

# HUNG FOOK TONG

## BUSINESS PROPOSAL

### 2017-2018

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## **Section 1 Executive Summary**

### **1.1 Mission**

Hung Fook Tong commenced its operation in 1986. Along with the 3H idea, 'Health', 'Herbal' and 'Home', using natural ingredients without no food additives are promoted together with the concept of modern wellness by traditional Chinese herbal tea. As mentioned in the motto, 'Naturally Made, Wholeheartedly Good', all Hung Fook Tong products are manufactured in Hong Kong or mainland China to have high accessibility to the production line, in which better quality control of products can be done.

### **1.2 Current State of the business**

Hung Fook Tong is the largest Chinese herbal products retailer in the market. The Group has further broadened the product categories for suiting the market needs. Online purchasing platform has attracted more potential customers. All of the above have also successfully drawn new potential customers' attention. However, the profitability is not satisfactory enough. In 2016, the net profit margin was decreased by around 0.8%, due to increases in various expenditures and a decrease in sales.

### **1.3 Analysis performed**

- Financial Analysis
- Trend Analysis
- Competitor Analysis
- SWOT Analysis
- Brand Positioning Analysis

### **1.4 Key Findings**

#### **1.4.1 Financial Analysis**

Hung Fook Tong performed well in management efficiency. The general performance of long-term solvency is satisfactory. However, there are still rooms for improvement. For instance, the Group needs to alleviate the problem brought by the liabilities. Also, the Group faces difficulties in profitability and short-term liquidity. According to the ratio analysis, the net profit margin decreased by 0.8%, while the current ratio was 1:1 in both 2015 and 2016, due to the increased expenditures and insufficient current assets.

#### **1.4.2 Non-financial Analysis**

Hung Fook Tong has introduced new products for attracting potential customers. For instance, natural herbal Energy Drink with Acanthopanax Senticosi. Also, the mobile app, JIKI CLUB, was launched for customers to buy their products online. A food truck was also introduced to enhance the promotion of the brand. However, Hung Fook Tong is still having the inadequate promotion, which is the main reason for worsening the financial performance.

### **1.5 Main conclusion**

From the financial analysis, it is found that profitability is one of the main concerns. Moreover, the competitiveness of Hung Fook Tong in beverages industry is relatively low, as shown in the competitor analysis. Thus, it is suggested that Hung Fook Tong should enhance its competitiveness and boost the profitability.

## 1.6 Key recommendations

As to have higher competitiveness, it is essential to develop services and products that favour customers' needs and wants. Our group's key strategies are consolidating existing customers and opening up potential markets. Therefore, customised services and newly-developed products, 'My Secret Garden' and 'Love at first sip', are suggested. New function in app 'My little doctor' will be launched, which works as customer service and encourage the use of the app.

## Section 2 Introduction

### 2.1 Background

Hung Fook Tong's performance is analysed via financial and non-financial aspects in the proposal. It is examined that the performance is worse than the previous year. To improve the performance, the business proposal is proposed with suggestions as to improve the financial and non-financial performance.

### 2.2 Objectives and Scope

In this business proposal, Hung Fook Tong's performance in the previous two years (2015 and 2016) is reviewed via financial and non-financial analysis. Furthermore, a questionnaire is carried out to investigate people's feelings and impressions towards the Group. Depending on these findings, we have listed out several suggestions aiming to improve Hung Fook Tong.

## Section 3 Part 1 – An Overall Review of Hung Fook Tong Group's Financial Performance

### Profitability

Ratio	Formula	Ratio in 2016	Ratio in 2015
Gross Profit Margin	$\frac{\text{Gross Profit}}{\text{Sales}}$	$\frac{440,931,000}{715,207,000}$ = <b>61.65%</b>	$\frac{438,927,000}{723,578,000}$ = <b>60.66%</b>
Net Profit Margin	$\frac{\text{Net Profit Before Tax}}{\text{Sales}}$	$\frac{4,368,000}{715,207,000}$ = <b>0.61%</b>	$\frac{10,635,000}{723,578,000}$ = <b>1.47%</b>
Return on Average Assets	$\frac{\text{Net Profit After Tax}}{\text{Average Total Assets}}$	$\frac{8,643,000}{(574,221,000 + 553,738,000) \div 2}$ = <b>1.53%</b>	$\frac{9,331,000}{(565,551,000 + 574,221,000) \div 2}$ = <b>1.64%</b>

Comments:

### **The profitability of Hung Fook Tong has generally worsened.**

Despite the slight increase in the gross profit margin in 2016, the increase in operating and advertising expenses had led to a great decrease in net profit, so the net profit margin decreased from 1.47% to 0.61%. And the return on average assets has slightly decreased too. It shows that the company's ability to generate profit declined. The company is suggested to have better control on operation and advertisement expenses which can improve the profitability.



### Management Efficiency

Ratio	Formula	Ratio in 2016	Ratio in 2015
Average Inventory turnover period	$\frac{\text{Average Inventory}}{\text{Cost of Goods Sold}}$	$\frac{(30,102,000 + 27,921,000) \div 2}{274,276,000}$ = <b>38.61 days</b>	$\frac{36,688,000 + 30,102,000}{284,651,000}$ = <b>42.82 days</b>
Average Trade Receivables Collection Period	$\frac{\text{Average Trade Receivables}}{\text{Credit Sales}^*}$ <small>* Assume all sales are credit sales</small>	$\frac{(64,320,000 + 53,659,000) \div 2}{715,207,000}$ = <b>30.10 days</b>	$\frac{(55,068,000 + 64,320,000) \div 2}{723,578,000}$ = <b>30.11 days</b>
Average Trade Payables Repayment Period	$\frac{\text{Average Trade Payables}}{\text{Credit Purchases}^*}$ <small>* Credit Purchases = Cost of Goods Sold - Opening Inventory + Closing Inventory</small>	$\frac{(28,925,000 + 23,558,000) \div 2}{272,095,000^*}$ = <b>35.20 days</b> <small>* 274,276,000 - 30,102,000 + 27,921,000</small>	$\frac{26,677,000 + 28,925,000}{278,065,000^*}$ = <b>36.49 days</b> <small>* 284,651,000 - 36,688,000 + 30,102,000</small>

Comments:

**The management efficiency of Hung Fook Tong has generally improved.**

The average inventory turnover period decreased from 42.82 days in 2015 to 38.61 days in 2016. It shows that the inventory was sold more quickly and more revenue and profit was earned in 2016 than that in 2015 due to efficient inventory level management. As a lower level of inventory was kept, some costs like insurance costs were lowered.

The average trade receivables collection period was modestly shortened. It implies that it was easier for the company to collect debts. Hence, the liquidity of the company has been improved, the company has a higher effectiveness of credit control in 2016.

The average trade payables repayment period was shortened. It indicates that more trade payables were settled in 2016 than in 2015.

### Short-term Liquidity

Ratio	Formula	Ratio in 2016	Ratio in 2015
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{251,838,000}{247,915,000}$ = <b>1.02:1</b>	$\frac{275,300,000}{272,543,000}$ = <b>1.01:1</b>
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories} - \text{Prepayments}}{\text{Current Liabilities}}$	$\frac{251,838,000 - 27,921,000 - 32,942,000}{247,915,000}$ = <b>0.77:1</b>	$\frac{275,300,000 - 30,102,000 - 29,458,000}{272,543,000}$ = <b>0.79:1</b>

Cash Ratio	$\frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}}$	$\frac{131,160,000}{247,915,000}$ = <b>0.53:1</b>	$\frac{127,410,000}{272,543,000}$ = <b>0.47:1</b>
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Comments:

**The short-term liquidity of Hung Fook Tong has generally enhanced.**

The cash ratio of Hung Fook Tong slightly increased from 0.47:1 in 2015 to 0.53:1 in 2016. It signifies there is more cash covering each dollar of liabilities. Meanwhile, the current ratio of Hung Fook Tong slightly increased. It indicates the company still faces insufficient liquid assets to cover each dollar of liabilities, leading to a potential problem in short-term debt-repaying.

### Long-term Solvency Ratios

Ratio	Formula	Ratio in 2016	Ratio in 2015
Gearing Ratio	$\frac{\text{Non-current Liabilities} + \text{Preference Share Capital}}{\text{Non-current Liabilities} + \text{Shareholders' Equity}}$	$\frac{48,841,000}{48,841,000 + 256,982,000}$ = <b>15.97%</b>	$\frac{42,872,000}{42,872,000 + 258,806,000}$ = <b>14.21%</b>
Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$	$\frac{296,756,000}{256,982,000}$ = <b>115.48%</b>	$\frac{315,415,000}{258,806,000}$ = <b>121.87%</b>
Times Interest Earned	$\frac{\text{Profit Before Interest and Tax}}{\text{Interest Expenses}}$	$\frac{4,368,000 + 1,825,000}{2,027,000}$ = <b>3.06 times</b>	$\frac{10,635,000 + 2,074,000}{2,416,000}$ = <b>5.26 times</b>

Comments:

**The long-term solvency of Hung Fook Tong has generally worsened.**

The gearing ratio increased from 14.21% in 2015 to 15.97% in 2016. It implies that the company was able to meet long-term financial obligations and need to pay more attention to repayment of non-current liabilities. The debt to equity ratio decreased in 2016, although the total amount of debt was higher than equity. It signifies that the company relies more on debt financing than equity financing. The time interest earned also decreased. It shows that the company has a lower capability to pay interest.

