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**Successful Chinese Hot Pot Chain Stumbles In U.S. Expansion**

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Last fall, the popular Sichuanese hot pot chain Haidilao opened its first outpost in America, to great anticipation, in the Southern Californian neighborhood of Arcadia. Aside from a few outposts in Singapore, the Arcadia location was the first Haidilao to open outside of China. Perhaps Zhang Yong, Haidilao’s personable founder and General Manager, counted on Arcadia’s large Chinese-American population to provide a soft landing, but the restaurant’s opening has been rocky.
Founded with 10,000 RMB in 1994 in the small city of Jianyang, Haidilao, whose name roughly translates to “scooping treasure from the bottom of the sea” has since become the dominant hot pot restaurant chain in a country obsessed with hot pot. From the beginning, the company’s culture was based on Zhang’s personal values of kindness, and personal empowerment. Employees are given remarkable decision-making capabilities under the latter while drilled on imbuing every element of customer service with the former. Some of the more famous services Haidilao has adopted over the years include free shoe shining and nail polishing for customers awaiting tables, protective baggies for cell phones, and impromptu employee song and dance performances.
While the reality is that the shoe shine and nail polish stations are too understaffed to serve more than, say, 1 in 30 customers, such flourishes work. The chain is legendary for its customer service in China, where good service is rarely found outside private dining rooms in formal banquet restaurants. Individual Haidilao locations dominate the 5-star echelons of Dianping.com, a review site similar to Yelp.com, in every city the company has a presence (which is most of them). Currently, the company remains privately owned and carefully managed, with all 80+ stores reporting directly to headquarters.
Zhang, who has stepped back from daily operations but still oversees Haidilao’s corporate strategy, is no doubt the driving force behind the US expansion. It seems that the man who once said of business, “Once you have positioned yourself, it’s clear what to do,” is still trying to find his US positioning. The Arcardia restaurant only has three out of five stars on Yelp.com. Reviewers complain that the restaurant is overpriced and overhyped, and worst of all, the service well intentioned but often inept. One customer notes, “the staff seemed utterly confused and ill trained to handle the crowd,” while another observes that prices should be relatively lower in America because diners are also expected to tip. There is even a salt-instead-of-sugar dessert disaster.
In truth, Haidilao’s troubles in America started before the restaurant had even opened. A local news outlet reported in July 2013 that a carpenter’s union was protesting the construction site with “Shame on Haidilao” signs for hiring a non-union company. For a brand well known for its decent treatment of employees, Haidilao has faced unexpected challenges translating its business principles to the US market.
As global ties become increasingly complex, recent examples of Chinese companies expanding overseas have shown that success in global markets requires nuanced localization.  With great service, quality food and strong employee relations, Haidilao seemed a natural fit for the US market.  The old narratives no longer hold: Haidilao’s stumbles were not caused by any “made in China” stigmas around quality, but rather the company’s own misjudgments.  On the flip side, foreign companies can no longer coast on simply being foreign: Apple and Fonterra’s troubles have shown that Chinese consumers no longer blindly buy imports.  Wherever they’re based, companies aiming to compete internationally today must demonstrate a sophisticated understanding of their target markets and engage many different sets of stakeholders accordingly.
Moreover, our research on CivilChina.org shows that US consumer sentiments about Chinese companies appear to be shifting.  For example, in our analysis of Twitter conversations about the Shineway-Smithfield deal, we found that American consumers had very little opinion on the acquisition of a venerable American company by a Chinese one, a far cry from the xenophobia traditional media on both sides like to emphasize.  We believe that this indicates increasing acceptance of Chinese companies by American consumers, which makes sophisticated localization strategies all the more important.
Consistency is requisite in any restaurant’s success, but Haidilao’s woes are not just the stumbles of a new restaurant trying to find its mark; some problems can be traced to differences in cultural style. The company has misjudged how the company’s selling points back home – freshness and service – should translate to a market where such qualities are taken for granted. Urban Chinese consumers may be increasingly willing to spend money on quality food, but in America, where Chinese food is still synonymous with cheap, many diners bristle at being charged for sauces and condiments. Certain ingredients that signal quality in China, such as the whole cloves and peppercorns dotting the spicy coup base, are unappetizing to American diners (one referred to their presence as “debris”). Moreover, good service in China borders on the obsequious, but some Haidilao Arcadia customers have found the constant attention intrusive. Flashy new elements like iPads for ordering come across as excessive when customers cite difficulties even communicating with the waitstaff in English.
One of the biggest drivers of Haidilao’s success in China is Zhang’s intuitive understanding that happy and loyal employees make happy and loyal customers. According to a Tsinghua University case study on the company, Haidilao offers a highly complex compensation package that rewards outstanding workers with wages comparable to white-collar jobs, free apartments, nannies, and even parental subsidies. In addition, there is a dedicated fund for helping employees with personal emergencies, a referral system to bring in friends and family that fit the company culture, and a strong tradition of promoting from within. Staff turnover rates in retail services are notoriously high even in the US, but China’s restaurant industry, which runs largely on migrant labor, is unstable even by those standards. Haidilao’s turnover rates are much lower than those of its competitors – almost zero at the management level.
Such a thorough vision for employee development shows Zhang’s nuanced understanding of stakeholder management, but the same incentive structures cannot be exported to the US. “Front of house” restaurant labor in the US is fundamentally different, more likely to be comprised of bored high school students looking to make quick cash rather than migrants seeking a steady income with the possibility of career advancement. Wages and benefits are negligible, and tips are capped by check sizes (Haidilao is “two dollar sign” restaurant on Yelp, meaning the average diner only spends between $11 and $30). Persisting service problems may be a sign that the company has not yet figured out how to train and motivate employees under the American system.
Zhang Yong has said of his American customers, “whatever they want is what I’ll give them.” No doubt Zhang and his team are doing their best to divine exactly that, and it will be interesting in the upcoming months to see if the company can communicate a more compelling value proposition to American diners. Haidilao’s American story is far from over, but it needs to dig deeper and develop a more targeted understanding of US consumers in order to find the treasure at the bottom.