Abstract

The Chinese pizza restaurant market is experiencing a rapid growth and to entrepreneurs it represents exciting business opportunities. In order to explore the opportunities of competing on this market, this thesis applied two existing theories: Porter’s Five Forces (Porter, 1980) and the Blue Ocean Strategy (Kim and Mauborgne, 2005) to understand the market and create an entry strategy for A Beautiful Fairytale Pizza Restaurant (ABFPR). The purpose of the thesis was to see if a combination of Porter’s Five Forces and the Blue Ocean Strategy was useful for providing an analytical framework to create an entry strategy for ABFPR.

Both qualitative and quantitative methods were utilized in this study as both primary data and secondary data were involved. The qualitative data consisted of five in-depth interviews with experts and managers from pizza restaurants. The quantitative data were collected from the internet and questionnaires.

The results of the study showed that the combination of Porter’s Five Forces and the Blue Ocean Strategy was useful for providing analytical frameworks to create an entry strategy for ABFPR. The findings indicated that Porter’s Five Forces can help with providing an analytical framework of the Chinese pizza restaurant market, and the Blue Ocean Strategy can help creating differentiated value offerings in order to address the competition related challenges revealed during Porter’s analysis, thus creating an entry strategy for ABFPR. The results are relevant to entrepreneurs interested in opening restaurants in the Chinese pizza restaurant market.

Key words: Porter’s Five Forces, Blue Ocean Strategy, value innovation, pizza restaurants, the Chinese pizza restaurant market.
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List of abbreviation

- ABFPR: A Beautiful Fairytale Pizza Restaurant
- IO: Industrial Organization View
- RBV: Resource-Based View
- KFC: Kentucky Fried Chicken
- CFS: Centre for Food Safety
Chapter 1 Introduction

1.1 Introduction of the market

1.1.1 Background and overview of the Chinese fast-food market

The Fast food market in China, including Chinese fast food and western fast food (pizza, burgers, etc) shows a growth in recent years. According to Euromonitor\(^1\), a survey shows that the Chinese fast food market for western food (pizza, burgers, etc) had become a $66 billion industry in 2009, and that it will exceed $70 billion in 2010. Moreover, according to Ireland Market and Research Center China is now the fifth largest fast food consuming nation in the world. This may be the explanation of high employment rate in China that makes people busier, thus the increasingly busier lifestyle, particularly in urban regions, is leading to a rising demand for fast food\(^2\). Furthermore, the author’s own experience has also showed a growth development in the Chinese fast food market. For example, the author has witnessed that 10 years ago, there were barely any fast food restaurants; in contrast, today, fast food restaurants (both Chinese and western fast food restaurants) emerge and spread in large streets and small alleys in cities, like Beijing, Shanghai, Shenyang, Kunming, Nanjing, etc. Thus, the forecasts and observations indicate a growth of the fast food market in China.

\(^1\) [http://www.euromonitor.com/](http://www.euromonitor.com/)

1.1.2 Emerging market for pizza restaurants

1.1.2.1 Definition of emerging market

Pizza belongs to western fast food tradition. Within recent years, a lot of pizza restaurants emerged in the Chinese fast food market, such as Pizza Hut, Papa John’s Pizza, Origus, etc. The author has witnessed the emergence of pizza restaurants with her own eyes. Therefore, the author is motivated to investigate the business opportunities in more details and gain insight that can be useful when opening a pizza restaurant in the Chinese fast food market.

To define that there is an emerging market for pizza restaurants in China, the author will start by defining an emerging market. According to Luo (2002), emerging market refers to: “if a country possesses a rapid economic growth, changing industrial structure, a booming but volatile market, economic liberalization favored regulator, and a free-market system, and its government is making an effort to reducing control over economic activities, then we can say, the country is an emerging market” (Luo, 2002, P58). In addition, according to Hoskisson et al (2000), “Emerging markets are low-income (below 8000 US$ annually), rapid-growth countries using economic liberalization as their primary engine of growth.” (Hoskisson, R. 2000, P249-267).

The above mentioned definitions are very broad but revolve around a fast growing economy and changing nature. For the use of the term ‘emerging market’ in this thesis, is shall be useful to make a more narrow and precise definition of the term.

Therefore, based on Luo and Hoskisson’s definition of emerging markets, the author in this thesis define and use the term emerging market to refer to a rapid-growing demand for pizza restaurants.

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1.1.2.2 Empirical evidence of demanding for more pizza restaurants

A survey had been made to investigate the emergent nature of the market for pizza restaurants in China and questionnaires\(^5\) have been sent out to the Food Department of Chinese Government in Beijing.

100 samples have been selected by using the snowball sampling method\(^6\). 92 out of 100 samples were delivered back. A bar chart is yielded from question 2 & 3 of the questionnaire to show the result of different food preference among Chinese fast food, pizza and burgers. One can see from the bar chart (see graph 1 shown below) that the preference for pizza, Chinese fast food and burger is 32\%, 30\% and 23\% respectively.

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\(^5\) See appendix I questionnaire
\(^6\) Snowball sampling method is a special non-probability method used when the desired sample characteristic is rare. It may be extremely difficult or cost prohibitive to locate respondents in these situations. Snowball sampling relies on referrals from initial subjects to generate additional subjects. While this technique can dramatically lower search costs, it comes at the expense of introducing bias because the technique itself reduces the likelihood that the sample will represent a good cross section from the population.
This shows that despite the 7% “don’t care what to choose” and the 8% of missing samples, there are after all more people who prefer pizza than Chinese fast food or burgers. Even though the percentage between preference of pizza and Chinese fast food does not show a big difference (32% vs. 30%), the results of the questionnaire support the assumption that China has an emergent market for pizza restaurants. However, the result is static; a dynamic study with a time dimension showing movement of preference over a time period would have given a better picture of the emergent state of the pizza restaurant market in China.

The change of economic condition in China has commonly been recognized that with the fast growing economy and the emergence of a large middle class population, it becomes very common for Chinese people to eat at restaurants at present time, whereas Chinese people did not often go out and eat in restaurants years ago. Especially in pizza restaurants, there are hardly any seats available nowadays, plus a long queue waiting for available seats at the entrance of pizza restaurants as the author has experienced.

To sum up, the arguments above provide indications that China has an emerging market for pizza restaurants. Therefore, the author has decided to explore this business potential in further details and develop a strategy to follow in the attempt to tap into this promising business opportunity.

1.1.3 Definition of the market

The above-mentioned forecasts and casual observations have indicated that there is an emerging market for pizza restaurants. In this thesis, the “emerging market for pizza restaurants” refers to the Chinese pizza restaurant market. Thus, the author will now go in depth to exam and analyze the Chinese pizza restaurant market instead of looking broadly at the Chinese fast food market.
Besides what has been said in the above paragraph, the market is defined in terms of substitutes. In this thesis, substitutes for the Chinese pizza restaurant market will be, for example, the Chinese frozen pizza market and also the indirect competitors like *McDonald, Kentucky Fried Chicken (KFC), City Express*, etc. The Chinese pizza restaurant market will be examined in particular, meaning the Chinese frozen pizza market will not be looked at as it is not relevant for this thesis writing. The remaining substitutes, like *McDonald, Kentucky Fried Chicken (KFC), City Express* will be described in chapter 4.

The mentioning of the Chinese fast food market in this introductory chapter is aiming at providing to the readers with a general understanding of the Chinese fast food market. Since the Chinese pizza restaurant market belongs to the Chinese fast food market, the author will particularly examine the Chinese pizza restaurant market in the rest of the thesis. Therefore, the term “Chinese pizza restaurant market” will be commonly used in the remaining thesis.

### 1.1.4 A brief introduction of ABFPR

In this thesis, a conceptual restaurant idea called *A Beautiful Fairytale Pizza Restaurant* (ABFPR) will be used as a case for applying the theories and as a concrete example of the type of business that will benefit from the insights gained in this thesis.

ABFPR is a new conceptual pizza restaurant that is intended to enter the Chinese pizza restaurant market. The reason this pizza restaurant is entitled ‘A Beautiful Fairytale’ is that it has a feature of beautiful fairytale atmosphere interior in the restaurant, which will distinguish itself from other restaurants. More detailed differentiation of ABFPR will be described in chapter 5.
1.2 Purpose of the thesis

The purpose of this master thesis is to apply two existing theories to understand and find solutions to a case problem. The basic structure of the thesis is to create an entry strategy to the Chinese pizza restaurant market based on the combination of two existing theories: Porter’s Five Forces (Porter, 1980) and the Blue Ocean Strategy (Kim and Mauborgne, 2005). This thesis is aiming to find out if the application of the combination of Porter’s Five Forces and the Blue Ocean Strategy is useful for providing an analytical framework to create an entry strategy for a restaurant concept such as ABFPR to enter the Chinese pizza restaurant market.

1.3 Research question

In order to fulfill the purpose of the thesis, ABFPR will be used as a case study to show that applying Porter’s Five Forces first, and then the Blue Ocean Strategy will be helpful to create an analytical framework to suggest an entry strategy. Porter’s Five Forces will be applied prior to the Blue Ocean Strategy to analyze the Chinese pizza restaurant market. Then, the Blue Ocean Strategy will be applied to solve the market entry related challenges arising from the use of Porter’s Five Forces.

Main research question:

How can an entry strategy to the Chinese pizza restaurant market be created based on the combination of Porter’s Five Forces and the Blue Ocean Strategy with ABFPR as a case?

In order to answer the main research question, two sub-questions will be answered prior to the main question.
Sub-question 1:

How can Porter’s Five Forces be applied to evaluate the attractiveness of the Chinese pizza restaurant market with ABFPR as a case?

Sub-question 2:

How can the Blue Ocean Strategy be applied to create an uncontested market space when entering the Chinese pizza restaurant market with ABFPR as a case?

Sub-question 1 will be addressed in chapter 4, where Porter’s Five Forces (Porter, 1980) is used to analyze and define the Chinese pizza restaurant market. Sub-question 2 will be answered in chapter 5, applying the Blue Ocean Strategy (Kim and Mauborgne, 2005) to create an uncontested market space on the Chinese pizza restaurant market, and to solve the market entry related challenges that appear in the Five Forces analysis. Sub-question 2 is purposed to indicate how an entry strategy for the Chinese pizza restaurant market can be designed through different tools in the Blue Ocean Strategy.

Sub-question 1 and 2 will help to provide results based on the two theories (Porter’s Five Forces and the Blue Ocean Strategy) in order to solve the main research question. In other words, an entry strategy will be created at the end of this thesis with the help of solving the two sub-questions first.
1.4 Delimitation

✧ About the market: “the Chinese pizza restaurant market” is the focal market being analyzed in this thesis. The Chinese pizza restaurant market refers to pizza market only within restaurant fields. There is also pizza market in other fields, e.g. frozen pizza market, which could be potential substitutes. However, frozen pizza market is not the focus of this thesis. Since frozen pizza market is not relevant, it will not be described in the thesis.

✧ *McDonald, Kentucky Fried Chicken (KFC), City Express, Yong He Dou Jiang* could be investigated in detail as potential for indirect competitors that ABFPR should be aware of. However, due to the relevance; these indirect competitors will only be briefly mentioned.

1.5 Chapter outline

**Chapter 1: Introduction**

Chapter 1 deals with several aspects:

- General background of the Chinese fast food market and with special attention to the Chinese pizza restaurant market.
- Research questions will appear in this chapter along with the purpose of the thesis; both should give a basic idea of what this thesis is researching for and why this thesis is carried out.
- The structure of this thesis and the research process will be presented. Both will be visualized in a graphic model, which gives a clear bird’s eye view of the learning process.
Chapter 2: Methodological approach

Chapter 2 will focus on the methodology of this research. Different aspects of the methodological approach will be discussed here, and a detailed explanation of how the empirical data were collected will be presented.

Chapter 3: Theoretical approach

This chapter will contain a theoretical discussion of theories being used in the thesis, e.g.:

✓ Show understanding of the two theories in use: Porter’s Five Forces, Kim and Mauborgne’s Blue Ocean Strategy.
✓ Discuss why Porter’s Five Forces and Blue Ocean Strategy are chosen particularly for this thesis to answer the research question.
✓ Illustrate and explain the relationship between the two theories applied: how they are related to each other and how they can be combined together to solve the research question.

Chapter 4: Porter’s Five Forces analysis and discussion

Chapter 4 will be a pure analysis part, which involves applying Porter’s Five Forces to analyze the Chinese pizza restaurant market and identify the attractiveness of the Chinese pizza restaurant market.

✓ Vertical competition: the bargaining power of suppliers and the bargaining power of buyers
✓ Horizontal competition: entry barriers, threats of substitute products and services, threats of existing rivals.

Grant⁷ (2008) will be partly used in combination with Porter’s analysis for ABFPR competition analysis as a complementary analysis material.

The result of the sub-question 1 will be presented at the end of this chapter. Besides, a brief discussion between Porter’s three generic strategies and the

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⁷ Robert M. Grant, 2008 *Contemporary Strategy Analysis*, Sixth ed., Blackwell Publishing Ltd, UK
Blue Ocean Strategy will be presented in order to choose one of these theories for answering the research question. As a result of the limitation of Porter’s framework, the Blue Ocean Strategy is then chosen to continue to the next chapter to create an uncontested market space on the Chinese pizza restaurant market, thus solving the market entry related challenges that appear in the Five Forces analysis.

**Chapter 5: Blue Ocean Strategy**

The Blue Ocean Strategy will be presented and applied to solve the market entry related challenges that appear after analyzing the Chinese pizza market in chapter 4. Furthermore, the value innovation plus the three tiers of noncustomers, the Strategy Canvas, the Four Actions Model, the Eliminate-Reduce-Raise>Create Grid and the three characteristics of a Good Strategy will be used to design a business strategy for ABFPR to enter the Chinese pizza restaurant market. At the end of this chapter, sub-question 2 will be answered.