Overall, Hung Fook Tong is able to meet the debt obligations at the moment and predictably in the soon future. However, it is necessary to keep an eye on balancing both the debt financing and equity financing as the company relies heavily on debt financing.

### **Investment Ratios**

<b>Ratio</b>	<b>Formula</b>	<b>Ratio in 2016</b>	<b>Ratio in 2015</b>
Dividend Cover for Ordinary Shares	$\frac{\text{Net Profit After Tax-Preference Dividend}}{\text{Ordinary Dividend}}$	$\frac{8,643,000}{4,985,000}$ <b>= 1.73 times</b>	$\frac{9,331,000}{4,985,000}$ <b>= 1.87 times</b>
Earnings Per Share (EPS)	$\frac{\text{Profit Attributable to Owners of the Company}}{\text{Number of Ordinary Shares Issued}}$	$\frac{8,961,000}{655,944,000}$ <b>= \$0.0137/share</b>	$\frac{8,707,000}{655,858,000}$ <b>= \$0.0133/share</b>
Price Earnings Ratio (P/E Ratio)	$\frac{\text{Current Price per Ordinary Share}}{\text{Earnings Per Share (EPS)}}$	$\frac{0.65}{0.0137}$ <b>= 47.4 times</b>	$\frac{0.85}{0.0133}$ <b>= 63.9 times</b>

Comments:

The dividend cover for ordinary share slightly decreased due to the decrease in net profit. Nevertheless, earnings per share increased slightly. It suggests that the potential return from holding shares in the Group has slightly increased.

Meanwhile, price earnings ratio significantly decreased as the current price per ordinary share has decreased whereas EPS has increased. The decrease in P/E ratio implies the investors' confidence in the prospects to the Group has dropped. Despite the decrease in P/E ratio, its P/E ratio was still maintained at a high level. Therefore, the Group should carry out effective measures to improve its performance and regain the investors' confidence.

### **Overall Conclusion**

Hung Fook Tong's financial performance is generally not satisfactory. Though the management efficiency has been improved, profitability, short-term liquidity, long-term solvency and investment ratio was generally worse than the previous year. It is suggested that control over its expenses on operation and advertisement should be more prudent and maintain lower debt-to-equity ratio so as to regain investors' confidence.

## **Section 4 Financial Analysis**

### **4.1 Trend Analysis**

#### **A. Revenue**

According to 2015-2016 Annual Report of Hung Fook Tong, the revenue from Hong Kong retail operation increased gently from HK\$483.175 million in 2015 to HK\$519.286 million in 2016 by 7.47%, due to the gain on disposal of an investment property. Consequently, the revenue driven by retail may have a mild growth of 1%.

#### **B. Net profit before tax**

According to 2015-2016 Annual Report of Hung Fook Tong, the net profit rose slightly from \$60.1 million in 2015 to \$63.4 million in 2016 by 5.49%, due to the gentle increase in revenues. Therefore, the net profit will continue to increase at a slow pace.



### C. Net profit margin

According to 2015-2016 Annual Report of Hung Fook Tong, the net profit margin shrank slightly from 12.44% in 2015 to 12.21% in 2016 by 1.85%, due to increase in selling and distribution costs, such as transportation and distribution expenses. Administrative and operating expenses, including advertising and promotional expense and auditors' remuneration expenses, are another reason for that. The increase in expenses is faster than the growth of revenue. Hence, the net profit margin may continue to decrease due to the rising amount of expenses. It is suggested that stricter controls over expenses and costs should be done to maintain or increase the net profit margin.

## 4.2 Competitor Analysis

### Comparison between Hung Fook Tong and its competitor – Vitasoy

Though Hung Fook Tong is already the market leader of Chinese herbal products in Hong Kong, it is also engaged in beverage industry with other local brands like Vitasoy Group. Also, other local brands in herbal tea industry are not listed companies. Therefore, we consider **Vitasoy Group** as a major competitor of the Group.

Among the **food and beverages industry**, our group believes **Vitasoy Group** is a major competitor of Hung Fook Tong Group since both of them mainly sell healthy beverages and ready-to-drink beverages. For example, Vitasoy Group sells Vitasoy and has a series (清心棧) especially for selling healthy beverages.

Thus, we are going to investigate Vitasoy and compare Hung Fook Tong and Vitasoy from different aspects to see if Hung Fook Tong outweighs Vitasoy.

	Hung Fook Tong Group			Vitasoy Group		
	2015	2016	Change	2015	2016	Change
	\$'000,000	\$'000,000		\$'000,000	\$'000,000	
Revenue	483.175	519.286	+7.47%	2,219	2,305	+3.88%
Comments: The sales revenue of Hung Fook Tong and Vitasoy have increased by 7.47% and 3.88% respectively. Although Hung Fook Tong had a greater increase in sales revenue, the total amount is still less than that of Vitasoy.						
Net Profit	60.1	63.4	+5.49%	355	380	+7.04%
Comments: There is a difference of 1.55% for the increase in net profit of Hung Fook Tong Group and that of Vitasoy Group. It shows Hung Fook Tong Group having worse expense control than Vitasoy Group.						
Net Profit Margin	12.44%	12.21%	-1.85%	16.00%	16.49%	+3.06%
Comments: The net profit margin of Hung Fook Tong Group has declined by 1.85% while that of Vitasoy Group has raised by 3.06%. As Hung Fook Tong had increasing operating and advertising expenses, there was a slight decrease in net profit margin. Meanwhile, Vitasoy Group had a slight increase in net profit margin due to some other reasons. It indicates Hung Fook Tong is having worse financial performance than Vitasoy Group.						

## Section 5 Non-financial Analysis

### 5.1 SWOT Analysis

#### Strength

1. The Group is **well-known** in Hong Kong as it is the monopoly of the herbal tea industry.
2. The Group **owns a group of loyal customers** with high purchasing power (middle class) according to 2016 annual report.
3. The Group is the **largest herbal retailer** in Hong Kong, which owns 117 shops and has a **wide distribution network**. It is convenient for its customers to look for a nearby shop and can distribute its products throughout the whole territory of Hong Kong.
4. There is a **large variety of products** introduced according to the season change. Different series are launched in different seasons for customers' health and needs. The products are natural and without food additives.
5. The products **are ready-made** so customers only need to reheat the food with microwave. Therefore, it is convenient for customers especially who lack time to cook.
6. There is a significant number of **awards and recognition**. For example, it has been awarded 'Hong Kong Top Brand Ten Year Achievement Award' by Hong Kong Brand Development Council & the Chinese Manufacturers' Association of Hong Kong, 'The Hong Kong Q-Mark Service Scheme' by the Federation of HK Industries and 'Caring Company' by the Hong Kong Council of Social Service since 2006.
7. The Group has an **image of healthy and reliable** since it aims at **3H- health, herbal and home**.
8. The Group has introduced **online ordering app with e-coupon, which covers a wide variety of products and brings convenience** to customers

#### Weakness

1. According to our market research, **promotion of the brand is insufficient and ineffective**. For instance, Hung Fook Tong is not utilizing social networking sites well in terms of promotion.
2. **The app launched is not well-developed and well-known** as it is mainly used by members of JIKA Club. According to our market research, 115 out of 154 respondents (74.68%) have never used the Hung Fook Tong mobile app.
3. **New products' packaging may not be attractive enough for teenagers** on account of the ordinary look.
4. As **the packaging of the beverages cannot specify the features of the products**, some might find the products repetitive with products of other companies.
5. It has an **unclear positioning** in the market since the products are too diversified and engaged in different markets concurrently.
6. The **shop assistants do not know well about the products**. They cannot provide enough recommendations to the customers who hesitate between two products.
7. In most convenience stores, Hung Fook Tong products are usually placed in inconspicuous positions which are not prominent for customers. As a result, the products may **not be noticeable for customers** and greatly reduce the probability of purchasing the products.



