

China Coast: A case on multi-unit restaurant feasibility**Case Synopsis**

The case is set in the early 1990s when General Mills was getting its strategic house together in anticipation of an initial public offering of its restaurant division - what is now known today as Darden Restaurants, Inc. The General Mills Restaurant Group was comprised of Red Lobster, The Olive Garden, and the Company's most recent concept, China Coast. With stagnating growth of its cash-cow concepts Red Lobster (seafood) and the Olive Garden (Italian), shareholders were anxious for the company to deliver the next big multi-unit casual dining concept. Management created the China Coast concept to fill this need. China Coast was an attempt to consolidate and standardized the large, highly fragmented full-service casual dining Chinese restaurant market.

General Mills grew its concepts carefully. All stores were corporate owned and operated, and many of the systems not actively tied to restaurant operations, were centralized at the corporate office. This centralization of back office and strategic resources was considered a strong operating advantage for Darden. The Company itself reported that a key source of operational success stems from its ability to, "Achieve operating efficiencies by sharing support services and infrastructure among its restaurant concepts." The core resources that provide Darden concepts with strategic advantage in their markets stem from:

- An extensive supply chain program (the Quality Assurance Department),
- The ability to utilize a central information system and point of sale system (POS).
- A well-developed human resources system to recruit, hire, train and retain employees.

These resources helped Red Lobster and The Olive Garden expand quickly and profitably to over 1,500 stores. However the question that faced Darden management at the start of this case was whether a full-service Chinese cuisine concept could follow in the same footsteps. The case presents operational considerations associated with executing full-service Chinese food – the heart of which is that for the cuisine to be remotely 'authentic,' or familiar to the American public, the food must be prepared and served in a very specific way. Can China Coast find a balance between the food (the menu items, how they are prepared and served) and a sustainable and extensible operating structure that can not only take advantage of centralized resources, but also be duplicated across the country? This case allows discussion on trade-offs between restaurant concept (food and service style) and effective service design, and the strategic implications that come with them.

Target Audience

This case is written for food and beverage operations and management students. The case can be customized to food and beverage and hospitality management undergraduate students of all levels depending on the depth with which the instructor chooses to focus on various topics (such as human resources, restaurant operations, services marketing, and service operations). Students should have some prior knowledge of food and beverage operations (either front or back of house) to make full-use of the case.

Teaching Objectives and Theoretical Concepts

Within a food and beverage program, the instructor can choose to present the case as a capstone food and beverage strategy or operations management case, or narrow the objectives to any of the following topics:

- Identify and articulate the operational differences between full-service Chinese and Western restaurants.
- Identify and evaluate how a restaurant concept (food and service style) could impact: customer management strategy; human resources/employee management (recruiting, hiring, training, culture); and real estate and facilities planning.
- Apply a generic services management framework such as Francis Frei's service operations management framework (Frei, 2008 or Frei & Moriss, 2012) to analyze the strengths and weakness of a restaurant.

Recommended Supplemental Materials

- Chinese Restaurant Operations & Management: [ebpstars.com]. (2012, February 29). 2 Michelin Shanghainese cooking at Yè Shanghai. [Video File]. Retrieved from <https://youtu.be/E7yj3Fi3R38>.
- [ebpstars.com]. (2012, February 27). Michelin Paul Lau makes a dish at floor 103 in HK. [Video File]. Retrieved from <https://youtu.be/7kuzn2TC1cs>.
- Hofstede, G. (2007). Asian management in the 21st century. *Asia Pacific Journal of Management*, 24(4), 411-420.
- Smith, R.P. (2015). *Chinese Restaurants: Operation and Management*. Hospitality Management Learning Modules, First Edition. Peter Szende, Editor. Pearson Education, Inc.
- Service Operations Framework: Frei, F. X. (2008). The Four Things a Service Business Must Get Right. *Harvard Business Review*, 86(4), 70-80.
- Frei, F. & Morriss, A. (2012). *Uncommon Service: How to Win by Putting Customers at the Core of Your Business*. Harvard Business School Publishing.
- Multi-unit Food Service Operations: Sukkoo, K. (2001) Markets and Multiunit Firms from an American Historical Perspective. *Multiunit Organization and Multimarket Strategy*, v18, 305-326.