**Chapter 6: Conclusion and perspectives**

In the concluding paragraph, the steps of the research and the result of this research will be reviewed; readers will be able to learn about the final answer to the main research questions. There will also be suggestions for perspectives.
1.6 Research process framework

Use of Porter’s Five Forces to determine attractiveness of the market

- Threats of existing rival
- The bargaining power of buyers/customers
- The bargaining power of suppliers
- Entry barriers
- Threats of substitute products and services

Investigating possibilities to create uncontested market space with the Blue Ocean strategy

- The Strategy Canvas
- The Four Actions Framework
- Value innovation and the 3 tiers of noncustomers
- The 3 characteristics of a Good Strategy
- Eliminate-Reduce-Raise-Create Grid

Designing an entry strategy of a pizza restaurant (ABFPR) to enter the Chinese pizza restaurant market

Source: own creation
1.7 Overall structure of the thesis

Chapter 1: Introduction:
- Introduction of the market
- Purpose of the thesis
- Research question
- Delimitation
- Chapter outline
- Research process framework
- Overall structure of the thesis

Chapter 2: Methodological Approach
- Research method
- Data collection: theories and actual work
- Quality of search: validity and reliability

Chapter 3: Theoretical approach
- Overview of Porter’s Five Forces
- Critique of Porter’s Five Forces
  - Blue Ocean Strategy
- Critique of the Blue Ocean Strategy
- Relationship of the two theories in use

Chapter 4: Porter’s Five Forces analysis and discussion
- Competitive rivalry
- Threat of substitute products and services
- The Threats of Entry and implications for ABFPR
- The Bargaining Power of Customers and implications for ABFPR
- The Bargaining Power of Suppliers and implications for ABFPR
- Section Summary and discussion over strategies

Chapter 5: Blue Ocean Strategy
- The Blue Ocean Strategy
- The Strategy Canvas
- The Four Actions Framework
- The Three characteristics of a Good Strategy
- The Three Tiers of Noncustomers
- The Eliminate-Reduce-Raise-Create Grid

Chapter 6: Conclusion and perspectives
- Overview of research process
- Findings and implications
  - Perspectives

Source: own creation
Chapter 2 Methodological Approach

2.1 Research method

2.1.1 Qualitative/quantitative

Qualitative research method and quantitative research method are the two main approaches for academic paper writing. Qualitative research normally includes: interviews, questionnaires and observations without formal measurement. Qualitative research mainly focuses on understanding the phenomenon studied as a whole and describing the situation by using data in context. Merriam\(^8\) (1998) describes the design of qualitative research as flexible, evolving, and emergent, and the findings as comprehensive and holistic. In contrast, quantitative research examines a topic in separate divisions by using numerical data, and a conclusion is drawn based on the measurement of quantities in a statistical analysis. Additionally, qualitative research does not exist solely as “qualitative methods being employed to elaborate the quantitative dimensions of the research” (Michael Riley, et al, 2000, P99)\(^9\)

In this thesis, qualitative method will be employed as the core method; interviews will be used as the qualitative method. Meanwhile, a questionnaire survey is used to investigate preferences toward the Chinese pizza restaurants in chapter 1.

2.1.2 Induction/deduction:

Induction refers to general conclusions drawn from empirical observations. The process is from observation to findings to theory building/improvement. Thus, theory is the outcome of research; whereas deduction is an approach to prove theories that

\(^8\) Merriam, S. B. 1998 *Qualitative Research and Case Study Applications in Education*, San Francisco: Jossey Bass Inc.

attempt to provide a formal model of logical reasoning, where conclusions are drawn through. The process is from knowledge/theory to accepting or rejecting a conclusion.

This thesis will apply deductive approach since it is using theories (Porter’s Five Force and the Blue Ocean Strategy) to propose a theoretical framework and create an entry strategy to the Chinese pizza restaurant market with ABFPR as a case. Conclusions will be drawn from the application of theories in use.

2.2 Data collection: theories and actual work

In scientific research, data collection is viewed as one of the most important factors that determine the success of academic papers. Thus, the methods of gathering sufficient data become the core of the researcher’s attention. This section is dealing with the theories of data collection and also how data are actually collected for this thesis writing.

2.2.1 Data collection theories

Theories or concepts of data collection will be presented in this section. For example, the six sources of evidence, which can be divided into two categories: primary data and secondary data that can be seen as follows.

2.2.1.1 Source of evidence

When doing academic research, Yin\textsuperscript{10} (2003) argues that there are six fundamental sources of evidence, which are documentation, archival records, interviews, direct observations, participant observation and physical artifacts. The strengths and weaknesses of these sources of evidence will be shown below, see table 1\textsuperscript{11}.


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<th>Source of Evidence</th>
<th>Strengths</th>
<th>Weaknesses</th>
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| Documentation      | • stable - repeated review  
                   • unobtrusive - exist prior to case study  
                   • exact - names etc.  
                   • broad coverage - extended time span | • retrievability - difficult  
                   • biased selectivity  
                   • reporting bias - reflects author bias  
                   • access - may be blocked |
| Archival Records   | • Same as above  
                   • precise and quantitative | • Same as above  
                   • privacy might inhibit access |
| Interviews         | • targeted - focuses on case study topic  
                   • insightful - provides perceived causal inferences | • bias due to poor questions  
                   • response bias  
                   • incomplete recollection  
                   • reflexivity - interviewee expresses what interviewer wants to hear |
| Direct Observation | • reality - covers events in real time  
                   • contextual - covers event context | • time-consuming  
                   • selectivity - might miss facts  
                   • reflexivity - observer's presence might cause change  
                   • cost - observers need time |
| Participant Observation | • Same as above  
                          • insightful into interpersonal behavior | • Same as above  
                          • bias due to investigator's actions |
| Physical Artifacts | • insightful into cultural features  
                          • insightful into technical operations | • selectivity  
                          • availability |

*Table 1: Six sources of evidence: strengths and weaknesses*

Source: Yin, 1994, Case study research design and methods, p.80

In fact, the strengths and weaknesses of these sources of evidence have a complementary relationship to each other that makes this combination a strong usage.
toward the feature of the case study, in this thesis, *A Beautiful Fairytale Pizza Restaurant*. In consideration to the strengths and weaknesses of each source of evidence and the application of them, this research is conducted mostly through interviews, direct and participant observations, and documents. The reasons that archival records and physical artifacts are not applied in this thesis are that they are hard to access due to privacy and availability.

### 2.2.1.2 Source of data

The above-mentioned six sources of evidence can be divided into two categories: primary data and secondary data, which are called the source of data.

#### Primary data:

Primary data are first-hand data that are gathered for the first time and collected for a particular project at hand (Ghauri and Gronhaug 2005). Primary data consists of direct and participant observations, interviews, surveys and questionnaires. In this thesis, primary sources are collected directly related to the thesis and used in accordance to table 1 above: interviews give strengths to focus on case study topic and provide insightful understanding and information despite the fact that it may be biased. In this thesis, different methods of interviews (telephone and e-mail) will be opened up to industry experts and managers in the Chinese pizza restaurant market in order to find out current competing factors and other relevant information. Furthermore, according to the table of *six sources of evidence*, observations also have its strengths and weaknesses. The strengths of observations are that they cover events in real time, however, they are very time-consuming, may be biased and missing facts. Nevertheless, observations are applied in this thesis to give a background support for the emergent nature of the Chinese pizza restaurant market. The usage of observations is chosen due to the fact they cover events context in reality.

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Secondary data:

Secondary data are data that already exist before the research of a specific topic is made. It includes books, articles, journals, previous studies, documentation and internet sources, etc. The use of secondary data is a time and cost effective way to access data; however, secondary data may not be as reliable as primary data as they are collected for other purposes. In this thesis, secondary data are being used in order to comprehend and clarify the research problems; furthermore, it saves both time and money to utilize secondary data. Additionally, secondary data are applied in this thesis because they are stable, have a broad coverage of the topic, and are facts already existing (refer to the strength of documentation in table 1 above) despite some of the weaknesses that may be hard to access and may be biased. Secondary data in this thesis will be collected from newspapers, magazines, articles, documentation, reports, and books and also from the internet where a number of relevant data are available. Most importantly, secondary data facilitate cross-cultural research, which makes it easier to compare results from two or more countries. At this rate, it allows both the researchers and the readers to understand various views towards the pizza restaurant issue.

2.2.2 Data collection: actual work description

The actual procedure of how primary and secondary data were collected for this thesis will be described in this section. In this thesis, as many sources as possible are used to achieve an optimal and reliable conclusion to the research question. Both primary data and secondary data are gathered and used in the thesis.

For primary data collection, the author has conducted a telephone interview with Le Wang, who works in the Ministry of Foreign Trade and Economic Cooperation in Beijing government and is official responsible for foreign restaurants. This telephone interview lasted about 30 minutes. A questionnaire was prepared before the telephone interview, which can be seen in appendix III. Questions were presented to the
interviewee in sequence one after another. Notes were taken during the interview after each question was answered. Relevant questions about the Chinese pizza restaurant market have been asked to Le Wang. He knows a great deal about the Chinese pizza restaurant market, and therefore he can provide a deep understanding of the situation in the current Chinese pizza restaurant market through prepared questions. Interview questions are prepared precisely related to the subject studied. So interviewees are able to give profound thoughts and information related to certain questions. For example, Le Wang provides relevant information about the bargaining power of suppliers and customers, etc. The data Le Wang provides are very useful throughout the process for this thesis writing, especially for the market analysis part. It helps to a better understanding of the Chinese pizza restaurant market, separated into customers, suppliers as well as governmental policy towards pizza restaurants.

Another interview was conducted with Mu Liang, an email-interview, which can be seen in appendix IV. Mu Liang has been working in the pizza restaurant field for more than 20 years. This means that he knows a lot about the historical development and the current situation of the Chinese pizza restaurant market. In this case, he is qualified to provide data related to the Chinese pizza restaurant market. Mu Liang has helped to provide competing factors in the Chinese restaurant market. Together with his colleague Dadan Wang, they contribute in making value curves\(^\text{13}\) for both established pizza restaurants and substitutes. In the interview with Mu Liang, he is asked about the substitute restaurants like McDonald, KFC, etc. Mu Liang’s colleague Dadan Wang is specialized in the fast food industry in China, so Mu Liang suggested Dadan Wang for further interview. Dadan Wang knows the substitute restaurants mentioned in this thesis. In order to create a value curve, Mu Liang and Dadan Wang discuss the competing factor and they agree that the 9 competing factors can be used for both pizza restaurants and the substitute restaurants.

\(^{13}\) Value curve can be seen in chapter 5
Secondary data being used in Porter’s Five Forces analysis, such as section 4.1 competitive rivalry part and section 4.2 substitute for product and service parts, are mainly from each rivalry’s website and documentation that describe the history and the current situation of the restaurant. Annual & progress reports, articles, books, newspapers and internet sources about each restaurant has also been applied in the data collection. Secondary data being used in the Blue Ocean Strategy, such as basis for drawing the value curve are partly based on the restaurant reviews from internet, newspapers and magazines that have been collected mainly from a website called http://www.docin.com. This website is found in a google search. Keyword of “Chinese pizza restaurant reviews” in Chinese was typed in google search website for searching, then some relevant keyword appeared in this website (http://www.docin.com). This website is then discovered and believed to be authoritative because it gathers articles from different newspapers and magazines of restaurant reviews. The key words used for searching the restaurant reviews for both pizza restaurants and substitutes are names of the restaurants, such as “Pizza Hut restaurant reviews”. 28 different relevant restaurant reviews of the restaurants that are related to the thesis are found. The sources of the articles are from different newspapers and magazines. The score of the value curve is based on 28 restaurant reviews and 2 interviewers. The 28 restaurant reviews and the scores that were given by the two interviewees were compared based on the 9 competing factors to give final scores to generate the value curve in chapter 5. The comparison is categorized into two main groups: 1) scores of the pizza restaurants & the substitutes from the restaurant reviews; 2) scores of the pizza restaurants & the substitutes from the interviewees; and the 9 sub-groups below the two main groups are based on the 9 competing factors. The scores are given from 1 to 10, 1= in bad condition; 10= in good condition. The comparison is between the scores from the interviewees and the scores from restaurant reviews; among these, an average score of each of the 9 sub-groups will be selected as the final score to draw the value curve.
2.3 Quality of search--validity and reliability

2.3.1 Construct validity

According to Yin (2003), construct validity refers to the establishment and development of a correct set of measures and the avoidance of using “subjective” judgments for the concepts investigated in the study. In this thesis, empirical data are collected through various sources during the writing process. A set of measures of the scores for drawing the value curve are carefully compared as above-mentioned, although it is hard to avoid being “subjective” due to the fact that meals are not easily compared since every individual has their own judgment or opinion toward e.g. price, taste, quality and service level, etc. Furthermore, interviews were carried out with a government officer who is official responsible for foreign restaurants, so the interviewee has enough information and insights in the foreign restaurant area. In this case, he provides relevant information for the thesis writing. In this aspect, one can say that it is believed the above-mentioned set of activities will increase the legitimacy and validity of this thesis.

Moreover, since the primary sources in this thesis are first-hand information that is collected directly from the interviewees and/or the insiders on the market, it is in many respects more reliable and valid than secondary data. In addition, the primary data fit exactly with the research questions that the researcher sets up, that is to say that the primary data are consistent with the research problems and objectives, and therefore can be better trusted and believed to be accurate.
2.3.2 Reliability

“Reliability is about replication (being able to repeat or reproduce results)”(Michael Riley, et al, 2000, P126). Reliability is mostly concerned with the data collection process, to make sure the data gathered and used are reliable to reach the same conclusion. In this thesis, since international organizations and governments are involved in collecting most of these data, such as the survey that the Food Department of Chinese Government helped to collect, the quality and reliability of the data being used in this thesis is believed to be high.

In addition, to some extent, the quality of the interviews is reliable in this thesis, because the interviewees are locked into some specific questions within the area that they are specialized at. This indicates the reliability of this interview is high. For example, the interviewee Le Wang, who works as a government officer in charge of foreign restaurants in Beijing, has more than 19 years experience in this field. He has knowledge about both the past and the current restaurant market in China. He is also very insightful and specialized particular in the pizza restaurants market as he claims. On the other hand, the reliability of this interview can be doubted to some extent. For example, untruthful answer may be conducted if the boss or other colleagues are in the same room with the interviewee when the telephone interview is carried out.

The email interviews conducted with Mu Liang and Dadan Wang seem trustworthy, because both of them have been working with their specialties for more than 20 years. This gives professional knowledge and information that others do not have in their fields. The interviewees have done a lot of researches and investigations in the pizza and fast food fields, so they can be seen as the experts. Hence, this interview seems reliable.

2.3.3 Small summary of validity and reliability

To sum up, the literature used in this thesis is based on both primary (interviews, observations and questionnaires) and secondary data (books, documentation, journals, articles, internet, etc), which can be seen in the reference and appendix. The reliability of the sources is considered before using them. Theories from books are normally to be trusted since they are the results of careful investigations by well-known researchers and professors. However, many data from internet may be doubted with respect to their reliability and validity since anyone could add up their own opinions after a research or an article. Therefore, it has been carefully used in the thesis as mentioned above.

However, in general, no data are flawless. In this thesis, it could be better if more interviews could be conducted and more restaurant reviews could be processed during the research, because they may enrich the validity and reliability of the data, and enhance the quality of the thesis. In fact, the author has tried to conduct more interviews with managers in Pizza Hut, McDonalds and KFC, etc to ensure increased validity and reliability in the thesis; however, not everyone is corporative in China. This is commonly known among people that they tend not to be helpful when they cannot draw interests from the activities that they are involved in. So the attempts to have more interviews have been turned down. Moreover, the quality of the telephone interview with Le Wang and email interviews with Mu liang, Dadan Wang could be have been taken to the next level. For example, face-to-face interviews may improve the quality of the data as face expressions and other conditions will be observed, because these factors may affect the outcome of the questions. However, due to evident reasons, such as high travelling expenses to China, this is not possible. Furthermore, in order to build reliable data, other sources have been checked (e.g. the 28 restaurant reviews, etc) to complement the information that interviewees provide, because interviewees may have reasons for saying what they say if other colleagues are in the same room or for some other reasons that are unknown.
Chapter 3 Theoretical approach

The purpose of chapter 3 is to show understanding of the two theories in use in this thesis: Porter’s Five Forces and the Blue Ocean Strategy. This chapter is designed for two purposes: 1) to ensure the two theories in use are understood and therefore can serve as a departure point for later theoretical analysis in chapter 4. 2) to illustrate how these two theories in use are related and can be combined together to answer the main research question.