<p>who do not have a Hung Fook Tong retail shop nearby.</p> <p>9. The Group has <b>stable and reliable suppliers</b> which ensure good product quality, according to its 2016 annual report.</p>	
<p><b><u>Opportunity</u></b></p> <p>1. <b>Trends of staying healthy</b> and the rise of <b>sub-health concept</b> attract more customers to consume their products, especially for those who have high purchasing power and awareness towards health but <b>lack time to cook</b>.</p> <p>2. <b>Tea and sports drinks are popular</b> among teenagers nowadays.</p> <p>3. Ageing population brings Hung Fook Tong more <b>potential customers</b> and leads to <b>greater demand for its products</b>, as one of product series of the Group is Chinese herbal tea and Chinese-style Soup.</p> <p>4. <b>The use of online ordering app is becoming more and more common</b> in Hong Kong.</p> <p>5. People <b>lack time to cook</b> especially the white collar workers and they become the Group's <b>potential customers</b> as the products are time-saving to be served.</p> <p>6. <b>New technology</b> in manufacturing helps save operation cost and raise the operation efficiency. For example, higher automation in production can save labour cost.</p>	<p><b><u>Threat</u></b></p> <p>1. <b>Herbal tea culture is declining</b>, in which teenagers tend not to drink herbal tea.</p> <p>2. <b>The colour of herbal tea is not that attractive</b>. As people tend to be attracted by lighter colour nowadays, the dull-coloured herbal tea of the Group may not be attractive to the customers.</p> <p>3. The Group is one of the oligopolists which dominates the local herbal tea market, and its <b>market share is nearly saturated</b>. As a consequence, it is hard for the Group to earn further more revenue and profit.</p> <p>4. There is an <b>intense competition</b> in the wholesale beverage market which may affect the profitability of the Group.</p> <p>5. There is an <b>increase in operating expenses</b> in Hong Kong due to inflation, rising wages and land rents which pose difficulties on expense control.</p> <p>6. <b>Customers' taste is shifting</b> which is uncontrollable and unpredictable. The Group may find it difficult to cater the wants of the customers.</p>

After carrying out SWOT analysis, we have found out the strengths, weaknesses, opportunities and threats of the Group. Subsequently, we have conducted a questionnaire (Appendix) and positioning map (Appendix) so as to have a better understanding of people's feelings and impression towards the Group and its position in the market.

## **Section 6 Business Plan**

### 6.1 Strategy

A business plan of \$10 million is proposed to improve Hung Fook Tong Group's operation in Hong Kong. In this business plan, SWOT analysis above is used. The problems identified in the 'Weakness' and 'Threats' will be tackled while making good use of the advantages found in 'Strengths' and 'Opportunities'.

#### **Key Strategy:**

***Consolidating the existing customers***

***Opening up potential market***

## 6.2 Project Plan

### **Key Measure 1: 'My Little Doctor'(我的小華佗) in-app**

#### ***Reason for adopting this measure:***

Online shopping is gaining popularity nowadays. The app 'Hung Fook Tong' was created by Hung Fook Tong in 2016 for JIKA Club members. Yet, the new JIKA Club members have to wait for 30 working days to get access to an online account. Nevertheless, the products sold online are too diversified, including electronic appliances and neck pillow. These products are not related to core products of the Group, herbal tea. Also, the declining herbal tea culture leads to difficulties in the promotion. We believe that the app can be modified to be **more user-friendly and lively, which can attract more customers.**

#### ***Features:***

Firstly, **'My Little Doctor'** will be added as one of the new functions in the app. The app users are encouraged to give some personal information, such as age, gender and health conditions. Based on the data provided, tips on health preservation will be provided and changed by seasons. The app will also provide suggestions on choices of food and drinks in order to promote a healthy lifestyle. Choices of food and drinks will be based on existing Hung Fook Tong products. The app will become more humanised and promotes the Group's products at the same time.

Secondly, **a herbal tea quiz** will be launched in the app and update under monthly-basis. The objective is letting the app users learn more about herbal tea and health preservation. In order to participate in the game, the users have to spend a minimum of \$20 at Hung Fook Tong retail shop. They will receive a code and a QR code printed on the receipt, which can be scanned by the existing mobile app. Participants need to enter the code after scanning the QR code to identify their identity. It is suggested that setting 5 questions and a \$2 e-coupon will be awarded to those who got 3 or more questions correct. This encourages the use of the app and purchases. Thirdly, **waiting time for registration can be shortened to 7 working days** by consulting IT professionals. A \$50 e-coupon will be given to customers who spent \$200 and registered as a JIKA member in the app.

Fourthly, **the products sold online should focus on herbal tea** and products that can be bought in retail shops as to have a clear positioning.

#### ***Expected impact:***

A more **user-friendly version with new humanised function** can encourage the installation of the app and the registration of JIKA Club membership, which encourage usage of the app and creates demand for the Group's products. The new functions can also raise the awareness of herbal tea culture and promote the brand at the same time.

### **Key Measure 2: Love at first sip(一抿傾心)—Cold brewed tea**

#### ***Reason for adopting this measure:***

As the taste of herbal tea may not favour all customers, cold brewed tea will be introduced as a new product to meet customers' interest.



### **Features:**

Cold brewed tea is brewed in cold or room temperature water for an extended period of time (i.e. 8hours). The process slowly and gently extracts flavours from the tea and persists an original taste tea.

Cold brewed tea contains fewer catechins and tannins content and more vitamin C, which is a healthier alternative to hot tea. The tea tastes sweeter and milder as less bitter chemicals will be released when brewing, which compliments delicate flavours. Customers can **purchase cold brewed tea using Hung Fook Tong app**, which the estimated pick-up time will be stated.

### **Expected impact:**

Since the cold brewed tea is not well-known in Hong Kong, **free promotion** on the social network can be attained. Also, modification of the taste of tea can meet customers' demand.

### **Key Measure 3: My Secret Garden(壺天自春)—Customised scented tea**

#### **Reason for adopting this measure:**

**Customisation can gain free publicity and potentially become a hot topic among youngsters**, as it involves the latest trend, DIY (Do It Yourself). Free market research can be carried out by observing at popular combinations which reflects the preference of customers. Since there is a growing trend of customisation of goods and buying customised goods, we believe that the Group can link this concept to the new products.

#### **Features:**

Herbal tea beverages are made by brewing herbs, flowers, fruits, or other plants (i.e. medicinal plant) using hot water, while scented tea is made by brewing scented dried flowers with tea leaves. Both are good for health and bring medical effects to human bodies. Green tea and oolong tea will be provided as **tea bases** and dried flowers for embolisation.

**5 kinds of flowers**, including lily, jasmine, Roselle, chrysanthemum, rose, will be provided during the testing period. Other ingredients, like wolfberry, hawthorn, lemongrass and honey, are provided to brew the tea. **Combination recommendation** will be provided after research and development. Customers can choose the ingredients with reference to the recommended combinations or solely base on their preferences. For instance, Roselle and rose tea are suitable for all customers, especially females. Ingredients like wolfberry and honey can be added to embellish the tea. Each customer can add a maximum of 4 ingredients in each cup, and a maximum of 3 teaspoons for each ingredient.

As 4 retail shops will be opened in 2018, according to the Group, we suggest **reserving a small corner for customisation of scented tea in newly opened stores**. Barrels of tea and a tray of customising ingredients can be set up and provided in the corner. The suggested price of the tea with a volume of 400ml can be sold at a price of \$25.

#### **Expected impact:**

Since the customised scented tea is unique, free promotion on the social networking sites might result. This can potentially raise public awareness and create a more modernised brand image.



## **Key Measure 4: Restructuring of Retail stores**

### ***Reason for adopting this measure:***

Groups of consumers vary with the location of shops but products sold in all retail stores are nearly the same. As to fully utilise the resources, restructuring of stores is suggested.

### ***Features:***

Firstly, **allocation of products according to customer group in different retail stores**. For instance, more ready-made lunchboxes, sweet soup and drinks should be placed in retail stores in Central as the main customer group is the white-collar workers and they are more likely to buy their lunch or dinner in the Group. For retail stores in the Eastern district, products like herbal tea can be placed in retail stores as some of the elderly believe in Chinese herbal culture. Secondly, **construction of customised area** mentioned in key measure 3. Since the trend of customisation is growing, a customised area for customers to design their own drinks can be set up. There are glass barrels containing tea, which are used to make scented tea. After picking the flower petals into the paper cup provided by the Group, they can give it to the barista for brewing the scented tea. The whole process will be under the monitoring of baristas.

Thirdly, **integration of products**. Products that have similar functions in nourishing or strengthening body can be integrated into one product so that promotion of products can be more focus. For instance, Mango Deluxe with Aloe Vera for Strengthening Stomach and Mango Deluxe for Strengthening Stomach in 'Nourishing Deluxe' can be integrated into one product – Mango Deluxe. The ingredients used in the above two products are more or less the same and the functions are similar. Moreover, the introduction of promotion packages can be done. For products that customers usually consume together at a specific period can be packed and promoted together. For instance, breakfast package which includes soybean milk and steamed bun can be sold at a discounted price so as to boost sale.

### ***Expected impact:***

By restructuring the stores, it is believed that resources can be fully utilised and the customised area can boost the sale of the Group by introducing customised scented tea.

