

Cafe De Coral Ltd Strategic Analysis



By: Erica Cleodora Kurniawan

I. Introduction

Cafe de Coral Holdings Limited (大家樂集團有限公司) is a leading Hong Kong-based food and beverage conglomerate that operates multiple fast-food and casual dining chains, not just the flagship Cafe de Coral (大家樂) restaurants founded in 1968. Over the years, the company has expanded its portfolio through mergers and acquisitions, which include well-known brands such as Super Super, The Spaghetti House, and many more. As a dominant player in Hong Kong's fast-food industry, Café de Coral actively pursues expansion into mainland China, focusing on Guangdong. This move aligns with the company's goal of tapping into new markets and diversifying its consumer base.

II. Issue Identification

Café de Coral Holdings Limited has faced sustained financial underperformance from 2020 to 2024, with stagnant or declining revenue growth in its core Hong Kong market (figure 1). The brand faces stagnant revenue in Hong Kong due to intense competition from budget rivals like MX and Fairwood, as well as convenient alternatives such as convenience stores. Its mid-range positioning lacks differentiation. Post-pandemic shifts, including hybrid work policies, have decreased weekday dine-in traffic in business districts while increasing reliance on food delivery. High platform fees from services like Foodpanda and Deliveroo further compress margins, affecting profitability. Additionally, rising food and labor costs, outdated digital capabilities compared to competitors' AI-driven loyalty programs, and diminished appeal to younger consumers have left the brand struggling with cost inefficiencies and declining relevance in a saturated market.

III. Internal Analysis

1. Resource-Based View and VRIO Analysis

Café de Coral's enduring competitive advantage can be traced to its strategic endowment of both tangible and intangible resources. At the core of its tangible assets lies an extensive network of 551 outlets—380 in Hong Kong and 171 in Mainland China—underpinned by centralized food-processing facilities that streamline procurement and quality control. Equally vital are its intangible assets: the “Hongkonger’s canteen” brand reputation and the Club 100 loyalty program, which boasts over 1.6 million members. When subjected to the VRIO framework, these assets meet all four criteria. Their value is evident in an industry-leading gross margin of 11.4 percent and a 95 percent kiosk penetration that enhances customer throughput. Rarity is conferred by Café de Coral's institutional catering dominance—99 dedicated units in a highly fragmented market—and the deep emotional resonance of its “A Taste of Togetherness” campaigns. Inimitability arises from the complex logistics of delivering fresh congee and baked rice daily, while organizational support is institutionalized through a dual-structure governance model. Nonetheless, the firm's high dependence on nearly 20,000 employees exposes it to labour shortages that could erode operational agility if unaddressed.

2. Organizational Structure and Dynamic Capabilities

Café de Coral operates a hybrid organizational structure that balances centralized control in Hong Kong with decentralized decision-making across the Greater Bay Area (GBA). This dual approach ensures brand consistency and cost efficiencies at headquarters, while empowering regional teams to tailor offerings—such as the Spicy Hainan Chicken—to local tastes. Its digital agility, evidenced by AI-driven promotions and seamless mobile-app integration with Club 100, further distinguishes the firm from competitors. Yet this same structure has manifested a vulnerability: the

company has been comparatively slow to roll out ghost kitchens and delivery-only concepts, reflecting an area where dynamic capability development must accelerate. By refining cross-regional coordination—perhaps through a matrix overlay for project management—Café de Coral can better leverage its centralized systems while preserving the entrepreneurial spirit that fuels local innovation.

3. Transaction Cost Economics

From the perspective of transaction cost economics, Café de Coral's vertical integration of food production facilities reduces supplier bargaining power and internalizes quality control, thus lowering per-unit transaction costs. Conversely, the firm judiciously outsources last-mile delivery via its EatCDC.com platform, striking a balance between control and flexibility. However, this strategy is not without risk: over-reliance on Hong Kong-based suppliers has subjected the company to a 3.4 percent year-on-year increase in raw-material costs. To mitigate input-price volatility and further compress transaction costs, strategic partnerships with vertical-farm operators could secure stable pricing and reinforce supply-chain resilience.