Considering market entry strategies, there are different ways to enter a foreign market. For instance, firms can choose to enter a foreign market by direct or indirect exporting, licensing, joint ventures, contract manufacture, ownership and Export Processing Zones (EPZ) or Free Trade Zones (FTZ), etc. These are the traditional strategies for entering and with main focus on how to handle and organize the company and the sales efforts. (These strategies will not be elaborated on this thesis as they are not the focus in relation to answering the relevant to the research question). In contrast, firms can also choose to focus on the value innovation and positioning by applying a theory, like the Blue Ocean Strategy. In this thesis, the Blue Ocean Strategy is considered an optimal tool, because it relates directly to Porter’s Five Forces analysis in the stage of low cost and differentiation. Simultaneously applying low cost and differentiation can solve the market entry related challenges arising after Porter’s analysis since Porter’s generic strategies do not propose both low cost and differentiation at the same time. A more in-depth discussion of the relationship of Porter’s Five Forces and the Blue Ocean Strategy will be presented at the end of chapter 3 and chapter 4.

There are general schools in the economic theory, such as Industrial Organization theory (IO), transaction cost theory, the Resource-Based View (RBV), the Austrian school, etc. Among these, Porter’s Five Forces and the Blue Ocean Strategy belong to the Industrial Organization theory (IO), Resource-Based View (RBV) and Austrian...
school because:

- **Industrial Organization theory (IO):** the IO looks at the strategic behavior of firms, and structure and characteristics of the market. So, the IO looks at external factors. This matches well with Porter’s Five Forces.

- **Resource-Based View (RBV):** the RBV looks at available resources within a company. So the RBV looks at internal factors. This matches well with the Blue Ocean Strategy.

- **Austrian school:** it is the school about innovation, where Austrian economists see entrepreneurship as the driving force in economic development, since entrepreneurs are those who bring innovation to the market. A well-known example is Joseph Alois Schumpete, and his idea of creative destruction. This also matches well with the Blue Ocean Strategy.

Both IO and RBV can help firms to understand strategic factors that can lead to sustainable competitive advantages. Generally, one can situate the theories in use in this thesis into the above-mentioned three schools. Porter’s Five Forces obviously looks at external factors out in the market, so it belongs to the IO theory. Whereas the Blue Ocean Strategy can be placed in the IO, the RBV and the Austrian school, because the Strategy Canvas assesses the market structure, and the Four Actions Framework and the Eliminate-Reduce-Raise-Create Grid focus more on the internal factors within a firm. Overall, the Blue Ocean Strategy is focusing on innovation; bringing differentiation and perhaps even _creative destruction_ to the market. Hence, the Blue Ocean Strategy can be situated into all three schools that are mentioned above.


"Indeed, Silicon Valley may be one of the few places where businesses are still aware of the ideas of Joseph Schumpeter, an Austrian economist who wrote about business cycles during the first half of the last century. He said the lifeblood of capitalism was “creative destruction.” Companies rising and falling would unleash innovation and in the end make the economy stronger.”
3.1 Overview of Porter’s Five Forces

For the reason that this thesis is about how ABFPR can enter a specific market, the Chinese pizza restaurant market, Porter’s Five Forces is used as the first theory to provide an analysis in order to find out how intensive the competition is and therefore determine the profit potential in the Chinese pizza restaurant market. Porter’s Five Forces can be used as a framework to analyse a potential market and the overall industry in order to find out if the market is attractive to enter, i.e. if the overall industry is profitable. In this case, this particular theory is chosen due to the fact that firms in an industry are influenced by some factors that determine the future development of the industry and the profitability of the firm. According to Thurlby (Thurlby, 1998)\(^\text{16}\), understanding the nature of each of these forces gives organizations the necessary insights to enable them to formulate the appropriate strategies to be successful in their market. Therefore, Porter’s Five Forces is a suitable theory in this thesis to serve as a departure point for formulating the appropriate strategies after analysis in order for ABFPR to successfully enter the Chinese pizza restaurant market.

Porter (Porter, 1980) clarifies the forces that create competition by interacting with each other in a business environment. According to Porter (Porter, 1980), “...the intensity of competition in an industry is neither a matter of coincidence nor bad luck.

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\(^{16}\) Thurlby B., 1998, “Competitive forces are also subject to change”, Management Decision, London
Rather, competition in an industry is rooted in its underlying economic structure and goes well beyond the behavior of current competitors. The State of competition in an industry depends on five basic forces...” (Michael E. Porter. 1980, P3)\textsuperscript{17} These five forces, which are known as Porter’s Five Forces are divided into horizontal competition and vertical competition (Porter 1979)\textsuperscript{18}, See figure 1: Porter’s Five Forces\textsuperscript{19}.

- **Vertical competition**: the bargaining power of suppliers and the bargaining power of buyers/customers
- **Horizontal competition**: threat of new entrants, threats of substitute products and services, threats of existing rivals.

These five forces together determine the intensity of the competition and profitability in an industry. For instance, with a variety of low-cost substitute goods, even a company that has a strong position in the industry might generate reduced returns, if customers shift to buy substitute products. Even without substitute goods, an easy entry and the existing rivals will limit the potential returns due to high competition leading to lower profit margins. Subsequently, the five different forces will be presented one by one.

### 3.1.1 Bargaining power of suppliers

Suppliers have bargaining power over business participants by raising prices or reducing the quality of products and services. This simply means that suppliers have the power to control how much pressure they can place on a business that they deliver to. Suppliers are more likely to hold substantial power when they have a large enough impact to affect a company's margins and volumes. The number of suppliers and the


variety of products supplied are dominant factors. For example, if there are only few suppliers or supplied goods are relatively unique or inhibit switching costs, the bargaining power of suppliers tends to be high. Moreover, if the supplying industry is more profitable than the buying industry and the products are very important to the buyers, they power of suppliers might hold high bargaining power. (Porter, 1980)\(^{20}\)

3.1.2 Bargaining power of customers

Customers can have high bargaining power over business participants by demanding higher quality or better services and playing competitors against each other. Customers are also likely to hold high bargaining power may due to the following reasons:

- **Product differentiation:** customers can find alternative products and play companies against one another.
- **Backward integration:** “…if buyers either are partially integrated or pose a credible threat of backward integration, they are in a position to demand bargaining concessions”\(^{21}\) (Michael E. Porter. 1980, P25)\(^{22}\)
- **Price sensitive:** if the products are perceived expensive and undifferentiated relative to their incomes, quality is less important to them.

3.1.3 Threat of new entrants

Porter (Porter 1980) states “new entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. Prices can be bid down or incumbents’ costs inflated as a result, reducing profitability.” (Michael E. Porter. 1980, P7)\(^{23}\) According to Porter, there are mainly 6 sources of entry barriers\(^{24}\):

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\(^{21}\) If buyers’ motivations to integrate are based more on safety of supply or other non-price factors this may imply that firms in the industry must offer great price concessions to forestall integration.


1) Economics of scale: new entrants will enter the market in large scale or suffer cost disadvantages if the existing companies already benefit from economies of scale in an industry.

2) Product differentiation: new entrants face a heavy investment to build a new brand over the existing brands and make product differentiation to win customer loyalty.

3) Capital requirements: a high start-up investment that may not yield a direct return in the short-run.

4) Switching cost: one-time costs facing the buyer of switching from one supplier’s product to another’s.

5) Access to distribution channels: new entrants need to secure distribution channels for products that have already been served by existing firms.

6) Government policy: a government has the power to control new entrants by regulations such as: licensing requirement, limit access on raw materials, pollution control and safety & health-related products.

3.1.4 Threats of substitute products

As Porter claims “…substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge.”\(^{25}\) (Michael E. Porter. 1980, P23)\(^{26}\). This is to say that returns and possible industry growth will suffer by price charge limitation, unless the products and services are differentiated. Also, if switching costs are high, customers are less likely to switch to substitute products and services.

\(^{25}\) The impact of substitutes can be summarized as the industry’s overall elasticity of demand.

3.1.5 Threats of existing rivals

Existing competitors play a significant role in an industry as competitors are the main source of intensified competition. Competitors would do ‘anything’ to jockey for a valuable position, such as price competition, increased customers service, advertising, and product introduction, etc. Generally, highly competitive industries generate lower returns because the cost of competition is high. The cause of a highly contending market may be due to numerous firms in equal size and power, and with little product/service differentiation. Rivals are likely to fight for more market share when market growth is slow. Moreover, other main factors that affect the intensity of competition are the level of fixed costs and the production capacity because companies tend to lower their prices when demand is decreasing. In this case, the whole industry may be affected due to one of the players are lowering the price or carries out other activities, like heavy promotional activities. Porter (2005) claims that there are ways to simplify competition which is to either lower cost or make a differentiation in order to gain a competitive advantage.

3.2 Critique of Porter’s Five Forces

There are some critiques of Porter’s Five Forces. Since this model was developed in 1980s, it was created in a time with a much different market or industry than today. In the early 80s, globalization had not yet taken place in the market worldwide, and therefore the development in most industries were much stable and predictable. However, under the strong influence of globalization, most industries have to be energetically active toward change in order to survive in the dynamic global market. Therefore, it is hard for Porter’s classical market model to deliver meaningful insight to the fast-changing market because of the irregularity of the market.

Furthermore, there are some limitations for analyzing the macro-environment when Porter’s Five Forces is applied, because Porter’s Five Forces is a basic analysis of
micro-environment. In respect to macro-environment analysis, the PEST analysis\(^{27}\) might be appropriate to use. However, there are mainly two reasons to stick with Porter’s Five Forces: 1) Since the focus of this thesis is on building an appropriate business model to enter the pizza restaurant market in China, where analysis of a macro-environment is not necessarily needed, the decision to stick with Porter’s Five Forces is maintained. 2) Since only an analysis of a simple market structure is needed for start-up companies like ABFPR, Porter’s Five Forces can provide the business owner with a clear understanding of where the business is positioned and where it should go further in this aspect, and therefore Porter’s model is applied as a good starting point for further analysis.

3.3 Blue Ocean Strategy

Blue Ocean Strategy challenges companies to break out of the red ocean of bloody competition by creating uncontested market space that makes competition irrelevant. Instead of dividing up existing, often shrinking-demand and benchmarking competitors, Blue Ocean Strategy are about growing demand and breaking away from the competition\(^{28}\). Blue Ocean Strategy helps firms to focus on value innovation, creating more consumer demands and exploiting untapped markets. This will result in high profit and this is why this theory is chosen to help answering the research question. Blue Ocean Strategy is based on several models, which are the analytical tools and frameworks, which will be presented in the following sub-sections.

3.3.1 Value Innovation and the Three Tiers of Noncustomers

Kim and Mauborgne (1997a, 1997b, 1997c) argue that creating a blue ocean by focusing on benchmarking and beating the competition often leads to imitation. Instead, Kim and Mauborgne argue, “…focus on making the competition irrelevant by

\(^{27}\) PEST analysis stands for “Political, Economic, Social, and Technological analysis” and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management.

creating a leap in value for buyers and your company, thereby opening up new and uncontested market space.” (Kim, W. Chan and Renee Mauborgne. 2005, P12) This is what they call---value innovation.

Value innovation puts equal emphasis on both value and innovation, as only together they can create a lasting business success in a contending industry. Value without innovation is likely to shift toward incremental innovation, which can hardly sustain the companies to stand out in the marketplace. On the other hand, without value, innovation tends to be “technologically driven, market pioneering, or futuristic, often shooting beyond what buyers are ready to accept and pay for.” (Kim, W. Chan and Renee Mauborgne. 2005, P13)

Based on the years of research, Kim and Mauborgne (2005) claim that equal weight on both value and innovation helps companies to gain competitive advantages and sustainable high growth and profits. Hence, value innovation is considered as the most important fundamental basis and the cornerstone of Blue Ocean Strategy.

One way to achieve value innovation is to go beyond existing customers to create new demand to discover noncustomers apart from the existing ones. “Instead of concentrating on customers, they need to look to noncustomer and instead of focusing on customer differences; they need to build on powerful commonalities in what buyers’ value. That allows companies to reach beyond existing demand to unlock a new mass of customers that did not exist before.” (Kim and Mauborgne, 2005) There are three tiers of noncustomers according to Kim and Mauborgne (2005): The first tier of noncustomers is closest to the market; the second tier of noncustomers is people who refuse to use the industry’s offerings; the third tier of noncustomers is farthest from the market.

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30 Can be read from http://www.blueoceanstrategy.com/abo/noncustomers.html
What is more? The concept of value innovation can also be found in Schumpeter’s notion of creative destruction, which is a process of transformation that accompanies radical innovation in the sense that innovation is used to create fundamentally new and superior value in order to make existing products/services and ways of carrying out irrelevant. According to Schumpeter, knowledge and ideas are the major inputs for value innovation.

Significantly, value innovation defies one of the most commonly accepted dogmas of competition-based strategy: the value-cost trade-off. It is conventionally believed that companies can either create greater value to customers at a higher cost or create reasonable value at a lower cost. (Kim and Mauborgne, Blue Ocean Strategy, 2005, P13) However, this problem can be solved by applying value innovation, which can create blue oceans pursue differentiation and low cost at the same time.

### 3.3.2 The Three characteristics of a Good Strategy

The three characteristic of a good strategy is to focus, diverges and tagline according to Kim and Mauborgne (2005). This means that companies need to focus on what is the first thing to nail to outperform competitors. To be diverges is to be different from the competitors, so to make the competition irrelevant. Tagline refers to underlying purpose of the offering and what the product/service really stands for.

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31 Creative destruction is an economic theory of innovation and progress, introduced by the German sociologist Werner Sombart and elaborated and popularized by the Austrian economist Joseph A. Schumpeter, particularly in his book Capitalism, Socialism, and Democracy. New York: Harper, 1975 (orig. pub. 1942)
32 Charles W.L. Hill. 1988 and R.E. White. 1986
3.3.3 The Strategy Canvas

Kim and Mauborgne state that, “the strategy canvas is both a diagnostic and an action framework for building a compelling Blue Ocean Strategy.” (Kim, W. Chan and Renee Mauborgne, 2005, P25) This analytical tool is to help companies to build a Blue Ocean Strategy. The strategy canvas has two purposes: 1) the horizontal axis provides insight of the current state in the known business/market. This displays where competition is presently investing, for what factors the industry is currently competing on, and which customers receive value from. 2) the vertical axis captures what buyers receive from the offering of the competing factors. This means that if the score of a factor is high, a company offers more to buyers and thus invests more. The score of the factors is showed in the value curve, which is the basic component of the strategy canvas. The value curve depicts a company’s performance in relation to the factors of competition.

Value and cost are the two main factors that a company should consider in order to enter a new market or grow in the current market. This suggests that companies should create new factors for competition with innovative ideas in order to create new value. In this case, instead of focusing on competitors and customers, company should go for alternatives and non-customers, and to redefine the industry problem and thereby reconstruct value offering across industry boundaries and thus to gain low cost and value, rather than benchmarking competitors. To achieve the above-mentioned and how this should be done, another analytic tool, the four actions framework will be applied.