## **Key Measure 5: Enhancement of Promotion**

### ***Reason for adopting this measure:***

Promotion is essential for a business to get recognized and to build brand image. However, according to the market research carried out by our group, the promotion of Hung Fook Tong is insufficient and ineffective.

### ***Features:***

For youngsters, **sponsorship in inter-school competitions** can be done. Inter-school competitions like swimming, basketball and volleyball are famous among teens in Hong Kong. Sponsoring the competitions can work as the advertisement at a low cost.

For adults and youngsters, **promotion on the social network** can be done. For instance, reposting or sharing of a post can earn an e-coupon on Facebook. Collaboration with YouTubers

can serve as an alternative. For example, to share on their channels and paid promotions on YouTube.

For travellers, **advertisement on travel book** can be launched. As foreigners are interested in Chinese culture and herbal tea culture is an intangible cultural heritage, this can attract foreigners to purchase.

**Expected impact:**

It is believed that the promotion of the social networking sites can boost the sales of the Group. As shown in our market research, 'Friends' or family's recommendation' is one of the factors taken into consideration when customers are deciding which healthy beverages to buy. The sponsorship can help raising the brand awareness among youngsters and open up potential youth market. Foreigners can acknowledge the Brand by promotion in tourist brochures, which more potential customers can be attracted. They may recommend their compatriot families and friends purchase Hung Fook Tong products when they travel to Hong Kong or Mainland China, as Hung Fook Tong products can only be found in these places.

**6.3 Implementation Details**

Measure	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.1 Improvement of app: "My Little Doctor"	1.Contact the app designers about adding the new function  2. Design the page of the new function	1.Update and release the new function  2.Provide health tips and suggestions to the app users		1.Collect feedback of the app users	1.Update and release the app with improvement			1.Collect feedback of the app users
1.2 Improvement of app: Shortened waiting time for registration	1. Employing IT professionals for increasing operational efficiency							
1.3 Improvement of app: Herbal Tea Quiz	1.Contact the app designers about designing the game pages and the new function	1.Update and release the new function						
2. Love at first sip—Cold brewed tea			1.Research and test for cold brew tea	1.Promote and sell cold brew tea in app			1.Collect feedback of customers	1.Sell cold brew tea in app with improvement
3. My Secret Garden—Customized scented tea		1.Research and test for combination of ingredients		1.Set up and provide barrel of tea and a tray of customizing ingredients in the corner  2.Provide recommendation on the combination of ingredients		1.Collect feedback of customers	1.Research and test for other combination of ingredients	1.Provide new recommendation on the combination of ingredients

Measure	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
4.1 Restructuring of Retail stores: Allocation of products according to customer group in different retail stores	1.Research on the population of different products in different districts	1.Design the allocation of products according to customer group in different retail stores	1.Allocate products according to customer group in different retail stores					
4.1 Restructuring of Retail stores: Construction of customized area			1. Design the customized area	1.Set up and provide barrel of tea and a tray of customizing ingredients in the corner  2.Provide recommendation on the combination of ingredients				1.Provide new recommendation on the combination of ingredients
4.2 Enhancement of Promotion: Sponsorship in inter-school competition	1.Contact the organisers of inter-school competition about sponsorship		1.Sponsorship in inter-school competition		1.Contact the organisers of inter-school competition about sponsorship		1.Sponsorship in inter-school competition	
5.2 Enhancement of Promotion: Promotion on social network	1.Promote new products on Facebook that repost or share it can earn an e-coupon	1.Contact Youtubers about advertisement	1.Promote new products on Facebook that repost or share it can earn an e-coupon	1.Collaboration with Youtubers	1.Promote new products on Facebook that repost or share it can earn an e-coupon	1.Contact Youtubers about advertisement	1.Promote new products on Facebook that repost or share it can earn an e-coupon	1.Collaboration with Youtubers
5.3 Enhancement of Promotion: Advertisement on travel book					1.Contact the publisher of travel book about advertisement	1.Designing the content of advertisement in travel book	1.Advertisement on travel book	

#### 6.4 Marketing Expenses Budget

Measures	Details	Budget	% of budget
<b>'My Little Doctor' and herbal tea quiz in-app</b>	Inventing the function + Testing fee	1,500,000	15%
	Promotion of new function - promotion fee	200,000	2%
	Function update and maintenance	400,000	4%
	Expenses of operating platforms in the app	800,000	8%
	\$50 Coupons provided to people who first registered as JIKA member	500,000	5%
	Administrative expenses	150,000	1.5%
<b>Total</b>		<b>3,550,000</b>	<b>35.5%</b>
<b>Love at first sip- Cold brewed tea</b>	New product development fees	500,000	5%
	Inventing the function + Testing fee	500,000	5%
	Transportation fee	100,000	1%
	Administrative expenses	150,000	1.5%
<b>Total</b>		<b>1250,000</b>	<b>12.5%</b>
<b>My Secret Garden — Customised scented tea</b>	New product development fees	500,000	5%
	Flower petals and ingredients	500,000	5%
	Transportation fee	400,000	4%
	Administrative expenses	150,000	1.5%
<b>Total</b>		<b>1,550,000</b>	<b>15.5%</b>



<b>Restructuring of Retail stores</b>	Allocation of products - Transportation fee	300,000	3%
	Construction of customised area - Construction cost	1,000,000	10%
	Administrative expenses	400,000	4%
<b>Total</b>		<b>1,700,000</b>	<b>17%</b>
<b>Enhancement of Promotion</b>	Youngster: sponsorship in inter-school competition - Sponsor fee	500,000	5%
	Adults and youngsters: Promotion on social network - Promotion fee	200,000	2%
	Travellers: Advertisement on travel book - Advertising expenses	300,000	3%
	Administrative expenses	150,000	1.5%
<b>Total</b>		<b>1,550,000</b>	<b>15.5%</b>
<b>Total expenditure</b>		<b>9,600,000</b>	<b>96%</b>

## 6.5 Impact on store location, sales and average spend per customers

### Store Locations

Store location will be maintained. As mentioned in measure 5, new stores will be restructured.

### Sales

More promotion and new products launched can attract more potential customers and raise brand awareness towards the Group. Also, by modifying the app, online platform sale will increase. The above measures can boost sales by 30%.

### Average spending per customer

As promotion packages and new products will be introduced, it is likely that the average spending per customer will increase to \$50-60.

## Section 7 Conclusion

In conclusion, the Group should put more effort into consolidating existing customers and opening up new markets to perform better in the future. The financial performance reflected that the Group should improve its profitability, short-term liquidity, long-term solvency, as to gain confidence from its investors. The competitor analysis reflected the Group performs slightly worse than Vitasoy Group in terms of profitability. By SWOT analysis, it is found that the taste of herbal tea is not favoured by customers and the Group has an old-fashioned brand image. To improve, we have put forward a business plan.

The key measures are a customised scented tea ('My Secret Garden'), and the cold brewed tea ('Love at first sip'), which can meet customers' wants and create a more modernised brand image. 'My Little Doctor' and herbal tea in-app quiz will be launched to promote the herbal tea culture.

## Section 8 Appendixes

### Appendix 1 – Reference

1. Hung Fook Tong Group Holdings Ltd: Annual Report 2015  
[http://www.hungfooktongholdings.com/html/open.php?file=../attachment/2016042716320100032496289\\_en.pdf](http://www.hungfooktongholdings.com/html/open.php?file=../attachment/2016042716320100032496289_en.pdf)
2. Hung Fook Tong Group Holdings Ltd: Annual Report 2016  
[http://www.hungfooktongholdings.com/html/open.php?file=../attachment/2017042516500100012789477\\_en.pdf](http://www.hungfooktongholdings.com/html/open.php?file=../attachment/2017042516500100012789477_en.pdf)
3. Hung Fook Tong Group Holdings Ltd: Environmental, Social and Governance Report  
[http://www.hungfooktongholdings.com/html/open.php?file=../attachment/2017063022470100032850846\\_en.pdf](http://www.hungfooktongholdings.com/html/open.php?file=../attachment/2017063022470100032850846_en.pdf)
4. Vitasoy International Holdings Ltd: Annual Report 2015/16  
[www.vitasoy.com/wp-content/uploads/2015/01/ew\\_00345-Annual-Report\\_20160715.pdf](http://www.vitasoy.com/wp-content/uploads/2015/01/ew_00345-Annual-Report_20160715.pdf)

### Appendix 2 – Positioning map



### Appendix 3 – Questionnaire

#### Questionnaire

Hello. Thanks for agreeing to answer this questionnaire. We are a group of S.5 students from a local secondary school. We are now conducting a survey on Hung Fook Tong for HKICPA Case Competition. We would be very grateful if you could spare a few minutes on this questionnaire. All information will be kept confidential.

Please answer the following questions by ticking one  for each question unless it is specified by an asterisk (\*).

Please specify your age range.

- 0-10                       11-20                       21-30                       31-40  
 41-50                       51-60                       61-70                       71 or above

Please specify your gender.

