpopular. The reason was while taking rigid transformation means such as price cut and adjustment on dishes, Xiangeqing lacked appropriate measures to change the service concept, service content and other soft power construction. Restaurant business in the mass catering market failed to highlight the features. In addition, in recent years, the problem of "four high and one low[4]" in the Chinese restaurant industry is serious, and it was dear for most stores of Xiangeqing to pay the rents for the place where they located. Its restaurant business was mainly based on consumption in private rooms[5], so the blind pursuit of low-cost led to a sharp decline in output per square meter of sales area and the difficulty to recycle investment costs.

On the other hand, the awareness of brand value was not in place. Food and beverage industry is close to consumer terminal, which means that brand building is the key to all the catering business and can't be ignored. Therefore, when establishing the reasonable strategic positioning, they need to focus on their own brand strategic management. As for the overall brand of a high-end catering company such as Xiangeqing, completing transformation of popularization in such a short time would be a potential injury for the current consumer groups. And it needs time for a high-end restaurant to reverse the image in the mind of general customers. Xiangeqing had difficulty in attracting new customers, while facing a possible loss of old customers. This "identity" embarrassment becomes the "stumbling block" on the road of a high-end catering for popularization. As for how to reduce or even eliminate this adverse effect, Xiangeqing did not take any preventive and remedial measure.

3.2.2. Defeat of Format Transformation—Blind Diversification under Unclear Strategy Positioning

It was not hard to see that Xiangeqing took a diversification route in respect of format transformation: from the environmental protection industry to film culture, finally entering the big data field. All of these were hot areas of the market. This kind of transformations are not uncommon that regard the market as a barometer in the A-share market, but more than 80% of them are passive transformations, just like Xiangeqing. Merger and transition seems to be an important mean of most businesses for a turnaround, but the result is not satisfactory. The root cause of the failure is the vagueness of corporate strategic positioning.

After the end of 2012, Xiangeqing had carried out a series of reforms—the main business changed from high-end food and beverage industry to new media, big data, and environmental protection industries, and the role in the market turned from the operator into the investor. Although Xiangeqing had repeated claiming to layout

[4]High rental prices, high labor costs, high energy prices, high raw material costs and low profit

[5]Private room is a relatively enclosed and independent space with little external disturbance and is convenient to talk. The cost of a private room is higher than the hall.

large data services gradually, but the strategic positioning was still not clear: was it to become a rising star of the new media, to do a pioneer in the field of big data, or to rule the roost in the environmental protection industry? Frequent diversification moves were rather rush decisions. Under such a predicament, Xiangeqing had no appropriate development strategy to guide actions, let alone strategic approaches.

Under the influence of such vague strategic positioning, Xiangeqing couldn't have a good understanding on whether its existing resources could support it to open up new areas. This made Xiangeqing enter hastily other development areas in the absence of resource deployment. The most obvious manifestation of resource lack is the lack of talent and technology. Diversification requires company managers have the ability to coordinate different operations, and can allocate internal resources rationally [3]. But the senior managers of Xiangeqing were still the old cast. Xiangeqing didn't train them for related qualifications, nor implemented measures to attract talented outsiders. This led to extreme scarcity of senior management personnel in Xiangeqing. In a complex diversification strategy, how to balance the different industries had become a weakness of Xiangeqing's managers. At the same time, though Xiangeqing gained related technologies of environmental protection, new media, big data and other areas through acquisitions, partnerships and other investment, but this did not meet the technical requirement of the company's development. For example in big date field, Xiangeqing gained the research results of the CAS Institute of Computing Technology through cooperation. But the CAS Institute of Computing Technology was just in the exploratory stage in the new industry and its technical ability was not perfect. As for the lack of technical support, Xiangeqing didn't have positive and effective responses either.

4. Key Points of Strategic Positioning

4.1. Clear Strategic Positioning

4.1.1. An Enterprise Should Analyze Its Own Resources and Capabilities and Act within Them When Identifying the Strategic Positioning

The so-called resources and capabilities mean the factors than companies can control. Resources that a company can occupy and make use of are limited. The distribution of operational capabilities on each module or each link is usually uneven. Faced with increasingly fierce competition in the market, a corporate with strategic management thinking deploys inevitably limited resources in key link, so that the existing capabilities can support and complement each other to maintain the corporate vitality of growth. Therefore, enterprises should assess their own resources and capabilities, in particular the core capability which acts as the origin and basis of competitive advantage, and make clear their own strengths and weaknesses when identifying the strategic positioning. Specifically, we can use the following "two-dimensional analysis". One dimension is the customer value of the company's resources and capabilities, while another dimension is comparative advantages of the company's related resources and capabilities against competitors.

Shown in **Figure 1**, the lower left denotes the resources and capabilities with little customer value, and the evaluations of them are not high. These capabilities and resources do not produce a competitive advantage, and have little impact on business operations; the upper left represents the resources and capabilities with little customer value, which are better than opponents. This indicates that companies do not really grasp the needs of customers. If conditions permit, companies can try to combine this part of the resources and capabilities with

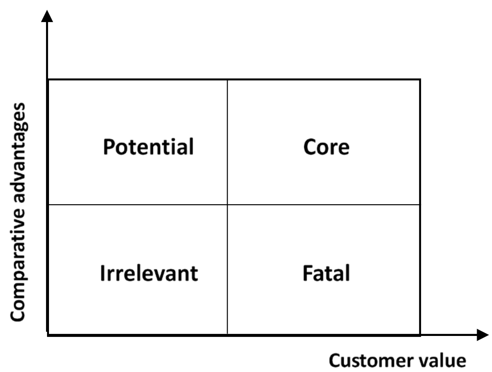

Figure 1. Resources and capacity assessment matrix.

market opportunities to obtain compensation for the value in other products or markets; the bottom right denotes resources and capabilities with great customer value, which the corporate is lack of. They are the key constraints for the enterprise's development. If managers believe there is still significant room for improvement in them, and customers also value this improvement, they may become the company's core competitiveness in the future after the corporate improve them; the top right represents resources and capabilities which are the core competitiveness of the corporate with high customer value high evaluations.