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3.3.4 The Four Actions Framework

The Four Actions Framework is expected to help companies create a new value curve and break the trade-off between low cost and differentiation. The four key questions below are expected to lead companies to make the existing rules of competition less relevant (Kim, W. Chan and Renee Mauborgne. 2005, P29)\(^\text{36}\):

1. Which of the factors that the industry takes for granted should be eliminated?
2. Which factors should be reduced well below the industry’s standard?
3. Which factors should be raised well above the industry’s standard?
4. Which factors should be created that the industry has never offered?

The first two questions (eliminate and reduce) provide companies ways to reduce the cost structure when facing competitors, whereas the last two questions (raise and create) provide companies with methods of how to increase customer value and create new demands. Together, these four questions assist companies in reconstructing buyer value elements across alternatives in order to offer customers a novel experience, and keep a low cost structure at the same time.

3.3.5 Eliminate-Reduce-Raise>Create Grid

The Eliminate-Reduce-Raise>Create Grid is a supplementary analytical tool to the Four Actions Framework. This tool helps firms to take action on the four questions asked in the Four Actions Framework, in order to create a new value curve. This can be done by acting on eliminating and reducing while raising and creating. Firms can immediately benefit from the Eliminate-Reduce-Raise>Create Grid in the following four ways (Kim, W. Chan and Renee Mauborgne. 2005, P36)\(^\text{37}\):

1) It pushes them to simultaneously pursue differentiation and low costs to


break the value-cost trade-off.

2) It immediately flags companies that are focused only on raising and creating and thereby lifting their cost structure and often over-engineering products and services----a common plight in many companies.

3) It is easily understood by managers at any level, creating a high level of engagement in its application.

4) Because completing the grid is a challenging task, it drives companies to robustly scrutinize every factor the industry competes on, making them discover the range of implicit assumptions they make unconsciously in competing.

3.4 Critique of the Blue Ocean Strategy

The Blue Ocean Strategy is proposed by Kim and Mauborgne to finding uncontested market space and making competition irrelevant. The Blue Ocean Strategy can be viewed as subjective and descriptive. Since only successful stories of companies that apply this strategy have been told in the book\(^{38}\), the research process followed by Kim and Mauborgne can be doubted on the ground that no scientific control is used during the research process. This is because no numbers of companies that apply this strategy has failed were mentioned in the book, while only “winning stories” are selected to be told.

Another criticism lies on the ground that even though the Blue Ocean is probably the best way to avoid competition, it can still be imitated, because this blue ocean would turn into a red ocean. This matches with what Joe Kraus (2006)\(^{39}\) states, “competition never ends.”\(^{40}\) Therefore, innovation or the uncontested market is only a fleeting advantage. However, this could be possibly avoided by keep innovating and finding


\(^{39}\) Joe Kraus, founder and chief executive of Web collaboration software startup JotSpot

\(^{40}\) Can be read from Business Week: [http://www.businessweek.com/magazine/content/06_34/b3998423.htm](http://www.businessweek.com/magazine/content/06_34/b3998423.htm)
new paths to the blue ocean.

3.5 Relationship of the two theories in use

The two theories: Porter’s Five Forces and the Blue Ocean Strategy are particularly chosen for this thesis because they go into a sequence to answer the research question. The two theories in use are also complementary to each other as to answering the main research question.

![Red Ocean vs. Blue Ocean Strategy](image)

**Figure 2: Red Ocean vs. Blue Ocean**


Porter’s Five Forces and the Blue Ocean Strategy are different from each other as they focus on two different aspects. The figure above shows the Red Ocean Strategy that focuses on existing customers, which is commonly known as what Porter describes: competing in existing markets, whereas the Blue Ocean Strategy is to create an uncontested market and to focus on noncustomers. Porter (1980) suggests beating the competitors, whereas the Blue Ocean Strategy suggests making competition irrelevant. Porter (1980) recommends exploiting the existing market demand; in contrast, the Blue Ocean recommends exploring beyond market demand. Porter suggests choosing between differentiations and low cost; whereas the Blue Ocean suggests pursuing
differentiation and low costing simultaneously. In this case, Porter’s analysis can help to define and give a sense of the market, but it cannot assist in forming a strategy for entering the market because of insufficient tools and strategies, which will be discussed in detail later in this section (section 3.3) and in section 4.6. However, the Blue Ocean Strategy can assist in forming a strategy for entering the market; although it cannot help to define the market (see reasons also in section 3.3 and section 4.6). Therefore, it can be claimed in this thesis that Porter’s analysis and the Blue Ocean Strategy are complementary to each other, and that they can be combined together to help in creating an entry strategy for ABFPR to the Chinese pizza restaurant market.

To go in-depth of why and how the two theories in use can be combined, it can be stated that since the purpose of this thesis is to build a business strategy to enter the Chinese pizza restaurant market, the market structure has to be analyzed, and thus to apply Porter’s Five Forces analysis. After finding out the structure of the Chinese pizza restaurant market, challenges appear because this market seems to be highly competitive. When dealing with competition, Porter (1980) provides three generic strategies: cost leadership, differentiation and focus. In Porter’s world, he does not believe it is possible to apply the three strategies simultaneously as he writes that, “...given the potential inconsistencies involved in pursuing these three strategies, such an approach is almost always doomed to failure.” (Michael E. Porter. 1980, P 42)\(^{41}\) However, following several strategies simultaneously can be argued to be possible by applying the Blue Ocean Strategy, because the Blue Ocean Strategy recommends companies to pursue both low cost\(^ {42}\) and differentiation at the same time. Therefore, the Blue Ocean Strategy is selected to solve the contending problems in order to pursue both low cost and differentiation. In other words, Porter’s Five Forces provide tools to analyse and define the market, and gives an idea of what the company is confronted with, but cannot help the company to create a strategy to enter the market;


\(^{42}\) Here the term “low cost” and the term “cost leadership” are used in exchange
whereas the Blue Ocean Strategy can help to find out how to enter the market by creating an uncontested market space. In this case, the two theories in used are complementary to each other.

Furthermore, a business strategy is built based on the innovative ideas that are generated from the Blue Ocean Strategy. Hence, the main research question:

How can an entry strategy to the Chinese pizza restaurant market be created based on the combination of Porter’s Five Forces and the Blue Ocean Strategy with ABFPR as a case?

can be answered through the two dedicatedly selected theories that are mentioned above.

In addition, to go deeper into the relationship of the two theories in use, they can be combined together in this thesis, because Porter (2005) states that differentiation and low cost can gain competitive advantage in a highly competitive market, however, cannot be pursued at the same time. Whereas Kim and Mauborgne (2005) from the Blue Ocean Strategy state that the value innovation of the Blue Ocean Strategy can be pursued simultaneously to achieve both low cost and differentiation. These two factors (low cost & differentiation) are something that ABFPR could benefit from to enter the Chinese pizza restaurant market; otherwise it may lead to failure. Therefore, the Blue Ocean Strategy is applied after Porter’s Five Forces, and this is how the two theories applied are related to each other in this thesis.
Chapter 4: Porter’s Five Forces analysis and discussion

Chapter 4 will apply Porter’s Five Forces to answer sub-question 1:

Sub-question 1:
How can Porter’s Five Forces be applied to evaluate the attractiveness of the Chinese pizza restaurant market with ABFPR as a case?

In this Master’s thesis, Porter's Five Forces analysis will examine external factors on the market since it belongs to the IO theory as mentioned at the beginning of chapter 3. In this thesis, Porter's Five Forces analysis helps one to understand the fundamental competition, the market structure in the current Chinese pizza restaurant market. This is to see whether it is attractive for a “new style” pizza restaurant such as ABFPR to enter the Chinese pizza restaurant market. The details of this “new style” will be presented in chapter 5.

At the end of this chapter, readers should have gained a general understanding of the main competitors and the substitutes in the Chinese pizza restaurant market. Readers will be able to learn about the suppliers, customers and the entry barriers that ABFPR will meet. Readers will also be able to learn about the attractiveness and the degree of severity of competition in the Chinese pizza restaurant market, thus to answer sub-question 1.
4.1 Competitive Rivalry

The survey\(^43\) shows that there are several existing competitors in the Chinese pizza restaurant market, such as Pizza Hut, Papa John’s Pizza, Origus, Big Pizza, Domino’s, etc.. According to Baogaochina\(^44\), the position of these pizza restaurants in China can be divided into 2 lines in accordance with its popularity\(^45\):

- **First line pizza restaurants in China**: Pizza Hut, Papa John’s Pizza, Origus
- **Second line pizza restaurants in China**: Big Pizza, Domino’s

First line pizza restaurants refer to how popular they are among customers. A pizza restaurant being placed in first line has got a brand name, which is much more well-known and widely recognized in China. Whereas the pizza restaurants in the second line are less popular and less recognized by people in China.

In order to better understand the competitors in the Chinese pizza restaurant market, one needs to learn both the internal and external business intelligence and the structure of these existing pizza restaurants. Relevant information of rivals is described as below:

**Pizza Hut**: was founded in 1958. It is an international franchise restaurant from the United States, which offers different styles of pizza along with side dishes including pasta, buffalo wings, breadsticks, and garlic bread\(^46\). Pizza Hut is known as the biggest of the Pizza Giants in the world. Pizza Hut owns more than 6000 pizza restaurants all over the world; it has the annual turnover of $40 billion. In 1990, Pizza Hut entered the Chinese fast-food market.

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\(^43\) The survey of the question if ‘A Beautiful Fairytale’ pizza restaurant is a profitable business in the Chinese pizza restaurant market

\(^44\) Baogaochina did a survey report about the pizza market in China


\(^46\) [http://en.wikipedia.org/wiki/Pizza_Hut](http://en.wikipedia.org/wiki/Pizza_Hut)
During the 20 years of development in China, Pizza Hut has already successfully opened 350 restaurants chain in more than 80 cities, such as Shanghai, Beijing, Shenyang, Guangzhou, Kunming, etc.\(^{47}\) The pizza industry has become increasingly popular in the Chinese market according to the Pizza Hut annual report that within one year (year 2007), more than 100 Pizza Hut have been opened in China.\(^ {48}\) Moreover, the author has also witnessed herself in the trip to China there is always a long queue of people outside Pizza Hut, waiting to be served.

*Papa John’s Pizza:* is the second biggest pizza restaurant chain after Pizza Hut. Papa John’s pizza produces Italian style of pizza, which is different from Pizza Hut, whose pizza is American style of deep-pan pizza. Papa John’s pizza was established in 1984, and it has more than 3000 restaurants in the world. Papa John’s pizza opened the first restaurant chain in Shanghai, China in 2003. By now, Papa John’s Pizza has opened more than 130 restaurants in China across 15 cities: Beijing, Shanghai, Tianjin, Chengdu, Kunming, Chongqing, Qingdao, etc.\(^ {49}\)

*Origus:* unlike Pizza Hut and Papa John’s Pizza, *origus* is the buffet pizza restaurant chain that entered China in 1998, and opened their first store in Beijing. It now owns more than 100 restaurants in China across over 20 cities: Beijing, Shenyang, Shanghai, Shenzhen, Hangzhou, etc.\(^ {50}\)


\(^{48}\) Can be read from: [http://www.yum.com/investors/annualreport.asp](http://www.yum.com/investors/annualreport.asp)

\(^{49}\) [http://en.wikipedia.org/wiki/Papa_John%27s_Pizza](http://en.wikipedia.org/wiki/Papa_John%27s_Pizza)

\(^{50}\) [http://www.origus.com/about_US.html](http://www.origus.com/about_US.html)
Big Pizza: is an enterprise chain serving Italian-style pizza buffet. The Big Pizza Company entered China in 2002, built its first store in Beijing and registered for trademark, named Beijing Big Pizza Restaurant Management Company. In 2003, it became a member of the enterprise chain association of China. Currently, many sub-restaurants have been developed in China.51

Domino’s pizza: is the second-largest pizza chain in the United States. Currently, it has nearly 9,000 corporate and franchised stores in 60 international markets and all 50 U.S. states. Domino’s serves pizza, pasta, oven baked sandwiches, wings, boneless chicken, salads, breadsticks, cheese-sticks, and a variety of dessert items.52 Domino’s pizza has not yet entered mainland China, but has 121 restaurants in Taiwan.53

4.1.1 Short summary and implications for ABFPR

From the rivals mentioned above, one can see that there will be competitors in the Chinese pizza restaurant market for ABFPR. Grant states that there are several factors that cause the intensity of competition, such as concentration, diversity of competitors, product differentiation, excess capacity and exit barriers, cost conditions, etc (Robert M. Grant, 2008, P76)54. In this thesis, the author will take some of the relevant factors

53 http://baike.baidu.com/view/780363.htm
54 Robert M. Grant, 2008 Contemporary Strategy Analysis, Sixth ed., Blackwell Publishing Ltd, UK, P76
to analyze competition in the Chinese pizza restaurant market.

First of all, *concentration* refers to the number and size distribution of competitors. In the ABFPR case, there are mainly five dominant players (*Pizza Hut, Papa John’s Pizza, Origus, Big Pizza, Domino’s*) in the Chinese pizza restaurant market. Each of them has opened numerous chain stores (the number of stores can be found in the above description of competitors) in the Chinese pizza restaurant market. Moreover, even though Domino has not yet entered mainland China, it would be a big potential threat as it has already gained popularity in other countries. Therefore, one can see that the competition is severe for ABFPR and that it is a concentrated market with few dominant companies. Secondly, with respect to *product differentiation*, competitors compete largely on price, quality and service. This is to say “…the more similar the offering among rival firms, the more willing customers are to substitute…” (Robert M. Grant, 2008, P77)\(^{55}\) Observation\(^{56}\) shows that product and service among the established rivals in the Chinese pizza restaurant market are not very different. This opens a possibility for ABFPR to differentiate its offerings when entering the Chinese pizza restaurant market.

In short, it can be concluded that the existing rivals are powerful players in the Chinese pizza restaurant market, such as Pizza Hut, Origus, etc. However, it is possible to make the competition less relevant with improvement in products/services innovation and differentiation as mentioned above.