- Female                       Male

1. Would you like to buy healthy beverages?

- Yes                       No (Please go to Q13)

2. Why would you like to buy healthy beverages?\*

- Good for health                       Tasty                       Fulfil body needs  
 Others: \_\_\_\_\_

3. Which of the following(s) would you consider as healthy beverages?\*

- ATH 淳茶舍                       Fuze Tea                       Glaceau(vitamin water)  
 天喔茶莊                       HealthWorks 健康工房                       Hung Fook Tong 鴻福堂  
 TAO TI 道地                       VITA 清心棧                       津路  
 Other(Please specify): \_\_\_\_\_

4. Which of the following factors will you take in consideration when deciding which healthy beverages to buy?\*

- Advertisements                       Authorities' recommendation                       Brand image  
 Friends' or family's recommendation                       Impact on health                       Packaging  
 Price                       Other(Please specify): \_\_\_\_\_





14. What kinds of drinks would you prefer to buy then?\*

- Water       Soft drinks       Soy milk       Others

15. Do you think Hung Fook Tong has enough promotion?

- Yes       No

16. Where have you seen Hung Fook Tong's promotion and advertisement before?\*

- I have never seen any Hung Fook Tong's promotion.       Facebook  
 MTR Stations       Online websites       Other(Please specify): \_\_\_\_\_

17. To what extent do you agree that Hung Fook Tong retail shops are modernised and attractive?

Strongly Agree

Neutral

Strongly Disagree

18. Would you like to have your own customised drinks?

- Yes       No

19. To what extent do you think the taste of herbal tea is suitable for you?

Strongly Agree

Neutral

Strongly Disagree

20. In what aspect can the taste of herbal tea be modified to a suitable taste for you?

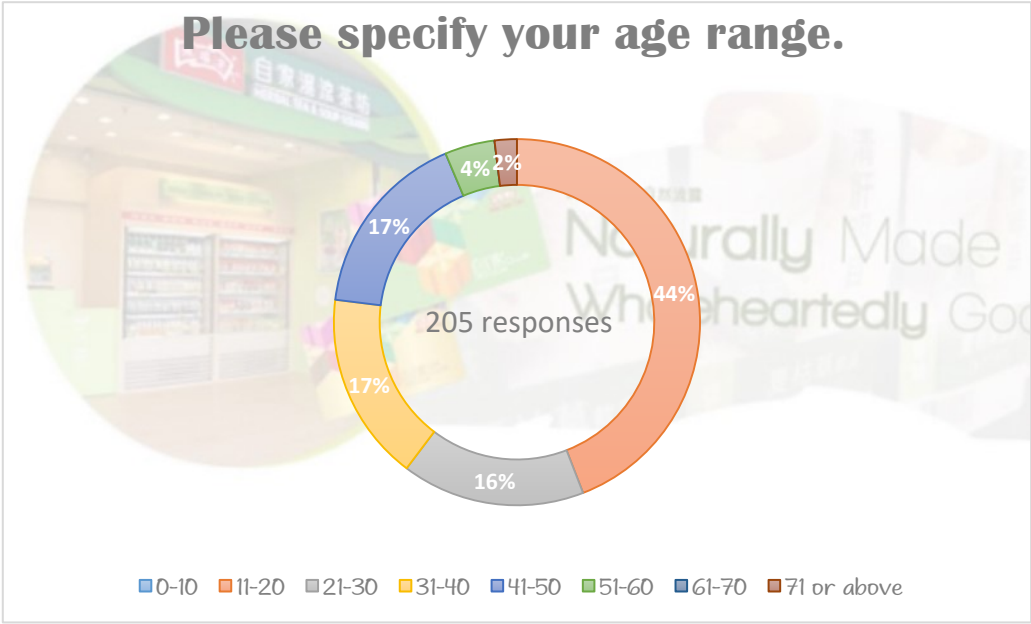
- Sweeter       Less bitter       Lighter       Others: \_\_\_\_\_

*This is the end of the questionnaire. Thank you.*

*Have a nice day!*

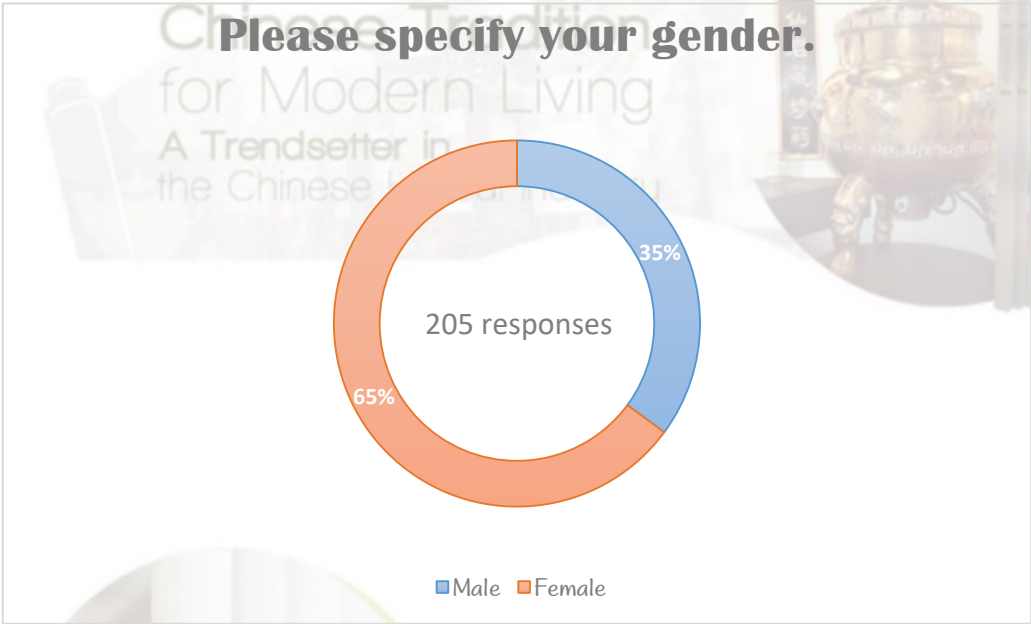


**Please specify your age range.**



源自傳統智慧 · 配製草本飲食潮流

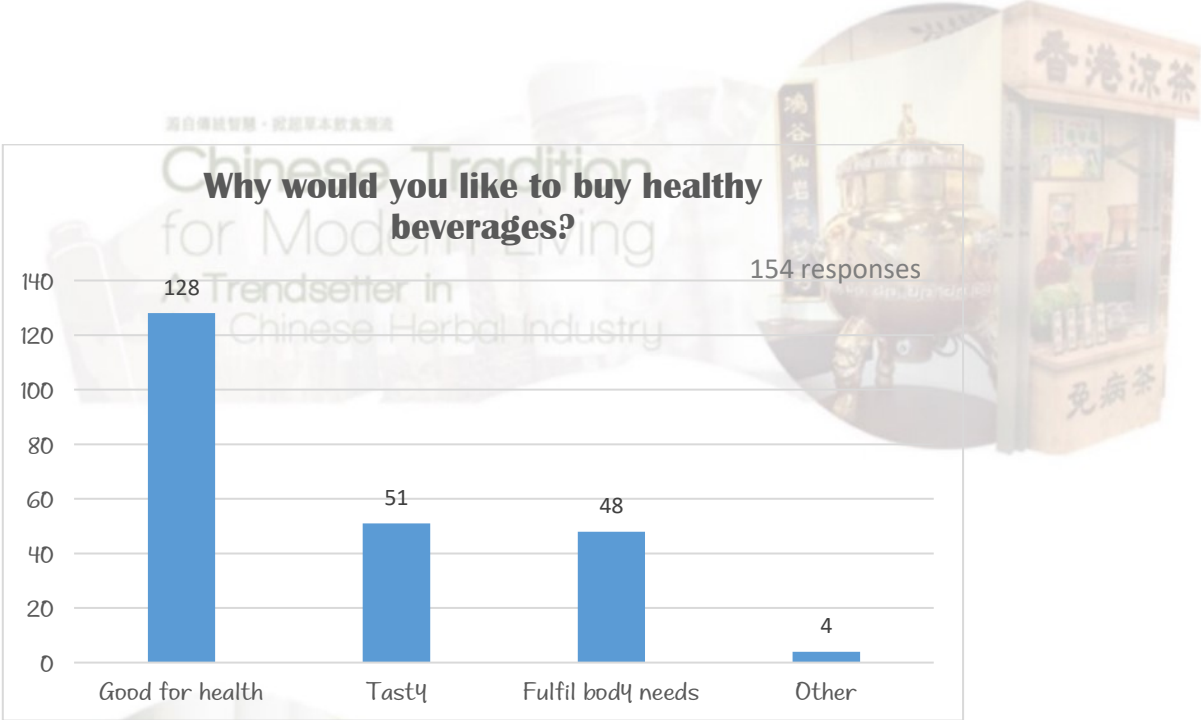
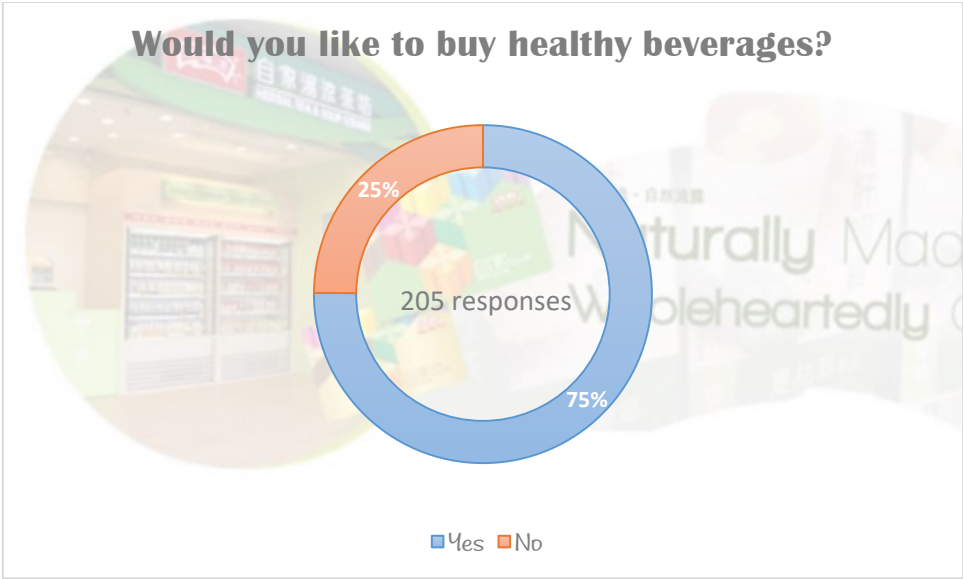
**Please specify your gender.**