Through the above steps, companies can initially determine the status of their own resources and capabilities, and establish the approximate direction of the strategic positioning: expanding the core competitiveness in the corporate, then deploying and utilizing it further; considering improving "fatal part" selectively or looking for new market opportunities for the use of "potential part". If it shows that companies do not have the core competitiveness after analysis and capabilities and resources are all scattered in the other three regions, then they can consider selecting some promising resources and capabilities from "fatal part", making use of main resources and rational management methods to make it become the core competitiveness; or consider selecting "potential part" to combine it with market opportunities.

4.1.2. An Enterprise Should Identify the Lateral Boundary and Operate under Its Direction

Lateral boundary refers to the quantity and types of the products or services a company provides. About identification of lateral boundary, the core issue is to make clear how many industries and businesses the company are to involve, in other words, the degree of diversification. The enterprise has an intrinsic motivation to enlarge lateral boundary, because they can enjoy economies of scope and economies of scale. However, diversification has its "degree"—too broad lateral boundary will distract the limited resources of the enterprise and increase management costs. This needs to consider three issues. Firstly, the management conflict; since the company operates in different business areas, the management and coordination are more complicated. Operating in different areas at the same time may cause a conflict on business philosophy which reduces management efficiency significantly. Secondly, barriers to enter new business areas; diversification strategy should overcome industry entry barriers, which would cause more costs, such as additional promotional costs. Meanwhile, in a totally unfamiliar industry environment, if the enterprise does not have business experience in this industry and lacks the necessary talents, technology and other resources, it will have difficulty in having a foothold and achieving competitive advantages. Finally, diversification will distribute enterprise resources; enterprise resources are limited. The implementation of diversification is bound to disperse enterprise resources and affect adversely the original business. If a company cannot wait to enter new business areas when it does not really gain a competitive advantage in the original business, this will be very easy to make the company in trouble both in old and new industries at the same time and result in business failure. Therefore, when considering whether to enter a particular development field, the enterprise should compare the increased benefit after entering this field and the additional costs those three issues above bring. Thus the lateral development boundary is determined.

4.2. Maintain the Dynamicity of Strategic Positioning

4.2.1. Timely Adjustment of Strategic Positioning Based on Future

The success of an enterprise comes from the unique strategic positioning. But unfortunately, there isn't a strategic positioning which can remain invincible. Changes in industry conditions, changes in customer needs or preferences, competitors' measures and counter-measures as well as the evolution of the company's own ability promote the generation of new opportunities. Therefore, companies cannot rest on their laurels. While defending the current strategic positioning, they must continue to seek and create new positioning. Enterprises can choose to accept the existing position, and make every effort to win on this positioning through restructuring, process reengineering, quality control, low-cost strategy, differential strategy and other means. But more than that, companies should have the ability of strategic innovation—trying to identify new and untapped division of customer groups, new customer needs which the competitors currently don't meet, and new modes of production, delivery, sale or distribution of their own products and service. Enterprises should have the consciousness to question the strategic positioning constantly. This not only enables enterprises to detect potential deterioration of the original positioning, but also gives opportunities for enterprises to take the initiative to explore new horizons and become the first person to discover new strategic positioning with new gravity.

4.2.2. Focus on Continuous Access to Resources and Capabilities Required

As mentioned above, the company's resources and capabilities will influence the selection of its strategic positioning. In determining the activities to be carried out, companies should also consider "establishing what assets, skills and abilities to carry out these activities?" Therefore, the thinking process involving the relationship between strategic positioning and resources and capabilities is not and should not be linear [4]. (For instance, when companies choose to break through "fatal part") Enterprises have competitive advantages which accumulate resources and capabilities faster or more economically than competitors. One way is through the continuous learning to accumulate resources and capabilities, which requires companies to create an environment to promote organizational learning. Another method is to use the existing capabilities of the enterprise to build new resources faster and more cheaply than competitors. For instance, when an enterprise has developed a series of capabilities in existing areas, including how to improve the effectiveness of the dealer network, how to develop new products and how to further improve yields, all these knowledge can be directly used to open up new areas.

In addition, companies must get ready for changing the direction and building a different set of capabilities in response to environmental changes [4]. Since no business can absolutely predict the future, it is unable to identify the capabilities to be established. The solution to this dilemma lies in the development of the capability combination to increase the likelihood that companies still have the required capabilities even if the environment changes. Managers must first make an estimate of the future as accurately as possible, and thus determine the competence scope to be developed in the future, and then refine this scope into different capabilities for cultivation.

5. Conclusion

Faced with an increasingly competitive market environment, every business should analyze its resources and capabilities, and make clear the competitive advantages and disadvantages, then make choice selectively, determine the enterprise boundary and work out its own strategic positioning. Only guided by it can a business success. But strategic positioning is not static. Enterprises should have the strategic awareness of questioning and discovery to seek new positioning constantly, and also take care to update the appropriate resources and capabilities to respond to the changing environment.

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