Teaching Approach

Recommended Teaching Plan (based on a 90-minute class)

The instructor may choose to assign the first three questions for students to prepare prior to an in-class discussion. During class, the instructor can divide the discussion into four sections:

1. What are the customer-facing elements of Chinese restaurants?
This is a good discussion opener where students can draw from their own experiences. The instructor can also have students literally draw out a service blueprint of the typical Chinese restaurant experience, focusing on the customer-facing steps of service. Key service steps to highlight may include;
 - a. The food itself (ingredients, look/feel, presentation), service (takeout, customization / extensive menu, speed), style of eating (courses?, served at once, dim-sum, family-style?).
 - b. Differences between western restaurants and Chinese restaurants...cuisine, service
2. How do the unique aspects of full-service Chinese cuisine/food impact operations: facility design and equipment, labor-foh/boh, information technology/systems)?
 - a. Given the impacts identified above, in what ways can China Coast take advantage of Darden's centralized efficiencies?
3. If you were a part of the Darden senior management team, what strategic next steps would you recommend for the China Coast concept?
 - a. Would you expand or contract the number of restaurants? What are the most important factors that weighed into your recommendation?
 - b. If Darden decides to expand the brand, which operational areas would you recommend focusing on to improve sales or margins?
4. Epilogue

Case Analysis

There has been much speculation as to why Darden failed at its attempt to enter into the Chinese casual dining market. The Company itself is only willing to state generally that it expanded much too quickly, citing China Coast's rapid growth from five units to 51 units in just two short years. To a certain extent, Darden's generalization is correct: it did grow too quickly. However, Darden failed to realize that there were fundamental differences between Chinese and Western cuisines that would not allow the Company to directly transfer or take advantage of its core competencies such as hiring, training, supply chain management, or location sourcing.

American consumers are already very familiar with reasonably

traditional Chinese food insomuch as the mom-and-pop restaurants that the population has become accustomed to are highly likely to be staffed (front and back of house) with Chinese employees. Americanized Chinese food was still cooked in a Chinese fashion using wok cookery – the food flavor may have been Americanized to be sweeter or stronger, but traditional wok cooking methods allowed the food to maintain a proper texture and temperature. At the root of Darden's operational problem was the Company's naivety of wok cookery. The author recommends that the instructor show or assign a video sample of restaurant wok cookery⁶. The visual of the speed, dexterity and (British Thermal Units) BTUs of gas required is powerful, and makes for an easy point of comparison to Western kitchen techniques and setup. It is a highly technical and intense form of cooking that if not done properly, will severely affect the entire customer experience. Food is easily burned or unevenly cooked, mixed, or seasoned. Compromises made to facilitate the cooking process often lead to preparations that taste inauthentic and/or result in narrowed customer choice and decreased customizability. From this one point, a whole host of operational problems can emerge (Teaching Note Figure 1).

If we follow Francis Frei's service model (Frei & Morriss, 2012), a successful service operations design must have a deliberate balance between the:

- *Service Offering* – What value propositions are the product/service fulfilling for the target market(s)?
- *Employee Management System* – How will you find, keep, and enable employees who are willing and able to execute on the service offering? What roles and responsibilities do employees play in executing the service offering?
- *Customer Management System* – What roles and responsibilities do the customer play in creating the service offering? How do you control customer variability in behavior, ability, and expectations as they participate in creating the service offering?
- *Funding Mechanism* – How is the service designed to sustainably pay for itself in the long run? The success of your service offering fundamentally depends upon gaining competitive advantage from which profit component(s): Pricing power, sales volume, lower variable costs, and/or lower fixed costs?