### 4.2 Threat of substitute products and services

In Porter’s Five Forces analysis, substitute products refer to products from other industries. A threat of substitutes exists when demand for a product is affected

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\(^{55}\) Robert M. Grant, 2008 *Contemporary Strategy Analysis*, Sixth ed., Blackwell Publishing Ltd, UK, P77

\(^{56}\) The author’s own observation
perceptibly by price change of a substitute product\textsuperscript{57}. In this thesis, the Chinese pizza restaurant market is the focal market, but substitutes for pizza can come from other markets, i.e. broadly speaking, the Chinese fast food market. Since the Chinese pizza restaurant market belongs to the Chinese fast food market, the threat of substitute restaurants is also coming from the Chinese fast food market instead of only being in the pizza restaurant market. They are the very well-known ones, such as: \textit{McDonald} and \textit{KFC} that have already been commonly recognized and popular among Chinese in China. There are also other Chinese fast food restaurants that could definitely be a substitution for pizza when people choose where to eat, like \textit{City Express}, \textit{Yong He Dou Jiang}, etc. A short description of the substitutes is given below:

\textit{McDonald's Corporation}: was founded May 15 1940, and is one of the world's largest chains of hamburger fast-food restaurants, serving nearly 47 million customers daily. McDonald's operates 31,000 restaurants all over the world across 119 countries, and employs more than 1.5 million people. McDonald's serves hamburgers, cheeseburgers, chicken products, French fries, breakfast items, soft drinks, milkshakes, and desserts. McDonald has built its first store already in 1975 in Hongkong, and in mainland China the first McDonald was built in 1990 in Shenzhen, then the second one in 1992 in Beijing. Over the last 20 years, McDonald has opened 1000 restaurants in China\textsuperscript{58}.

\textit{Kentucky Fried Chicken (KFC)}: was founded in 1930 and is a chain of fast-food restaurants that offers mainly fried chicken, and others, like wraps,

\textsuperscript{57} \url{www.quickmba.com.cn}
\textsuperscript{58} \url{http://www.mcdonalds.com.cn/aboutus/vision.aspx}
salads, sandwiches and desserts. KFC built its first store in 1987 in Beijing, China. Today, it owns more than 2100 restaurants across 450 cities in China. As the researcher observed and after the investigation, KFC has twice as many restaurants as McDonald in China, due to the fact that Chinese people prefer fried chicken to hamburgers.

*City Express:* was found in the early 1990s. It is a local traditional Chinese fast-food restaurant chain in China. It serves different traditional Chinese dishes, soup and rice. City Express owns about 100 restaurants in China.

*Yong He Dou Jiang:* was found in 1950 in Taiwan, it mainly serves traditional Chinese food, and it is famous for its breakfast with soya-bean milk; it also serves other Chinese dishes with rice. There are around 500 restaurants in China.

### 4.2.1 Short summary and implications for ABFPR

As can be seen above, there are several alternatives to pizza. Therefore customers are more likely to choose other types of food than pizza when there are such alternatives available. Porter (1980) says that the existence of products outside of the realm of the common product boundaries increases the propensity of customers to switch to alternatives. (Michael E. Porter. 1980) In this case, customers may tend to switch to McDonald/KFC or traditional Chinese food rather than pizza for alternatives. Typically, the threat of substitutes impacts a market through price competition. In this case, ABFPR could try to lower the price to attract customers and create competitive advantage in accordance with Porter’s three generic strategies. According to Porter,
“in coping with the five competitive forces, there are three potentially successful
generic strategic approaches to outperforming other firms in an industry: 1) overall
cost leadership 2) differentiation 3) focus” (Michael E. Porter. 1980, P35)\(^63\). This will
be discussed in more detail in chapter 5. The threat of substitute of products and
services will be lowered if cost leadership is successfully implemented for ABFPR.

4.3 The Threats of Entry and implications for

**ABFPR:**

According to Porter, “in theory, any firm should be able to enter and exit a market,
and if free entry and exit exists, then profits always should be nominal. In reality,
however, industries possess characteristics that protect the profit levels of firms in the
market and inhibit additional rivals from entering the market. These are barriers to
entry.” (Michael E. Porter. 1980, P6)\(^64\) According to Porter, there are mainly 6
sources of entry barriers\(^65\), they are:

1) Economies of scale: New entrants like ABFPR are likely to suffer cost
disadvantage since the established rivals have already benefits from the
existing economies of scale. This is due to the fact that the existing pizza
restaurants like *Pizza Hut, Origus, etc.* have economies of scale in marketing
and administration and so on. They can benefit from the economies of scale,
for example in advertising: one advertisement can benefit all the *Pizza Hut*
restaurant chains in the entire China. In contrast, for ABFPR, one
advertisement can only benefit one ABFPR as it has not yet expanded its
restaurant chains.

Press, A Division of Macmillan, Inc. New York, N.Y. P35

Press, A Division of Macmillan, Inc. New York, N.Y.

Press, A Division of Macmillan, Inc. New York, N.Y. P7
2) Product differentiation: heavy investment may be needed to establish a new brand (in this case, ABFPR) over the existing brands (such as, *Pizza Hut, Papa John’s Pizza, Origus, Big Pizza, Domino’s*) and make product differentiation to win customer loyalty. Maintaining and developing differentiated products and services may also lead to higher cost.

3) Capital requirements: start-up capital can be difficult to obtain, and to match the economies of scale enjoyed by the existing market players, massive investments are required. These large investments may not yield a direct return in the short-run and can be very hard to obtain for this kind of business due to the well known fact that most venture capitalists are interested in new technology rather than restaurants.

4) Switching cost: there should be no switching costs in relation to restaurants because no investment from customer point of view is really made when choosing to eat at a specific restaurant.

5) Access to distribution channels: it might be difficult to rent or buy the locations needed for ABFPR, because the good spots are already occupied by existing rivals.

6) Government policy: there are new regulations and laws that give advantages to foreign investment and/or foreign companies in China after China entered World Trade Organization (WTO). In this case, there should ideally be low regulatory barriers to enter the Chinese pizza restaurant market. However, it can be argued that China has her own traditional system that keeps the whole society functioning. Therefore, it may take time for China to really implement the new regulations and laws towards foreign companies.

Overall it can be said that there are significant barriers to entry if ABFPR is to compete equally with the established restaurant chains mentioned earlier. However, the restaurant industry is commonly known for its low barriers to entry due to the fact that a single restaurant is relatively easy to set up. This thesis focuses on the chain concepts and therefore there are some barriers to entry as explained above.
appose to the normal view of the restaurant industry as in industry with very low entry barriers.

4.4 The Bargaining Power of Customers and implications for ABFPR:

The bargaining power of customers in this pizza restaurant case is low, because the power of customers is described as the effect that they have on the profitability of a business. To some extent, the customers do have some influence on the profitability of a restaurant, because the more customers, the more revenue the restaurant gets. However, losing a couple of people does not put the restaurant into a weak position, though losing a big target group might weaken the restaurant. Yet, this rarely happens in the restaurant case, because customers come and go to choose the place they prefer to eat and that the choice of restaurant will largely depend on their mood and appetite, which differ from day to day.

In addition, according to Porter’s Five Forces, everything happens at an industry level; therefore, the bargaining power of customers is not really relevant to the pizza restaurant case. However, some of the points that Porter mentions in his book of “Competitive Strategy” have some uses in analyzing the bargaining power of customers.

For example, Porter mentions that if the product is not unique or differentiated from the competitors, say in this case, pizza provided by ABFPR is relatively speaking similar to the ones that Pizza Hut makes, then customers are likely to shift to Pizza Hut instead because of brand recognition. To avoid that, ABFPR should provide different tastes and style of pizza and the unique atmosphere, i.e. the entire decoration of ABFPR should be completely differentiated (this will be explained in more details.

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in chapter 5). In this case, if customers perceive that the food provided is tasty, different and with a good price, plus the atmosphere is comfortable; they may choose to come back to the same restaurant. What is more, customers could be offered new experiences such as the possibility to make pizzas themselves instead of coming to the pizza restaurants. Fortunately, “…making pizza at home has not yet been developed in China due to the equipment requirements (an oven, etc.) for pizza making.” (Interview, Le Wang, May 19 2010) according to the interviewee, Le Wang, who is a government officer responsible for foreign restaurants in Beijing. In short, one can argue that the bargaining power of customers is obviously low.

4.5 The Bargaining Power of Suppliers and implications for ABFPR:

Any industry requires raw materials, such as components, equipments and labor, etc, that is to say it needs supplies. The term ‘supplier’ typically refers to the sources of inputs that support the firms to create products and/or services. In the case of ABFPR, there will be different suppliers as listed below:

- supplier of facility (like a store front)
- supplier of ingredients for making pizza
- supplier of furniture
- supplier of equipment (like oven, etc.)
- supplier of labor

Under the supplier of pizza ingredients, one can categorize the suppliers in more details:

- Supplier of flour
- Supplier of sausages

67 See appendix III interview
✓ Supplier of different vegetables and fruits
✓ Supplier of cheese
✓ Supplier of tomato sauce

Each one of the suppliers could be analyzed into detail, however, due to the fact that none or at least very few of the suppliers are of strategic importance, only a few of them will be mentioned. In this case, for cheese supply, there are only a few big suppliers in the local Chinese market and no substitute suppliers for the input, like Meng Niu Dairy Group Co. Ltd., Hui Shan Dairy Co. Ltd., Yi Li Industrial Group. Thus, the bargaining power tends to be high. However, ABFPR does not necessarily need to be supplied by domestic dairy supplier, but can also go for international dairy suppliers, and therefore the strong bargaining power of a domestic dairy supplier would not have severe influence on ABFPR. Nevertheless, it is easy to get other ingredients for making pizza with lower bargaining power of suppliers locally, like the supplier of different vegetables and fruits.

Suppliers sometimes may refuse to work with companies when their bargaining power is high, this may occur in a situation where there are only a few larger dominant suppliers in the market. Supplier for facilities in China may be the situation as it is somewhat hard to get a store front according to the real estate regulations. Furthermore, the power of suppliers is likely to be high when the brand is well-known and powerful; in this case, the above-mentioned three dairy manufactures are all well-known dairy suppliers in China. This means that the bargaining power is likely to be low for ABFPR when dealing with these three large dairy manufactures. Fortunately, it is only the dairy supplier’s bargaining power is high, but not on other ingredients. In addition, the interview with Le Wang, has told that “...if there is inflation, the supplier’s bargaining power would grow, therefore, newly entered foreign restaurant will either have to reduce the operational costs or increase the menu costs for customers, otherwise, bankruptcy might occur.” (Interview, Le Wang, May 19 2010) This could turn into a negative effect for newly
entered foreign restaurants, but only if inflation occurs. Besides, compared with Pizza Hut and other well-known pizza restaurants in China, the bargaining power of suppliers is relatively high towards ABFPR. This is because Pizza Hut has already gained a high visibility in the market with respect to the Chinese pizza restaurant market. Therefore they are able to command the suppliers to give a lower price, but this would hardly happen to ABFPR as it is the new-comer in the Chinese pizza restaurant market.

In short, the bargaining power of suppliers is not high in general terms, except in dairy supply. Because ABFPR is a new start-up restaurant who can neither take over a supplier nor increase independence by producing its own cheese. It is somehow difficult to reduce the bargaining power of suppliers in the dairy industry. At this circumstance, the supplier of dairy products has some bargaining power over ABFPR, but as indicated none of the suppliers are of strategic importance.

4.6 Section Summary and discussion over strategies:

To sum up, Porter’s Five Forces helps to understand the market structure, intensity of competition and therefore the attractiveness and profitability of a market.

Referring to Porter’s analysis: after looking at the five different forces, this analysis may result in an understanding of the market as follows:

- Competitors: there are five powerful dominant rivals: Pizza Hut, Papa John’s Pizza, Origus, Big Pizza, Domino’s pizza, so competition is relatively high.
- Substitutes: McDonald, KFC, City Express, Yong He Dou Jiang. These can also be called, indirect competitor.
- Entry barriers: generally high according to the 6 source of entry barriers.
- Customers: with low bargaining power.
- Supplier: low bargaining power in general except for dairy suppliers.
To answer sub-question 1: Porter’s Five Forces analysis has helped to evaluate and define the Chinese pizza restaurant market and it has found that if the entry barriers can be overcome and the competition can be made less relevant, then the Chinese pizza restaurant market is attractive for ABFPR. This is to say, if ABFPR can benefit from the economies of scale while having a low expenditure on investment in differentiation or start-up capital, the market would seem attractive for ABFPR. Moreover, if a new market space is created by ABFPR, which means that if ABFPR swims in the blue ocean, competition will be irrelevant. This is to say, both direct competitors like Pizza Hut, Papa John’s Pizza, etc. and indirect competitors like McDonald, KFC, etc. will become less relevant in terms of competition to ABFPR, and thus the market would seem attractive to ABFPR.

Following Porter’s Five Forces, Porter (1980) has three generic strategies (cost leadership, differentiation and focus), which are meant to solve competition related problems after the analysis. Porter (1980) suggests it is best to apply one of the generic strategies at a time, as he said, “…implementing them successfully requires different resources and skills…sustained commitment to one of the strategies as the primary target is usually necessary to achieve success…rarely is a firm suited for all three….”(Michael E. Porter. 1980, P40, 42) This is to say that Porter suggests to choose among the three generic strategies. Referring to the earlier discussion in sub-section 4.1.1, there is an opportunity for ABFPR to attract customers by providing different products and services, and therefore if to follow Porter’s suggestion, ABFPR would choose the path of differentiation. But this may lead ABFPR to a failure referring to the earlier discussion in sub-section 4.3 that product differentiation in many cases adds to the cost structure of the company, i.e. it may lead to higher costs due to expenses from maintaining and developing assets and

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resources that leads to a differentiated offering. On the other hand, if only applying lower cost, there will be no new experience for customers, which would mean that only apply lower cost might make ABFPR hard to attract customers. Hence, it can be seen that applying either one of the strategies (differentiation or lower cost) seem to be insufficient to ensure success for ABFPR. However, applying both cost leadership and differentiation simultaneously could be beneficial. Reasons are: 1) there are five powerful competitors in the Chinese pizza restaurant market; differentiation certainly ought to be applied to make competition less relevant. 2) there are many substitutes, so unless to apply cost leadership to lower price, it is hard to attract customers and maintain loyalty. Furthermore, as it has been found after Porter’s Five Forces analysis that implementing both low cost and differentiation can make the market attractive and competition irrelevant. Neither of these two (low cost and differentiation) can be dispensed if a good strategy for entering is considered.

In addition, since both cost leadership and differentiation could be beneficially applied to ABFPR to achieve competitive advantage, and since applying cost leadership and differentiation simultaneously is considered impossible by Porter’s generic strategies. Then another strategy that supports to pursue both cost leadership and differentiation simultaneously will be applied. That is the Blue Ocean Strategy (Kim, W. Chan and Renee Mauborgne. 2005).

Porter’s Five Forces is a static analysis to evaluate the existing competition and demand, whereas the Blue Ocean Strategy goes beyond existing demand to create new demand by creating uncontested market space. Moreover, unlike Porter’s generic strategies, the Blue Ocean Strategy strives for both low cost and differentiation at the same time. This in relation to the finding after Porter’s analysis would bring down the expenditure and would make the competition irrelevant by creating innovative value offering.

In this thesis, cost leadership = low cost = low expenditure.
Furthermore, another reason to choose the Blue Ocean Strategy after Porter’s Five Forces analysis to solve the competition related problems is because the three generic strategies are not a tool. Porter’s the three generic strategies only states that there are three different strategies, but does not provide a model for applying the strategies. In contrast, the Blue Ocean Strategy offers a model of how the problems can be solved by using the model as a tool. This will be elaborated in the next chapter.