全心全意 · 追求優質

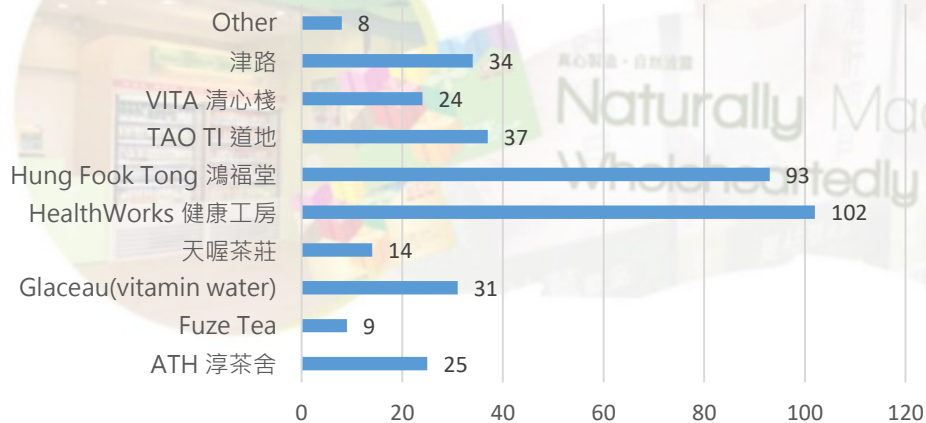
Dedication to Quality  
Natural Refreshment





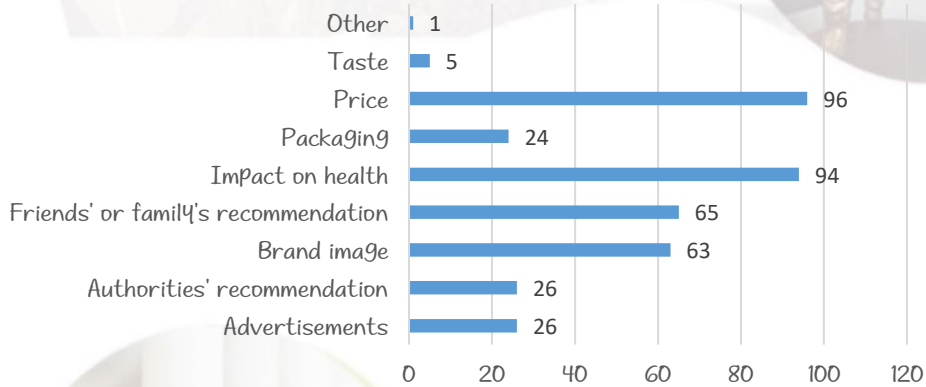
**Which of the following(s) would you consider as healthy beverages?**