4. Corporate Strategy and the BCG Matrix

Applying the Boston Consulting Group (BCG) matrix to Café de Coral's portfolio reveals three defined quadrants and one intentionally left blank. The Hong Kong quick-service restaurant (QSR) segment occupies the **Cash Cow** quadrant, contributing 59.1 percent of total revenues and generating the cash flow necessary to fund growth initiatives. Mainland China emerges as a **Star**, with 14.5 percent year-on-year sales growth that justifies continued investment to capture market share. The Casual Dining segment situates itself as a **Question Mark**, displaying modest growth of 2.5 percent and requiring strategic decisions on innovation or potential divestment. Notably, the **Dog** quadrant is left empty, not due to oversight, but by

design. In rigorous academic and professional applications of the BCG framework, an empty Dog quadrant accurately signifies that no current business unit falls into the low-growth, low-share category. Strategically, this absence allows Café de Coral to concentrate resources on high-potential segments rather than propping up underperformers, thereby maximizing portfolio synergy and return on invested capital.

5. Isolating Mechanisms for Sustained Competitive Advantage

Beyond resource scaffolding and organizational design, Café de Coral has embedded isolating mechanisms to guard against competitive imitation. Causal ambiguity is cultivated through the proprietary integration of its digital ordering kiosks with a robust CRM engine that personalizes promotions. Preemption is achieved by aggressive expansion within the GBA—22 new outlets opened in 2024—thereby raising the cost for rivals to secure prime locations. Finally, the firm’s Hang Seng ESG AA rating and associated certifications create legal and reputational barriers that deter new entrants, strengthening the moat around its core operations.

6. Conclusion

Café de Coral’s internal analysis confirms that its centralized supply-chain efficiencies, strong brand equity, and digital innovations form a resilient competitive platform. The deliberate absence of a Dog segment in the BCG matrix underscores a portfolio free from underperformers, allowing the firm to allocate capital toward growth and market-leading initiatives. Addressing labor shortages, accelerating ghost-kitchen adoption, and hedging input-cost volatility will be paramount as the company pursues sustained expansion in the GBA and beyond.

IV. External Analysis

1. Porter's Five Forces

The restaurant industry operates in a highly competitive environment shaped by Porter's Five Forces. These forces collectively determine the industry's profitability and competitive intensity.

1. Threat of Substitutes (High)

The restaurant industry faces significant pressure from substitutes, as consumers can easily switch to alternative dining options. The COVID-19 pandemic increased health consciousness, making home cooking a cost-effective and healthier substitute. Additionally, food delivery platforms like Foodpanda provide convenient alternatives, while convenience stores such as 7-Eleven and Circle K offer ready-to-eat meals at 20–30% lower prices. The abundance of substitutes makes demand highly elastic, forcing restaurants to compete aggressively on price and convenience.

2. Threat of New Entrants (Low to Moderate)

While the restaurant industry does not have prohibitive regulatory barriers, new entrants face significant challenges. Legal requirements, including licensing and hygiene compliance, add complexity. High startup costs—such as leasing commercial space, hiring staff, and purchasing equipment—create financial hurdles. Established chains like Café de Coral benefit from economies of scale and brand loyalty, making it difficult for newcomers to compete without substantial marketing investments. Thus, while entry is possible, the combined financial and operational barriers moderate the threat.

3. Competitive Rivalry (High)

The industry is highly fragmented, with many players competing for market share. Low differentiation among competitors, such as Café de Coral, Maxim's, and Fairwood, leads to intense price competition. These chains offer similar menus and pricing, making it easy for

customers to switch between brands. The high seller concentration and minimal switching costs further amplify rivalry, forcing restaurants to rely on promotions and discounts to retain customers.

4. Bargaining Power of Buyers (Moderate)

Buyers have moderate bargaining power due to the wide availability of alternatives. Digital platforms increase price transparency, allowing customers to compare options easily. However, the large customer base dilutes individual buyer influence, preventing excessive pressure on pricing.