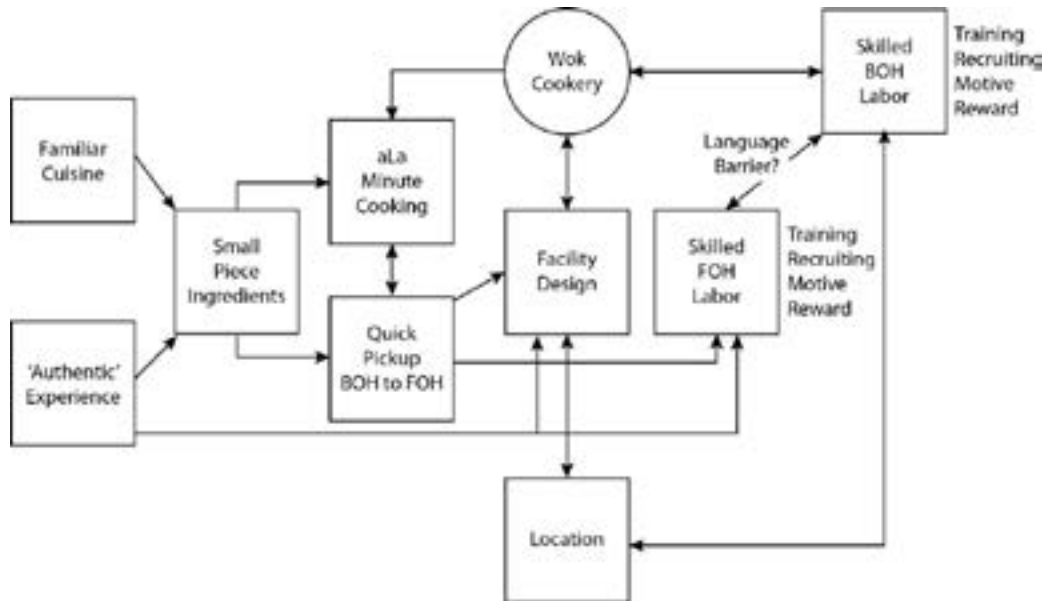
With China Coast, it is easiest to discuss how the Service Offering is intricately intertwined with the Employee Management system, and in turn makes the Funding Mechanism of the service design increasingly untenable. The case also illustrates how decisions or constraints in one system has ripple effects to other areas of the service design.

The General Mills Restaurant Group/Darden spent five years refining the China Coast concept, including making facilities design, menu and service process changes to ensure that food arrives to the

⁶ We recommend the two ebpstars.com videos listed in the supplemental materials. Note, in those videos, the hollow howling sound in the background of both videos is from the high BTUs output of the wok burners.

Teaching Note Figure 1

Wok Cookery Influences on Restaurant Service Operations



tables hot, and of consistent quality. However, the company was unable to resolve the issue of how to find, or train and retain qualified wok cooks. Establishments were opened in areas where professional wok cooks were scarce, and management was apparently pressed to speed up the training process of persons without wok experience. A fundamental problem was that most qualified wok cooks only speak Mandarin or Cantonese, adding language barriers into the fray as Chinese BOH staff find it difficult to communicate to a largely Western FOH, and were generally difficult to manage as they were unaccustomed to Western-style management practices. Language and cultural barriers made it very difficult to find the consistent labor pool necessary to staff a national chain. This may be the primary reason why P.F. Chang's new unit growth rate has dramatically slowed since its initial public offering, and why its menu and atmosphere is often criticized as being 'too Americanized,' or more akin to Asian-fusion than authentic Chinese food. Because finding and hiring existing wok cooks was not realistic, Darden also tried to extend its human resources systems to create a recruiting and training program for wok chefs. The Company tried to correct and adjust for many early mis-calculations by offering higher compensation packages for wok cooks, and providing more training and management supervision at the unit level. However, most of the reputational damage was already done.