154 reponses

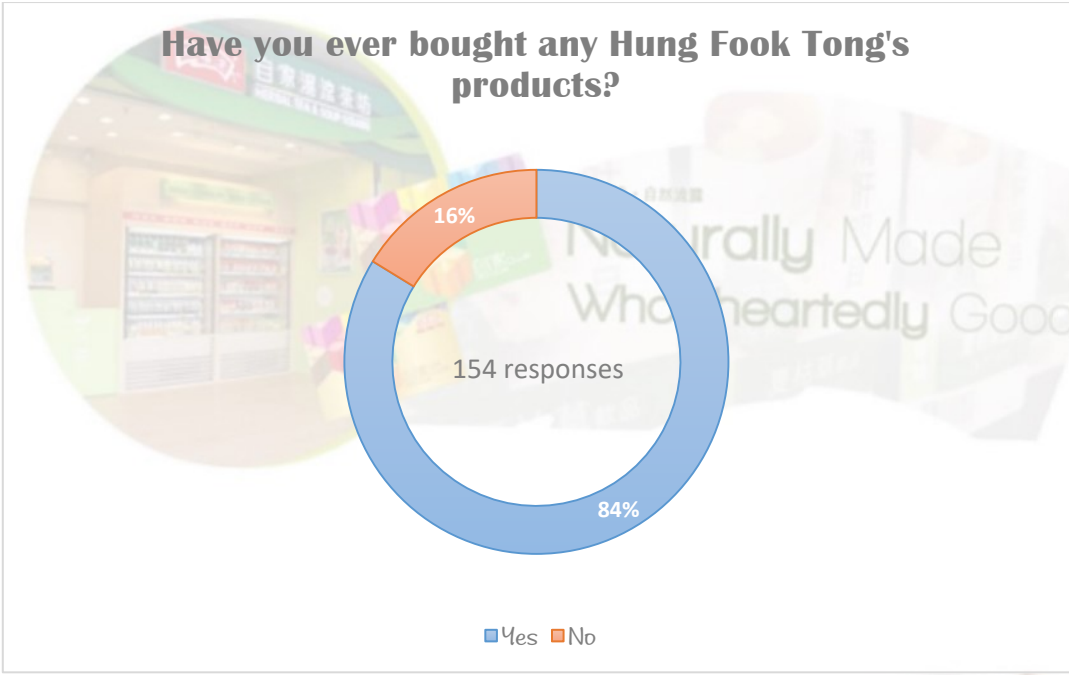


**Which of the following factors will you take in consideration when deciding which healthy beverages to buy?**

154 responses

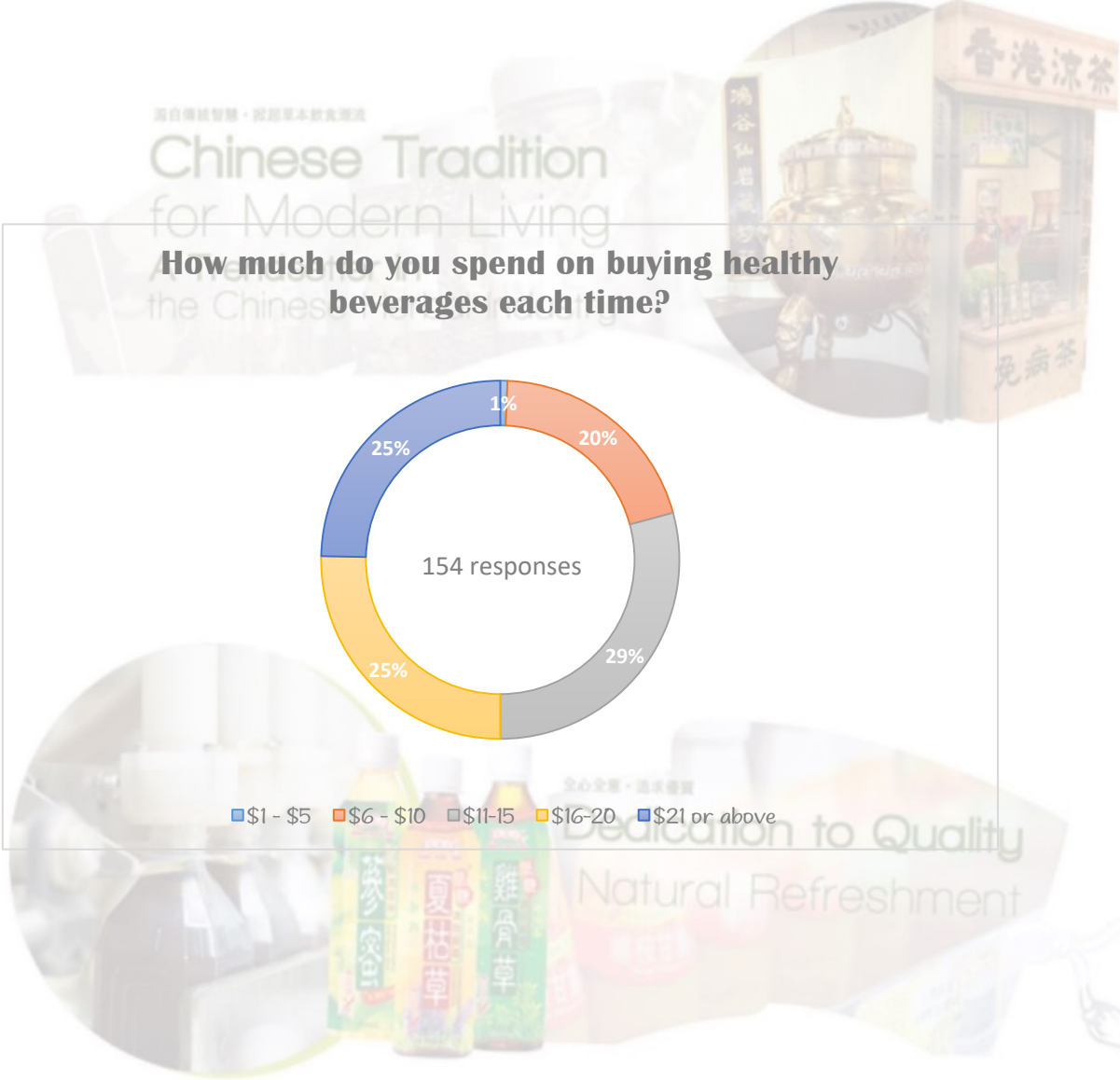


**Have you ever bought any Hung Fook Tong's products?**



**Chinese Tradition for Modern Living**

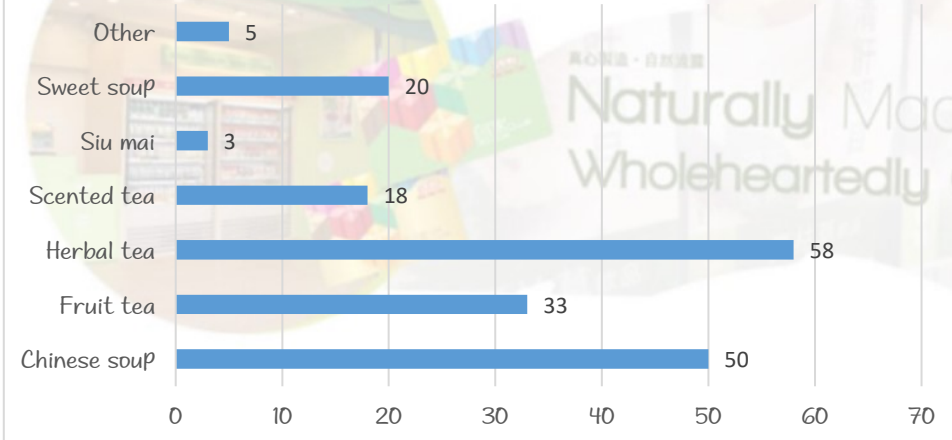
**How much do you spend on buying healthy beverages each time?**





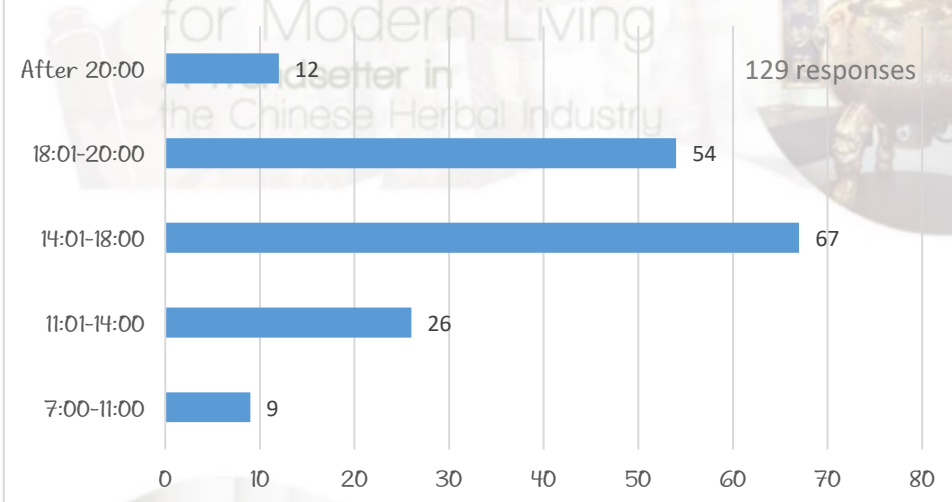
### Which kind(s) of goods do you usually buy in Hung Fook Tong?

129 reponses

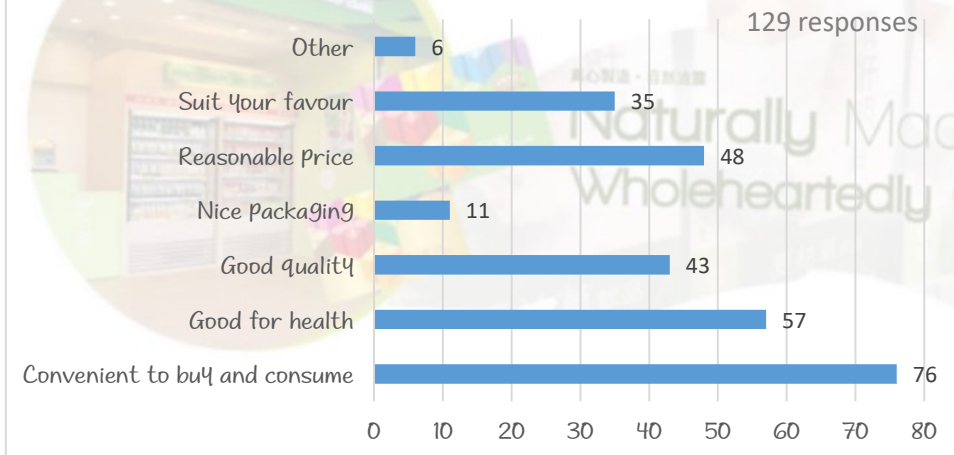


### When do you buy Hung Fook Tong products?

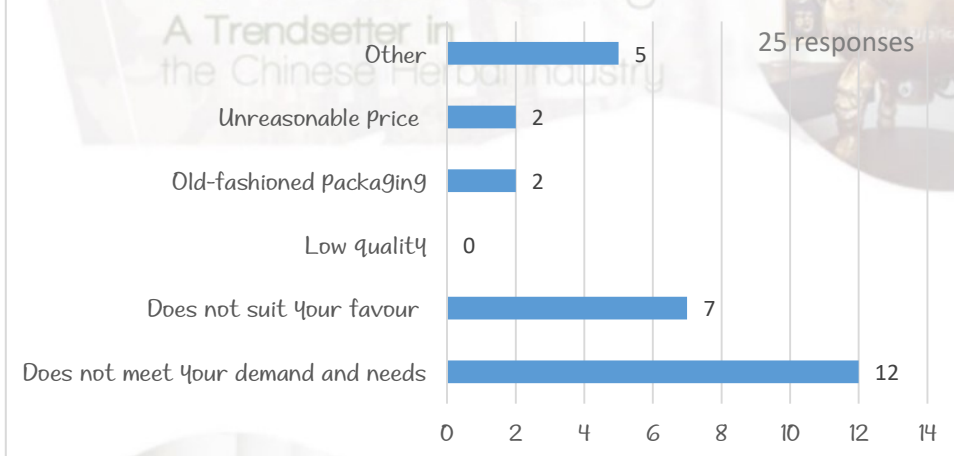
129 responses



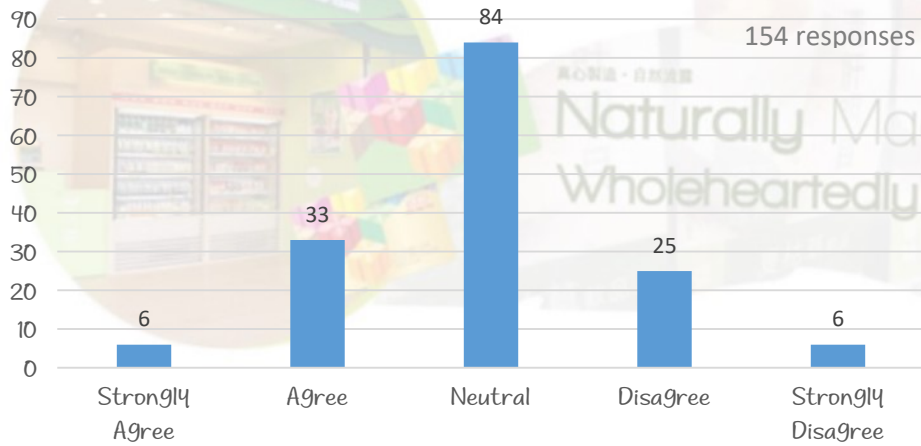
### What makes you buy Hung Fook Tong's products?