Chapter 5 Blue Ocean Strategy

Chapter 5 is to a large extent built on the findings of Chapter 4 as Porter’s Five Forces analysis identifies the market related challenges in the Chinese pizza restaurant market, such as high entry barriers and high competition. Besides, Porter’s generic strategy does not propose a solution for both low cost and differentiation at the same time. The Blue Ocean Strategy will be a useful reference in addressing these challenges by implementing different tools. On the other hand, chapter 5 could serve as an independent strategic proposal for ABFPR, because it can both identify the challenges in the Chinese pizza restaurant market by applying the Strategy Canvas tool and addressing the challenges by using the Four Actions Framework and Eliminate-Reduce-Raise-C create Grid. However, this challenges identified by using the Blue Ocean Strategy may not be as precise as by using Porter’s Five Forces, because as mentioned early that the Blue Ocean Strategy is subjective and descriptive.

In order to implement both low cost and differentiation strategy for ABFPR to enter the Chinese pizza restaurant market, the Blue Ocean Strategy is useful. In this chapter, the reader will first learn about what Kim and Mauborgne (2005) really mean by the Blue Ocean Strategy. Then the Strategy Canvas as an analytical tool will be applied to help ABFPR to find out what factors the pizza restaurants are currently competing on
and also to draw a value curve. Then, the Four Actions Framework will be used to break the trade-off between low cost and differentiation and to create a new value curve. Further, the three tiers of noncustomer framework helps to go beyond existing customers to create new demand and the three characteristics of a good strategy will help ABFPR to focus, diverge and have its own tagline. Finally, the Eliminate-Reduce-Raise>Create Grid will be applied as a supplementary analytical tool to the Four Actions Framework. This tool can help ABFPR to take action on eliminating, reducing, raising and creating, and so to create a new value curve. At the end of this chapter, the reader will be able to see a business strategy that has been designed through the application of different tools of the Blue Ocean Strategy.

5.1 The Blue Ocean Strategy

The Blue Ocean Strategy can be applied across all types of industries, such as IT, pharmaceutical, financial services, entertainment, etc (Kim and Mauborgne, 2005). In Kim and Mauborgne’s words, “Blue Ocean Strategy is a way to make the competition irrelevant by creating a leap in value for both the company and its customers... We use the terms red and blue oceans to describe the market universe...”

Red ocean refers to industries that already exist and with defined and accepted industry boundaries, which means that the norms of the competition are known. Whereas in the blue ocean, market space is unknown, demand needs to be created, so “competition is irrelevant because the rules of the game are waiting to be set.”(Kim, W. Chan and Renee Mauborgne. 2005, P5) This is to say that in the blue ocean, market boundaries only exist in the minds of managers, so the existing market structure cannot limit their thinking. Thus, “to them (managers), extra demand is out

70 Cited from “A Conversation with W. Chan Kim and Renee Mauborgne authors of BLUE OCEAN STRATEGY”
there, largely untapped...”\textsuperscript{72} The Blue Ocean Strategy shifts attention from supply side to demand side, so a shift should be made from “focus on competing to a focus on creating innovative value to unlock new demand. This is achieved via the simultaneous pursuit of differentiation and low-cost.”\textsuperscript{73} Kim and Mauborgne claim that new wealth will be created by expanding the demand side, so “such a strategy therefore allows firms to largely play a non-zero-sum game, with high payoff possibilities.”\textsuperscript{74} Furthermore, after examining over 100 years of data on blue ocean creation; Kim and Mauborgne (2005) also claim they found that the blue ocean can be created by both incumbents and new entrants. Particularly, there are natural advantages for start-up companies to create the blue ocean. Reasons are: 1) they are new to the market, so it is easier to create a new market space. 2) they can focus on creating innovative value to unlock new demands.

This matches well to ABFPR’s case, as it is a new entrant. So there are advantages for ABFPR to create a new market space and focus on creating innovative value, thus it could unlock new demands in the Chinese pizza restaurant market. Section 5.2 will show how this is done.

### 5.2 The Strategy Canvas

In order to build a compelling Blue Ocean Strategy, the first tool of the Blue Ocean Strategy----the Strategy Canvas is needed as it is both a diagnostic and an action framework. As mentioned in chapter 3, there are two main purposes of the Strategy Canvas 1) the Strategy Canvas captures the factors that competitors are currently

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\textsuperscript{72} Cited from “A Conversation with W. Chan Kim and Renee Mauborgne authors of BLUE OCEAN STRATEGY” feb. 2005 [www.insead.edu/alumni/newsletter/February2005/Interview](www.insead.edu/alumni/newsletter/February2005/Interview).

\textsuperscript{73} Cited from “A Conversation with W. Chan Kim and Renee Mauborgne authors of BLUE OCEAN STRATEGY” feb. 2005 [www.insead.edu/alumni/newsletter/February2005/Interview](www.insead.edu/alumni/newsletter/February2005/Interview).

\textsuperscript{74} Cited from “A Conversation with W. Chan Kim and Renee Mauborgne authors of BLUE OCEAN STRATEGY” feb. 2005 [www.insead.edu/alumni/newsletter/February2005/Interview](www.insead.edu/alumni/newsletter/February2005/Interview).
investing and competing on in the known market space. 2) it allows companies to understand customer’s perception of factors that are offered by companies. There are two axes: the vertical axis depicts the value level and price, whereas the horizontal axis shows a range of different factors the industry competes on and invests in. In the ABFPR case, the Strategy Canvas will allow ABFPR to discover the factors that rivals are currently investing and competing on in the Chinese pizza restaurant market and it will also allow ABFPR to gain a general idea of how customers perceive the offerings.

After interviewing Mu Liang\textsuperscript{75}, who is an industry expert in the Chinese pizza restaurant market, and after examine the 28 restaurant reviews, it becomes clear that there are 9 principal competing factors currently in the Chinese pizza restaurant market. The 9 principal competing factors are chosen subjectively by comparing the information given by the interviewees with the information from the restaurant reviews. It seems that these 9 principal competing factors are what customers concern the most when they choose restaurants. The factors are shown below:

- ✓ Price
- ✓ Taste
- ✓ Service level: kindness, smile, how fast food is delivered
- ✓ Delivery: online and/or telephone order and delivery time
- ✓ Location: where are pizza restaurant located? Centre of city, remote place, small alley or main streets.
- ✓ Serving speed: how fast is the food served
- ✓ Restrooms: are there restrooms? How many? And how clean are they? Condition of the toilet, if soap, toilet paper and hand drying machine are provided?

\textsuperscript{75} Mu Liang who is an industry expert in pizza fields, who is the owner of \url{www.china-pizza.com} and interview with Mu Liang see appendix IV
✓ Coupons: how often do pizza restaurants hand out discount sheets? The content of coupons. How much discount can customers get? Online coupons?
✓ Advertisement: style of the commercial, if famous actors/singers are involved.

Another interview was conducted with Mu Liang’s colleague Dadan Wang76 about the substitutes for pizza restaurants. The reason to place pizza restaurants and substitutes in the same graph is that they are direct and indirect potential competitors to ABFPR. Mu Liang and Dadan Wang agreed that the above-mentioned competing factors are relevant for both pizza restaurants and substitute rivals (such as McDonalds, KFC, City Express, etc.) Mu Liang and Dadan Wang provide the following graph in cooperation subjectively. They give points to the competing factors (score 1-10: 1=in bad condition; 10=in good condition) to help draw value curves of the current market condition.

Graph 2: The Strategy Canvas of the Chinese pizza restaurant market and the substitutes.

Source: own

76 Dadan Wang is an expert in Chinese fast-food industry; he is specialized in substitutes for pizza restaurants.
Graph 2 (see above) shows the value curve of the Strategy Canvas. The two value curves are drawn based on scores given by the interviewees and restaurant reviews from internet, newspapers and magazines. The scores of the competing factors are given in subjective point of views. The horizontal axis shows the range of competing factors that both the pizza restaurants and the substitute for pizza restaurants are currently competing on. The vertical axis of the value curve captures the offering level that the customers receive across all these competing factors. A high score indicates that the company offers more to the customers and thus invests more in that factor, vice versa. One can see from graph 2 that the first factor—price level is different between established pizza restaurants and substitutes with pizza restaurants as the most expensive. Likewise, the second last factor—coupons, indicate that pizza restaurants do not hand out discount sheets as often as substitutes. To be critical, since these competing factors are hard to assess objectively with distinct score system as every individual have their own idea toward different factors, these factors can only be scored in a subjective way. For example, the factor price cannot be determined high or low objectively because every individual has their own judgment or opinion on price levels due to the fact that meals are not easily compared. A subjective evaluation is present with all the competing factors such as, price, taste, service level, etc. These can only be determined based on subjective point of views as in a social constructivist view, view points are made by people and everyone has their own mind toward things.

One reason that the established pizza restaurants and substitutes are on the same graph are due to the fact that these competing factors give a general idea of the current state of play in both the Chinese pizza restaurant market and the fast food market in general. The Chinese fast food market is relevant in this case because the substitutes are the indirect competitors to ABFPR. In order to make the competition irrelevant, ABFPR should not only respond to direct competitors in the Chinese pizza restaurant market, but also respond to indirect competitors in the Chinese fast food market. However, the
main focus will be on the Chinese pizza restaurant market in this thesis. Another reason that the established pizza restaurants and substitutes are in the same graph is that it is easier to compare the factors in two different markets that both relevant to ABFPR. In this case, it is clear for ABFPR to see what factors can be eliminated, reduced and what factors need to be raised and created. Therefore, to carry on the Blue Ocean Strategy to design a business strategy for ABFPR after knowing what factors are currently competing on, new factors that have not yet been offered in the market will be discovered. This can be done by implementing the following tools.

5.3 The Four Actions Framework

Kim and Mauborgne (2005) argue that value innovators do not benchmark competitors. Instead, they intend to dominate the market by offering mass of customers a great unrivaled leap in value across borders of different business areas. This in return brings them supreme competitive advantages. In order to achieve this, value innovators assess business opportunities beyond existing resources and capabilities; they also try to provide customers with unprecedented products and services without being constrained by market boundaries.

In this section, the second tool of the Blue Ocean Strategy---the Four Actions Framework will help ABFPR to craft a new value curve, which will go beyond market boundaries, beyond existing resources and capabilities. The Four Actions Framework consists four key questions (see figure 3 below), which can help to break the trade-off between differentiation and low cost.
1) **“Which of the factors that the industry takes for granted should be eliminated?”**

This is to say that there are factors that no longer have value or even have negative effects and therefore should be eliminated.

For ABFPR, three factors are found to be eliminated:

- Serving speed: the most common known way to increase serving speed is to serve readymade food, like *McDonald, KFC*, etc, which may not be as fresh as fresh-made food. This factor can be eliminated because ABFPR focuses on the taste and freshness, instead of the speed of the food serving.
- Delivery: If people want to have pizza in ABFPR, they should come to the restaurant, because the point is to experience the interior in ABFPR (see factors in *raise*), so delivery should not exist in this case for ABFPR.
Location: needless to say a hot spot location in the city center is one of the highest expenditure. ABFPR does not necessarily need to be in a hot spot in the city center, because *good wine needs no bush*\(^{77}\), i.e. a good and tasty restaurant will attract customers no matter where it locates, in this case, it is ABFPR.

2) “Which factors should be reduced well below the industry’s standard” This question is to help companies determine if products or services have been overdesigned. To help companies reduce factors that they over-serve customers for no gain.

For ABFPR, three factors are found to be reduced:

- Advertisement: famous actors/singers are normally invited to make the advertisement in China commonly known. For ABFPR, advertisement will not be made with involvement of famous stars, because ABFPR believes that famous stars do not necessarily be the best way to create brand awareness and loyalty. Reduction of involvement of famous stars also reduces the expenditure levels for advertisement and therefore reduces one of the upmost expenditures.

- Restroom: in some *Pizza Hut, McDonald, KFC and City Express*, etc. service like handing over paper for drying hands is provided in the restrooms to make it appealing to customers. For ABFPR, it does not have to be appealing in that way to be a competing factor to attract customers. It is good enough to just be in a standard condition by maintaining cleanliness and providing necessary toilet items, like toilet paper, soup, etc.

- Coupons: if the pizzas taste delicious and the interior are rich and colorful enough, then coupons are not needed to attract customers.

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\(^{77}\) An old Chinese saying. It is originally from England, where in old days, drinking places had a few vines hanging outside. Shakespeare uses the expression.
3) “Which factors should be raised well above the industry’s standard?” This question helps ABFPR to uncover the compromises the Chinese pizza restaurant market forces customers to make. ABFPR will raise some factors that benefit customers, they are:

- **Human resource:** the industry standard is commonly known in many cases not to focus on appearances of their staff, but in ABFPR, only attractive and appealing staff would be hired to make a difference. Unlike the other restaurants, the waiters will put on custom clothes, like fairy costumes in ABFPR.

- **Customer Relationship Management (CRM)--loyalty programme:** ABFPR could raise a programme called, “eat 5 times get a free meal”, which means every single customer has chance to get a free meal from the “free meal menu” when they have eaten 5 times at ABFPR. This could attract customers to keep coming back to ABFPR.

- **Story telling:** ABFPR has its own story. The reason ABFPR is a fairytale restaurant is that the owner is from Denmark. A country that is commonly perceived by Chinese as a fairytale land and a country that is famous for H.C. Andersen’s fairytale stories. It is assumed that story telling would increase popularity of ABFPR as it will increase the perceived customer value and the bring authenticity to the restaurant.

- **Parking facilities:** big parking ground will be provided in front of ABFPR, so people who drive cars would not have problem with parking, whereas normally parking is a problem in big cities as commonly known.

4) “Which factors should be created that the industry has never offered?” This question helps ABFPR to discover new sources of value for customers, thus to create new demands. These factors are:
➢ New style of pizza---the Chinese pizza: ABFPR will create an entirely different concept of pizza that is to put Chinese dishes (Chinese ingredients and toppings) on pizza instead of putting cheese, pepperoni, etc. This will be a new style of pizza, because no other restaurants serve such pizzas according to interviews with managers from Pizza Hut and Origus respectively and as far as the author knows. Therefore, it can be assumed that this new pizza style would attract people who do not like the current pizza offerings, because they may be curious about trying Chinese dishes on the pizzas.

➢ Entertainment at ABFPR:

◆ Live fairytale story reading and fairytale TV shows could be provided to attract families with children.

◆ Kids playing ground could be built to offer experience in fairytale forest or fairytale land.

◆ Picture rooms could be provided for customers to take theme pictures in custom clothes with the background of a fairytale land.

➢ Fairytale interior:

◆ Instead of white walls, walls could be painted into fairytale illustrations. For example, princess and prince; pumpkin wagon; mysterious forest, etc.

◆ The entire pizza restaurant could be decorated into a fairytale land theme, to make customers feel they have come to a fairytale kingdom.

◆ Chartered rooms could be provided for family and/or friends reunion. These private rooms will be decorated into different themes and will be titled after H.C. Andersen’s fairytale names, like: The Little Mermaid, The Nightingale, The Snow Queen, etc.

78 See appendix VI and VII
➢ Taxi service: customers could be picked up by ABFPR decorated cars (fairytale cars) to bring them to the restaurant. This service makes it easy and convenient to visit ABFPR and reduces the importance of central location and extends the experience of the ABFPR universe to outside the restaurant walls.