5. Bargaining Power of Suppliers (High)

Suppliers hold strong bargaining power due to restaurants' reliance on consistent, high-quality ingredients. The presence of many buyers reduces supplier dependence on any single restaurant, enabling them to negotiate favorable terms. Additionally, switching suppliers can disrupt operations, particularly for large chains, further strengthening supplier leverage.

2. GE/McKinsey Matrix (figure 3)

GE/McKinsey matrix analyzes the growth potential across different business units of Café de Coral. First, Hong Kong's Institutional Catering segment falls into the 'Build' category. With high market growth rates ranging from 18 to 30% in the past three years, the sector remains attractive despite slower recent growth. Besides, as the market leader in school catering through Luncheon Star, Café de Coral has substantial competitive advantages in scale, contracts, and food safety standards, which helps justify growth potential and further investment. Meanwhile, Mainland China operations are positioned as 'Invest/Grow'. After a minor decrease in 2023, growth rebounded to 14.5% in 2024, driven by the huge GBA market. Although competition is intense within the GBA market, Café de Coral's localization efforts, like regional menus, help generate competitive advantages, strengthening its position.

In Hong Kong, the Quick Service Restaurant segment falls into the ‘Hold’ category. The industry is less attractive, with a moderate market growth rate. Besides, the high market saturation context, coupled with Cafe de Coral’s operational efficiency and brand reputation, has contributed to its moderate status regarding competitive advantages. The Casual Dining segment, however, is positioned as ‘Harvest’. Market saturation and shifting consumer preferences may have contributed to its slower growth rate. To sustain its competitive advantages, brand differentiation may be required. Lastly, non-core businesses, including food processing, rental income also fall into ‘Harvest’, with growth turning negative 18.3% in 2024. These assets may be divested to focus on core segments.

V. Recommendation

A. Super Super Congee Noodle

- *Horizontal Diversification, Sustainability, and Technology*

To enhance accessibility and align with its core values of convenience and authenticity, Super-Super Congee and Noodles should implement AI-powered vending machines. This horizontal diversification strategy offers 24/7 access to hot meals through contactless, queue-free service while maintaining food quality via AI Kitchen bots and self-heating technology. The smart vending solution addresses multiple operational challenges:

- Real-time inventory tracking minimizes food waste
- Automated service compensates for labor shortages
- Biodegradable packaging supports sustainability goals

Market viability is demonstrated by successful models like Yo-Kai Express, which thrives through strategic placement in transit hubs and campuses. With APAC's vending machine sector projected to reach \$50.5 billion by 2030, this tech-forward approach positions the brand to capitalize on growing demand for convenient dining solutions. By integrating these

intelligent dispensers, Super-Super can modernize its service model while preserving its culinary identity, creating a competitive edge in the evolving food service landscape.

- *Strategic Location and Product*

This strategic expansion will also diversify customer segmentation, targeting new demographics such as time-poor office workers in corporate hubs, travelers at airports and MTR stations, students at universities, and late-night consumers in hospitals and nightlife zones. In terms of geographical diversification, the Greater Bay Area (GBA) should be a focal point, as it is known to have potential with increase growth based on Porter's Analysis. The GBA is recognized for its significant economic activity and serves as a hub for various industries, including technology, finance, manufacturing, and logistics. In-store observations indicate that Super Super has been expanding its product range beyond noodles and congee to include rice dishes. However, this diversification should be cautiously approached, as Cafe de Coral Holdings Limited already offers local-style food, primarily focusing on rice sets.

B. Cafe de Coral

- *Localized Menu Differentiation Strategy for the Greater Bay Area (GBA)*

To capture the diverse tastes of the GBA market, Café de Coral should implement a hyper-localized menu strategy, blending its Hong Kong heritage with regional flavors. In Guangdong cities like Guangzhou and Shenzhen, this could mean introducing spicy Sichuan-style chicken rice bowls (leveraging local chili preferences) alongside Cantonese classics like clay pot rice or Chaoshan-style braised dishes. For Macau outlets, Portuguese-influenced items like pork chop buns with Café de Coral's signature sauces could differentiate offerings.