The problem with multi-unit concepts is that the original concept design and method of execution must be perfected before national roll-out. If the idea is not perfect, then whatever mistakes are made, will be duplicated (in China Coast's case) 51 times over. By mid-1995, the China Coast name was already tainted – inconsistency in unit level execution

had irreversibly effected consumer perception and building customer loyalty was now almost out of the question. The idea of shared brand image being a strength or weakness of the multi-unit marketing strategy had already proved devastating for China Coast. Another way to think of the situation is to apply Durand's (2000) forms of incompetence to the situation. Darden initially had competence deficiency with the cuisine style and its preparation: the Company simply did not have the skill to perform wok cookery. As the Company diagnosed the problem and tried to apply a solution, it experienced competence inadequacy: they were now able to teach wok cookery to their BOH staff, but service processes and facilities design prohibited proper execution without significant additional investment. Right before the plug was pulled on the China Coast operation, management realized that they were in the final stage of managerial misfit: they could not get change though the system properly because customers were no longer willing to give China Coast a second try after an initial, bad experience.

Epilogue

On August 22, 1995, Darden announced that it would shutter all 51 China Coast locations and cease development of the concept. At the time of the announcement, China Coast accounted for \$71 million, or just 2%, of Darden's total sales in fiscal 1995, but was estimated to have generated \$20 million in operating losses. The entire endeavor would cost the Company \$45 million in restructuring charges to dissolve. On the day of the announcement, Darden's stock closed higher by 6.8%. Senior management in the company were purposefully vague as to why they could not seem to execute on the concept,

except to say that they expanded the chain too quickly. Joe Lee, President of General Mills' Restaurants division (and subsequent CEO of Darden after the IPO) summed the entire venture as, "We expanded way too fast. Some say we tried to run before we know how to wok." Blaine Sweatt, Darden President of the New Business Division conceded a couple of years after the fact, "When we opened a China Coast Unit, we were doing \$100,000 in sales a week. Then we watched it fade away. There is a market, but our cooking technique was wrong."

After the dissolution of China Coast, Darden opened its next concept in 1996: the beverage-focused, casual dining Caribbean restaurant, Bahama Breeze. The food and service style for Bahama Breeze was Western, and offered more operational and back office overlap with Red Lobster and Olive Garden than China Coast was ever able to. By 2000, there were 14 Bahama Breezes; 24 in 2009 and 39 in 2019. Analysts believe that the failure of China Coast had made the Darden management hyper-conservative about internally-developed concepts. The slow unit growth of Bahama Breeze could be a testament to this conservatism. Due to a lack of internally generated concepts, and pressure from Wall Street for top-line growth, in 2007 Darden purchased Rare Hospitality, the owners of (Western-style) full-service restaurants Longhorn Steakhouse and the Capital Grille. By 2014, after seven years of slow earnings growth, activist shareholders voted for a spin-off sale of Red Lobster to private equity firm, Golden Gate Capital for \$2.1 billion. After the sale of Red Lobster, Darden still was not able to internally develop another concept, and instead purchased the 164-unit Cheddar's Scratch Kitchen in 2017 for \$780 million.

As of 2019, there is still no nation-wide full-service casual dining Chinese restaurant concept in the United States. Though several multi-unit Asian restaurants have come into existence, none are full-service Chinese restaurants. The chain concepts that most readily come to mind to most students are P.F. Chang's and Panda Express. However, P.F.Chang's is arguably Asian-fusion with few traditional Chinese menu options⁷, and are still unable to compete against local mom-and-pop Chinese restaurants. Panda Express on the other hand, is a fast-casual concept and does not provide the same level of dine-in service of a full-service establishment. Panda Express' older, full-service sister-concept The Panda Inn, has also failed to expand or grow the way Panda Express has.

References

- Durand, T. (2000). Forms of Incompetence. *Advances in Applied Business Strategy*, vol. 6A, 69-95.
- Frei, F. & Morriss, A. (2012). *Uncommon Service: How to Win by Putting Customers at the Core of Your Business*. Harvard Business School Publishing.

⁷ As a point of class discussion, the instructor can ask the students in the classroom whether they themselves consider P.F. Chang's when choosing to go out for Chinese food.