➢ Kids menu could be provided with various theme toys at the restaurant. Toys that can be used in relation to the interior and outside the interior.

➢ “Making your own pizza” programme could be provided. Customer will experience the process of making pizza; they can put the ingredients they like on their own pizza.

➢ ABFPR could be environmental friendly: energy saving light bulbs could be used; water saving strategy could be applied.

➢ Ethical practice: good ethic brings good business. ABFPR could provide employees a “training and development” programme.

### 5.4 The Three characteristics of a Good Strategy

There are a lot of factors that ABFPR could raise and create. However, characteristics of a good strategy should be: focus, divergence and tagline. “Every great strategy has focus, and a company’s strategic profile, or value curve, should clearly show it.”(Kim, W. Chan and Renee Mauborgne, 2005, P39) In relation to ABFPR, this means that ABFPR should choose a limited number of differentiators and focus on these. The choice of these factors will not be accounted for in further details in this thesis, but have been chosen by the author subjectively. In this thesis, the advice is that ABFPR should emphasize on: new style of pizza, entertainment, fairytale interior and

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taxi service. By focusing on these differentiators, ABFPR will be able to bring customers an entirely new experience. Moreover, ABFPR will also be able to price against its rivals because: 1) new style of pizza saves expenses as Chinese dishes ingredients are cheaper. 2) taxi service will be appealing to customers as taxi is commonly known to be hard to catch and buses are almost always crowded. Even though there will be expenses on entertainment, decoration and cars, it can be argued that these expenses can be offset. To be more precise, for example, taxi service can offset the commercial expenses because when the fairytale cars of ABFPR drives around, people’s attention will be caught. So in this case, it can attract more customers to the restaurant. On one hand, the taxi service work as transportation; on the other hand it works as a moving advertisement. This can be assumed to work very effectively to get people’s attention and can be imagined to attract people’s attention better than employing famous stars in TV or newspaper commercials.

Moreover, the taxi service will bring revenue because a transportation fee for longer distance drives could be charged. This means that the taxi service of ABFPR is only free for a certain distance for customers, so ABFPR will have some gain on the service. However, it is assumed that customers will still desire for this taxi service as they get a different experience in the fairytale car and the fee might still be lower than normal taxi.

For divergence, ABFPR will not lose its uniqueness in the competition. By carrying out the unique interior and other innovative factors, ABFPR will stand out in the Chinese pizza restaurant market.

Kim and Mauborgne state, “A good strategy has a clear-cut and compelling tagline…in fact, a good way to test the effectiveness and strength of a strategy is to look at whether it contains a strong and authentic tagline.” (Kim, W. Chan and Renee
Mauborgne, 2005, P40) For ABFPR, the tagline could be: "Wanna have pizzas in a fairytale kingdom, come to ABFPR!" This tagline clearly tells the key features of ABFPR that it is a pizza restaurant and it is like a fairytale kingdom.

5.5 The Three Tiers of Noncustomers

To explore a blue ocean, and to go beyond existing customers to create new demand, companies also need to discover noncustomers apart from the existing ones. "This is a key component of achieving value innovation" (Kim, W. Chan and Renee Mauborgne, 2005, P101) said Kim and Mauborgne. To do this, Kim and Mauborgne (2005) discover that there are three tiers of noncustomers that can be potentially transformed into customers. The three tiers of noncustomers is shown below, see figure 4:

Figure 4: The Three Tiers of Noncustomers


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The first-tier “soon to be” noncustomers are these who are on the edge of the market according to Kim and Mauborgne (2005). These noncustomers are waiting to be offered a leap in value. For ABFPR, a leap in value is the entertainment and fairytale interior, so this pizza restaurant is not only a pizza restaurant, but also a fairytale kingdom where customers can experience what they cannot experience elsewhere. For example, picture rooms provide custom clothes with fairytale land background. This will be attractive, because putting on custom clothes and taking fancy pictures is commonly known to be one of the most popular things to do in China. Moreover, live fairytale story reading and fairytale TV show will be appealing to children as it is commonly known that children love to hear fairytale stories and watch cartoon shows, and therefore will attract these noncustomers to this pizza restaurant. Providing entertainment and fairytale interior is in another word, bringing value to customers, so these noncustomers, who are tired of ordinary restaurants, will be attracted to a brand new atmosphere of this fairytale restaurant, because in here, they will have an entirely new experience of the above-mentioned settings, surroundings and entertainment activities.

The second-tier “refusing” noncustomers are these who consciously choose against according to Kim and Mauborgne (2005). For ABFPR, the second-tier “refusing” noncustomers are these who already have ideas of pizza, but to choose intentionally against pizza because of the health-related issues. According to a report from the Centre for Food Safety (CFS), cheese is regarded as very unhealthy in the Chinese point of view, because it contains heavy trans fatty acid, so parents want their children to have as less cheese as possible. In order to attract these noncustomers who are against cheese, ABFPR will establish a new style of pizza. Instead of offering

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83 See appendix VI and VII: email interview with managers in Pizza Hut and Origus
84 Trans fat acid is the common name for unsaturated fat with trans-isomer fatty acid, which is a fat molecule containing one or more double bonds between the carbon atoms. It has been been produced by hydrogenating an unsaturated fatty acid (and so changing its shape); found in processed foods such as margarine, cheese, cream, etc.
85 A report from The Centre for Food Safety (CFS) of government of the Hong Kong Special Administrative Region [http://www.cfs.gov.hk/tc_chi/programme/programme_rafs/programme_rafs_n_01_05.html](http://www.cfs.gov.hk/tc_chi/programme/programme_rafs/programme_rafs_n_01_05.html)
the same as all the other pizza restaurants, where they serve traditional pizza; ABFPR could serve pizza with Chinese dishes (Chinese ingredients and toppings) on. As Pizza in ABFPR is in this case considered healthy, because commonly known that no Chinese dishes contain cheese, customers will have opportunities to choose the non-cheese pizza and the traditional cheese pizza in ABFPR. In contrast, only traditional cheese pizzas are served in other pizza restaurants. Therefore, ABFPR can attract these noncustomers who are afraid of cheese to eat healthy pizza with the finest ingredients.

The third-tier customers are “unexplored” noncustomers, they are not yet discovered by the market. In other words, these noncustomers have not become aware of the benefits of pizza. In ABFPR case, the noncustomers have not yet come to know the good of pizza and the unique atmosphere of ABFPR. In order to let the good news spread, ABFPR could create a taxi service. As above-mentioned, the taxi service provides convenient transportation for customers; besides, taxi service also serves as an outdoor advertising display, and is assumed to be more cost effective than other types of advertisement. In this case, when the fairytale cars of ABFPR drive around in the city to pick up customers, it communicates a visible message to noncustomers by introducing them to ABFPR and its unique products. This spreads the message to customers who do not know pizza, but may potentially interest in the pizza. Hence, in return for taxi service, it can be imagined that ABFPR made its name available among noncustomers and therefore it would possible to convert them into potential customers.

5.6 The Eliminate-Reduce-Raise>Create Grid

The Eliminate-Reduce-Raise>Create Grid is the third tool of the Blue Ocean Strategy. It supplements the Four Actions Framework to take action on the four questions.87

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86 See appendix VI and VII: email interview with managers in Pizza Hut and Origus
87 The four question refers to the Four Actions Framework
With the help of *three characteristic of good strategy*, ABFPR has narrowed down its focus to four key factors, which can be seen below in the grid. Thus, the Eliminate-Reduce-Raise>Create Grid of ABFPR case looks like:

![Eliminate-Reduce-Raise>Create Grid](image)

**Figure 5: Eliminate-Reduce-Raise>Create Grid: The ABFPR case**


The Eliminate-Reduce-Raise>Create Grid above shows that ABFPR can eliminate the existing competing factors (serving speed, delivery and location) among the rivals. Reducing advertisement expenses, ABFPR could limit expenditures for costly advertising on traditional media, for example, TV and newspaper advertisements without involvement of famous stars; ABFPR could also have the taxi service fairytale cars driving around as a moving advertisement. Eliminating centre hot spot location, instead ABFPR could locate itself in a place that is far from city centre with low rental costs. In this case, both eliminating and reducing will help ABFPR decrease the cost structure because when advertising and location expenses decrease, total expenses decrease as well because it is commonly known that location and advertising are among the highest expenditure for running a business. Meanwhile,
ABFPR could raise factors like human resource, CRM, branding and parking facility; this could help to attract more customers. For example, commonly known, parking is almost always a problem due to lack of free space. ABFPR could make more parking spaces available, so there is a bigger chance for a free space for parking outside ABFPR. Besides, ABFPR could also create factors such as new style of pizza, entertainment, fairytale interior and taxi service. These new factors that ABFPR creates would bring entirely new experiences to customers. Since people are curious of new experiences by nature, they are very likely to try new things in ABFPR, for example the new style of pizza ABFPR creates, the unique atmosphere ABFPR designs and the novel taxi service ABFPR provides. In this case, the raising and creating will make ABFPR different and stand out among the other restaurants, so to create new demands and increase customers’ value. Therefore, the Eliminate-Reduce.Raise.Create Grid has supplemented the Four Actions Framework to achieve both low cost and differentiation simultaneously. The value curve of ABFPR under the Blue Ocean Strategy will form itself like the graph shown below:

The Strategy Canvas of ABFPR

Graph 3: The Strategy Canvas of ABFPR

Source: own
The Strategy Canvas of ABFPR shows the extent to which the application of the Four Actions leads to a break away from the competition in the Chinese pizza restaurant market. One can see that the value curve of ABFPR clearly stands apart. This is because “...the value curves of blue ocean strategies always stand apart.” (Kim, W. Chan and Renee Mauborgne, 2005, P39) By looking at the alternatives of traditional pizza, which always contain cheese and traditional ingredients, ABFPR creates a new style of pizza with Chinese dishes on the pizza. This is meaning to bring novel experiences to the customer, enhance the value and create more demands. The other factors that ABFPR has created, such as fairytale interior, entertainment, taxi service could bring the same effects.

Furthermore, in the light of all unique features that ABFPR creates, ABFPR is able to reduce and eliminated the factors that the Chinese pizza restaurant market has long competed on, such as: location, serving speed, delivery, advertisement, restrooms and coupons. As above-mentioned, normally for a restaurant, salary, inputs, location and advertisement commonly known to be the highest expenditures; in ABFPR case, ABFPR saves expenses on locations and advertisement, and therefore saves a big part of expenses. So ABFPR lowers the costs in relations to competitors’ business. Meanwhile with the help of creating and raising unique experiences for customer, ABFPR differentiates itself from the other pizza restaurants. Therefore, ABFPR will be able to bring both low cost and differentiation at the same time and attract the three tiers of noncustomers and convert them into potential customers.

So to answer sub question 2:

How can the Blue Ocean Strategy be applied to create an uncontested market space when entering the Chinese pizza restaurant market with ABFPR as a case?

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An entry strategy can be created for ABFPR through the application of the Blue Ocean Strategy. By following the three main tools in the Blue Ocean Strategy: the Strategy Canvas, the Four Actions Framework and the Eliminate-Reduce-Raise-Create Grid, the three characteristics of a good strategy and the three tiers of noncustomer framework, ABFPR has been able to first identify the competing factors on the market, then bring entirely new ideas to the market. This is how the Blue Ocean Strategy helps to create an uncontested market space and reach beyond existing demand for ABFPR to enter the Chinese pizza restaurant market.
Chapter 6 Conclusion and perspectives

This is the final chapter of the thesis. It is aiming to present the following four points:

1) Whether the purpose of the thesis is achieved.
2) Reviewing research process steps throughout the thesis.
3) Presenting general findings and implication of the findings.
4) Discuss perspective of the thesis.

6.1 overview of research process

The purpose of this master thesis is to apply the combination of Porter’s Five Forces (Porter, 1980) and the Blue Ocean Strategy (Kim and Mauborgne, 2005) to a case study (ABFPR), to find out if the two theories in use are useful at providing an analytical framework to create an entry strategy for a restaurant concept such as for ABFPR to enter the Chinese pizza restaurant market. This purpose is achieved because the combination of the Porter’s Five Forces and the Blue Ocean Strategy do help with ABFPR create an entry strategy. It can be seen that the case study of ABFPR has justified the usage of Porter’s Five Forces by analyzing and defining the Chinese pizza restaurant market; then the implementation of the Blue Ocean Strategy to address the market entry related challenges in order to entering the Chinese pizza restaurant market.

The process to design this business strategy is to go through the five different forces in Porter’s Five Forces analysis in the beginning of this research. The findings are:

- Competitors: there are five powerful dominant rivals: Pizza Hut, Papa John’s Pizza, Origus, Big Pizza, Domino’s pizza, so competition is relatively high.
- Substitutes: McDonald, KFC, City Express, Yong He Dou Jiang. These can
also be called, indirect competitors.

- Entry barriers: generally high according to the 6 source of entry barriers.
- Customers: with low bargaining power.
- Supplier: low bargaining power in general except for dairy suppliers.

Then the research goes into the stage that discusses possible strategies that can solve market entry related challenges for ABFPR to enter the Chinese pizza restaurant market after Porter’s Five Forces analysis. As a result, the Blue Ocean Strategy is selected, because it seems to be the optimal tool to solve market entry related challenges, because the Blue Ocean Strategy directly relates to Porter’s Five Forces in the low cost and differentiation perspective and offers a framework for creating a strategy that defines the competition without necessarily being bound to the limitations of the low cost or differentiation strategy proposed by Porter. Further, the Blue Ocean Strategy is applied to solve the market entry related challenges. Different tools in the Blue Ocean Strategy: the Strategy Canvas, the Four Actions Model and the Eliminate-Reduce-Raise-CREATE Grid, the three characteristics of a good strategy and the three tiers of noncustomer framework are used to help creating an entry strategy for ABFPR to enter the Chinese pizza restaurant market.

### 6.2 Findings and implications

Here, the result to the main research question can be reviewed.

**How can an entry strategy to the Chinese pizza restaurant market be created based on the combination of Porter’s Five Forces and the Blue Ocean Strategy with ABFPR as a case?**

The entry strategy to enter the Chinese pizza restaurant market can be created through a sequential use of the two theories, Porter’s Five Forces and then the Blue Ocean Strategy. This specific combination of the two theories in use provides ABFPR with a
strategy to enter the Chinese pizza restaurant market, because the Porter’s Five Force allows ABFPR to analyze and define the Chinese pizza restaurant market, and then the different tools in the Blue Ocean Strategy allow ABFPR to solve the market related challenges arising from Porter’s analysis and enter the market. By applying the Blue Ocean Strategy, the Strategy Canvas captures 9 factors in the current Chinese pizza restaurant market that the rivals are competing on, they are: Price, Taste, Service level, Delivery, Location, Serving speed, Restrooms, Coupons and Advertisement. Then the Four Actions Model and the Eliminate-Reduce-Raise>Create Grid help ABFPR to eliminate the unnecessary factors that will not benefit it, like: serving speed, delivery, location; reduce the factors that cost unnecessary money, such as: advertisement, restrooms, coupons; raise factors that will add value to the business and customers, like Human resource, CRM, branding, parking facilities and create factors that will make ABFPR unique and stand out from the other restaurants, such as New style of pizza, entertainment, fairytale interior, taxi service. Furthermore, one of the aims of the Blue Ocean Strategy is to reach beyond existing demand, so it tries to attract noncustomers. Within the entry strategy, a strategy to attract three tiers of noncustomers is proposed: the first-tier of noncustomers can be attracted through entertainment and fairytale interior; the second-tier of noncustomers can be attracted through new style of pizza and the third-tier of noncustomers can be attracted through taxi service. In this case, it is believed that ABFPR could successfully enter the Chinese pizza restaurant market.