- *Strategic Local Sourcing*

Café de Coral strategically adopts local sourcing to weaken supplier bargaining power by diversifying its supply chain and reducing reliance on dominant vendors. Partnering with

regional farms increases flexibility, as shorter supply chains lower switching costs compared to imported ingredients. Smaller local suppliers also depend more on consistent buyers like Café de Coral, improving negotiation leverage against large centralized providers.

Additionally, this approach strengthens brand differentiation through fresher, traceable ingredients while minimizing supply chain risks. This dual advantage aligns with Café de Coral's "Always Delicious, Always Fresh" tagline, enhancing competitiveness against both supplier power and industry rivals.

- Loyalty Programme

Cafe de Carol's Club 100 membership has low usage due to limited, complicated discounts and a slow ghost kitchen in Hong Kong. Competitors like Maxim's and Fairwood attract customers with lower prices, so a stronger loyalty program is needed to retain loyal customers. Currently, members must purchase e-vouchers via the website, making the process inconvenient and ineffective for retention. Since Cafe de Carol focuses on quick service, simplicity is key. For suggestion, imitate McDonald's loyalty program, which offers instant discounts or free items (e.g., free lemon coke with baked pork chop rice or a HK\$5 deduction on hot pot sets). Direct, easy-to-understand rewards encourage membership and increase retention. This approach can also promote new fusion cuisine, benefiting customer loyalty and new menu adoption.

- Food delivery service

To meet market demands, Cafe De Coral should introduce a food delivery service. Partnering with an online platform will cater to customers who prefer ordering from home. Since Cafe De Coral's prices are higher than competitors, offering zero delivery fees would make it more attractive. This strategy can also solve the ghost kitchen issue by meeting the growing demand for convenience. Additionally, improving the mobile app with a subscription-based free delivery model could increase user engagement. Adopting ghost kitchens (delivery-only

facilities) would cut costs by eliminating dine-in spaces, reducing labor and rental expenses while maintaining quick-service efficiency. This approach boosts growth, enhances convenience, and improves cost efficiency.

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Appendix

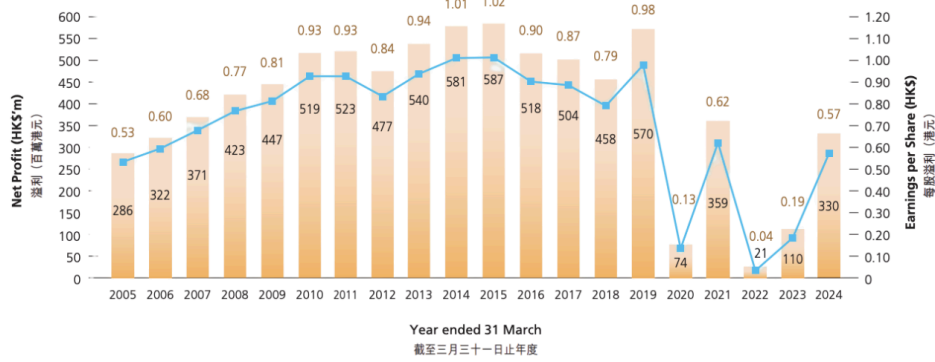


Figure 1 Financial Performance of Cafe de Coral Ltd



Figure 2 BCG matrix

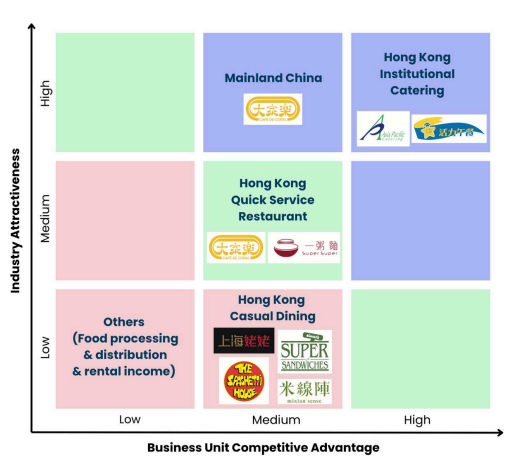


Figure 3 McKinsey Matrix