The findings to this study can be useful for practitioners and entrepreneurs when opening a pizza restaurant in the Chinese fast food market, because they can learn about the boundaries and structure of the Chinese pizza restaurant market from Porter’s analysis. They can also learn to create uncontested market space and reach demand beyond the existing market through the application of the Blue Ocean Strategy.
The Blue Ocean Strategy criticizes Porter’s business theory to only propose low cost or differentiation. Indeed, Porter’s analysis is not always the best suitable framework to use due to the fact that it is static and objective, whereas the Blue Ocean Strategy is subjective and descriptive. As no theory is perfect in terms of practical applications, even though the application Blue Ocean is a recognized way to avoid competition, the strategy can still be imitated, then this blue ocean would turn into a red ocean. However, this can also be avoided by keep innovating and finding new path to the blue ocean.

### 6.3 Perspectives

This thesis is done through the application of the combination of Porter’s Five Forces (Porter, 1980) and the Blue Ocean Strategy (Kim and Mauborgne, 2005). No theory is flawless, as mentioned earlier that Porter’s analysis can only help ABFPR with defining the market instead of entering; while the Blue Ocean Strategy does not help ABFPR to understand the challenges regarding the attractiveness of the current market situation but is useful for proposing a solution to the challenges identified by use of Porters Five Forces. To turn the weaknesses of these two theories (Porter’s Five Forces and Blue Ocean Strategy) into an advantage, it might have been useful to try and combine the two theories into one single model. This means that the weaknesses of these two theories would properly diminish as they work as a single model and serve as a framework for creating an entry strategy. Such model might be more useful for practitioners and entrepreneurs due to the reason that they would only have to apply this single model instead of applying two theories in a sequence like this thesis.
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Links of the 28 restaurants reviews:

- http://www.docin.com/p-32746493.html
- http://www.docin.com/p-6828192.html
- http://www.docin.com/p-15515298.html
- http://www.docin.com/p-14782459.html
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Appendix I:

对中国pizza市场各年龄段的问卷调查

（Questionnaires for pizza restaurant in the Chinese pizza restaurant Market by age groups）

请回答一下问题，凭第一直觉填写。您将会为一家前所未有的pizza餐厅作出贡献。谢谢合作！(Translation: You are to answer the following questions in this questionnaire for a contribution of a future fantastic pizza restaurant that will arrive in China as you expected. Thank you for your cooperation.)

NB: 100 samples been selected in different age groups and the survey was carried in Beijing.

基本信息（Basic information）:

姓名（Name）: __________________________

年龄（Age）: ________________ 今天日期（Today’s date）: ________________

性别（Sex）： 男（male） □ 女（female） □

职业（Occupation）: __________________________________________

每月税后收入（Income pr. month (after tax)）: ____________________

问题（Questions）

I
1) 请问您喜欢中餐还是西餐？(Do you prefer western food or Chinese food)

| 西餐 Western food (Please continue to Q 2) |  |
| 中餐 Chinese food |  |
| 无所谓 I do not care |  |

2) 请问如果有 pizza 和中餐快餐，您选择哪个？(which one do you prefer if there is pizza and Chinese food)

| 比萨 Pizza |  |
| 中餐 Chinese fast food |  |
| 无所谓 I do not care |  |

3) 请问如果是 pizza 和汉堡包，您选择哪个？(which one do you prefer if there are both pizza and burger?)

| 比萨 Pizza |  |
| 汉堡包 Burger |  |
| 无所谓 I do not care |  |
| 哪个也不选 none of them |  |

4) 请问您宁愿选择会自己在家做 pizza 吃，而不到 pizza 店吃吗？(would you rather prefer making pizza at home instead of having pizza in pizza restaurant)

| Home |  |
| Pizza restaurant |  |
| 无所谓 I do not care |  |
Appendix II

请问如果是 pizza 和汉堡包，您选择哪个？（which one do you prefer if there are both pizza and burger?）

<table>
<thead>
<tr>
<th>比萨 Pizza</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>汉堡包 Burger</td>
<td></td>
</tr>
<tr>
<td>无所谓 I do not care</td>
<td></td>
</tr>
<tr>
<td>哪个也不选 none of them</td>
<td></td>
</tr>
</tbody>
</table>

请问如果有 pizza 和中餐快餐，您选择哪个？（which one do you prefer if there is pizza and Chinese food）

<table>
<thead>
<tr>
<th>比萨 Pizza</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>中餐 Chinese fast food</td>
<td></td>
</tr>
<tr>
<td>无所谓 I do not care</td>
<td></td>
</tr>
</tbody>
</table>
Results:

Results from questionnaire Q2 & Q3

- Preference to pizza: 32%
- Preference to Chinese fast food: 30%
- Preference to burgers: 23%
- Don't care: 7%
- Sample missing: 8%
Appendix III

Telephone interview with a government officer, Le Wang, who works in the Ministry of Foreign Trade and Economic Cooperation in Beijing government and is official responsible for foreign restaurants in Beijing.

NB: this interview was done in Chinese. It is translated into English for the sake of the readers. Only relevant information is displayed here.

Interviewee: Le Wang, CIO
Date: May 19 2010, kl. 8.00

The author: May I ask how long you have been working in the foreign restaurant area?

Le Wang: I first came to work in the government in 1991, so it is about 19 years.

The author: oh, thank you. I am doing a research in the Chinese pizza restaurant market. So there are a few questions I’d like to ask you about. As you are in charge of the foreign restaurants area in Beijing, are you familiar with the pizza restaurants like Pizza Hut, Origus, etc. and generally speaking, how do you think the potential of these pizza restaurants? Do you think there is space for more pizza restaurants to be in the Chinese pizza restaurant market? and what makes you think so or not?

Le Wang: Yes, I definitely do. The demands for western food, like pizza and burgers are increasing. And as the real income per capita for urban workers and employees is increasing and the change in relative prices of western food vs. other sorts of food, I think there is a huge potential for pizza.

The author: This question is about customers. Since you said that there is increasing demands for pizza, which age group of people do you think they are? All age group or youth or kids…? And how do you think the bargaining power of customers.
**Le Wang**: I think pizza is more attractive to kids and young people. The working class in some foreign companies, they order pizza for lunch often as far as I know. A friend of mine does it. And the bargaining power of customer is low, they take what restaurant offers.

**The author**: Do you think people would like to make pizza themselves at home since they like pizza?

**Le Wang**: no, I do not think so. Making pizza at home has not yet been developed in China due to the equipment requirements (an oven, etc.) for pizza making. You are Chinese; you know most family use gas for cooking, very small percentage use oven, so the facility is not ready for home pizza making. Plus, all the ingredients are hard to collect. Since it is easier to order in restaurants, why would they make it at home?

**The author**: let’s go to the suppliers’ side. In general, how many main suppliers are active in the pizza restaurant field? Who are they? And how do you think the bargaining powers of these suppliers?

**Le Wang**: For pizza restaurants, dairy factories are the main suppliers, like MengNiu, YiLi, etc. and other suppliers for vegetable and other ingredients, which are sometime these private firms for vegetable supplies. Concerning the bargaining power, if there is inflation, the supplier’s bargaining power would grow, therefore, newly entered foreign restaurant will either have to reduce the operational costs or increase the menu costs for customers to, otherwise, bankruptcy might occur. So if for your restaurant, you’d better hope there is no inflation. (Laughing)

……(the irrelevant information to this thesis is left out)

**The author**: Thank you very much for your time.

**Le Wang**: you are welcome.
Appendix IV:

Email interview with Mu Liang. He is an industry expert in pizza fields, who has his own website:  www.china-pizza.com

Since this is an email interview, the original email is displayed here. This was done in Chinese because it is easier for the interviewee to communicate.

Email from the author:

穆亮先生:

您好！
我是丹麦哥本哈根商学院（CBS）的硕士生。最近我在做一个项目，有一些问题想向您咨询一下。希望您有时间指教一下。

我想了解一下有关于pizza市场的竞争问题：

1. Pizza Hut,  Origus, 和其他pizza店的竞争手段和策略，你是否可以谈一下？
2. 有哪几个竞争因素？
3. 他们主要竞争的方向是什么？
4. 对于这些竞争要素您是否可以给出评分？
5. 如果按照1-10的评分标注，可否请您给这些竞争要素打分？

非常感谢您的合作！
顺颂夏祺！
Best regards,
Hepeng

Email from Mu Liang:

Hepeng 小姐您好！

谢谢您的邮件！
很高兴有机会可以帮助你。
关于你的问题，我的回答如下：
1. Pizza Hut，Origus，和其他pizza店的竞争手段和策略，你是否可以谈论一下？

在中国已经成为“比萨”代名词的必胜客正在卷入一个涉及它们大规模关闭餐厅的传闻中——因为各种原因，包括业绩的影响——该公司正在考虑关闭上海地区的17家门店。必胜客在上海拥有58家正在运营的餐厅，北京地区为56家。该公司提供的数据显示，今年1月到6月必胜客中国内地销售额增长13%。“如果它们（竞争对手）已经分流了我们的客户，那结果应该是显示出我们餐厅的业绩下降。但现在餐厅的业绩还在增长，那就说明是没有影响。”高耀认为。不过，上述数据应刨除必胜客上半年24家新开店面所带来的营业额增长，而该公司并未提供所在市场的整体增长数据。

另一个更加值得注意也是餐饮行业至关重要的数据是同店销售额：在YUM数日前公布的今年第二季度财报上显示，本季度中国内地同店销售额下降4%。尽管百胜公司未透露具体是哪项业务拖累了这项指标，但考虑到该公司在中国最主要的餐饮业务就是肯德基和必胜客，无论哪种情况都不是一件好事情。必胜客拒绝透露自身的同店销售数据。

抛开数据上的疑问，有一点可以肯定的是，这家公司的利润正在受到侵蚀。它无忧无虑的日子到头了：包括北京、上海在内的必胜客餐厅正在进行各项调整，除了推出类别更丰富、价格更低的产品，取消成本不菲的自助沙拉，发展宅急送业务等也在其中。

2. 有哪几个竞争因素？

竞争要素，我说有；
● 食物的价钱
3. 他们主要竞争的方向是什么？

当然是市场占有率。每一家店都会在这上下工夫。开店的数量是她们的竞争方向。

4. 对于这些竞争要素您是否可以给出评分？

可以！

5. 如果按照 1-10 的评分标注，可否请您给这些竞争要素打分？

我给出的分数是各家 pizza 店的总评分：

- 食物的价钱 7
- 食物的味道 7
- 卫生条件 6
- 服务质量：顾客的满意程度 6
- 是否有送货：网上还是电话业务 5
- 地点的选择：是否是市中心，主要街道还是小巷 6
- 洗手间设施 6
- 送餐的速度 5
顾客满意度 7
广告：是否启用名人和广告的形式 6
是否有优惠券：形式，网上还是学生卡等 5
是否有特殊服务 7
内务 6
外务 5
装潢 6
服装 5

祝好运！
穆亮
2010, 7 月 9
Appendix V:

Email interview with Dadan Wang. He is an expert in Chinese fast-food industry and he is specialized in substitutes for pizza restaurants.

Since this is an email interview, the original email is displayed here. This was done in Chinese because it is easier for the interviewee to communicate.

Email from the author:

王达旦先生：

您好！

我是丹麦哥本哈根商学院（CBS）的硕士生。最近我在做一个项目，有一些问题想向您咨询一下。希望您有时间指教一下。

穆亮先生介绍我认识您，他说您可以帮助我回答以下的问题：

我想知道在中国快餐市场，例如：KFC 肯德基，麦当劳之类的快餐餐厅的竞争要素都有哪些？另外能否请您给每个竞争要素打分呢？穆亮先生已经给我提供了一些 pizza 界的竞争要素，我需要和快餐界的要素相比较，可否请您提供一些信息？

非常感谢您的合作！

顺颂夏祺！

Best regards,

Hepeng
Email from Dadan Wang:

亲爱的 Hepeng:

我跟穆亮是好朋友，既然是他介绍的事情，我已经尽力而为。
我和穆亮商量了一下，我们认为你可以采用同样的竞争要素，其打分我已经写在每一项的后面了:

- 食物的价钱 4
- 食物的味道 6
- 卫生条件 5
- 服务质量：顾客的满意程度 7
- 是否有送货：网上还是电话业务 5
- 地点的选择：是否是市中心，主要街道还是小巷 7
- 洗手间设施 6
- 送餐的速度 7
- 顾客满意度 5
- 广告：是否启用名人和广告的形式 6
- 是否有优惠券：形式，网上还是学生卡等 7
- 是否有特殊服务 5
- 内务 4
- 外务 3
- 装潢 4
- 服装 2

好运！
王达旦
Appendix VI:

Email interview with general manager Debin Zhao in Pizza Hut

Since this is an email interview, the original email is displayed here. This was done in Chinese because it is easier for the interviewee to communicate.

Email from the author:

赵德斌先生:

你好！

我是丹麦哥本哈根商学院（CBS）的硕士生。最近我在做一个项目，有一些问题想向您咨询一下。希望您有时间指教一下。

1. 请问你们销售无 cheese pizza 吗？
2. 你们知道为什么有些人不喜欢 pizza 吗？
3. 如果，你们是怎么知道的？

非常感谢您的合作！

顺颂夏祺！

Best regards,

Hepeng

Email from the interviewee:

你好！我们都是 cheese pizza。前些年我们做了一个研究报告，发现很多人不喜欢 pizza 是因为 cheese 中的反式脂肪酸有害健康问题。

（Pizza Hut only serve cheese pizza. They did a questionnaire as Debin Zhao stated in the email. They found out that the reasons that some people do not go to pizza restaurants is due to the health-concerned issues, cheese are not health. Unfortunately, the questionnaire is confidential, so they won’t show it to me）
Appendix VII:

Email interview with general manager Delong Xue in Pizza Hut
Since this is an email interview, the original email is displayed here. This was done in Chinese because it is easier for the interviewee to communicate.

Email from the author:

薛德龙先生:

你好！
我是丹麦哥本哈根商学院（CBS）的硕士生。最近我在做一个项目，有一个问题想向您咨询一下。希望您有时间指教一下。
请问你们销售无 cheese pizza 吗？

非常感谢您的合作！
顺颂夏祺！

Best regards,
Hepeng

Email from the interviewee:

你好，我们店里所有种类的 pizza 都是带 cheese 的，像您说的那种无 cheese pizza，我们这里没有。
（As Delong Xue states that they never serve non-cheese pizza in Origus ）