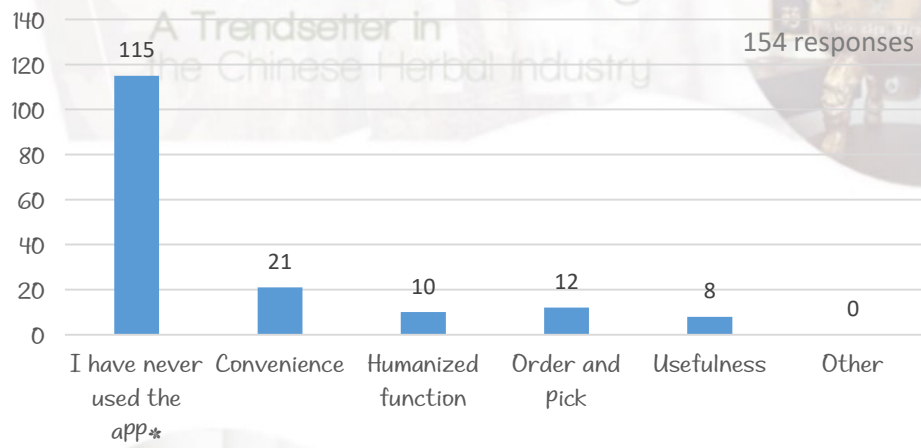
### Why don't you purchase any Hung Fook Tong's products?



**To what extent do you agree that cold brewed tea is attractive to you?**

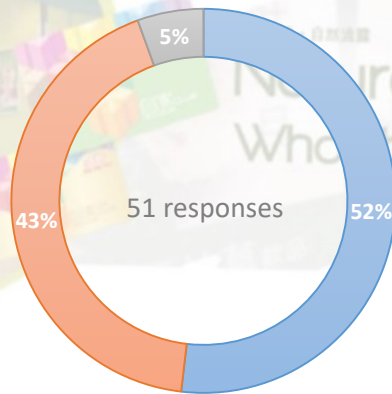


**In what aspect do you think the Hung Fook Tong app can be improved?**



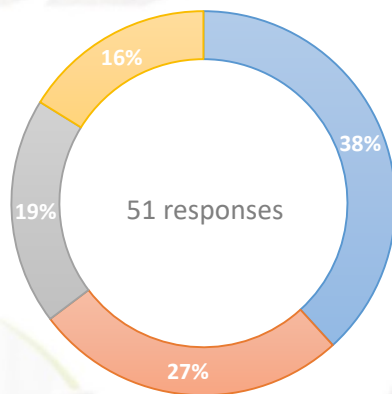


**Why would you not like to buy healthy beverages?**



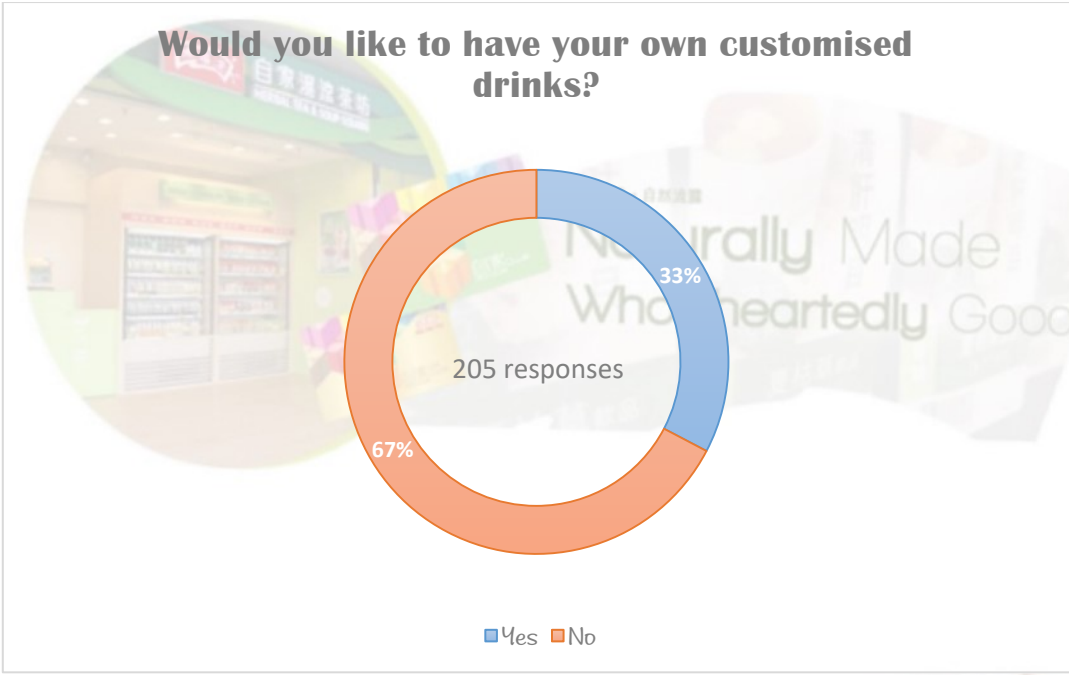
■ Do not have demand on healthy beverages ■ No specific reasons ■ Other

**What kinds of drinks would you prefer to buy then?**

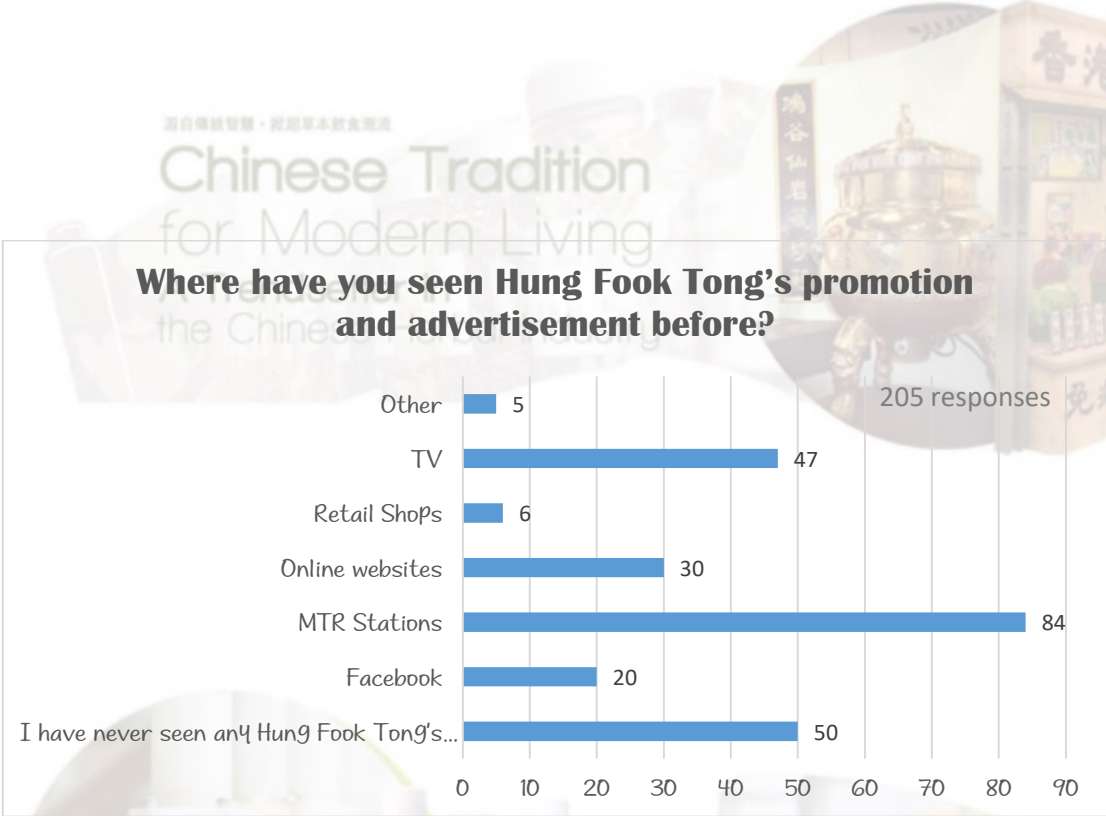


■ Water ■ Soft drinks ■ Soft milk ■ Others

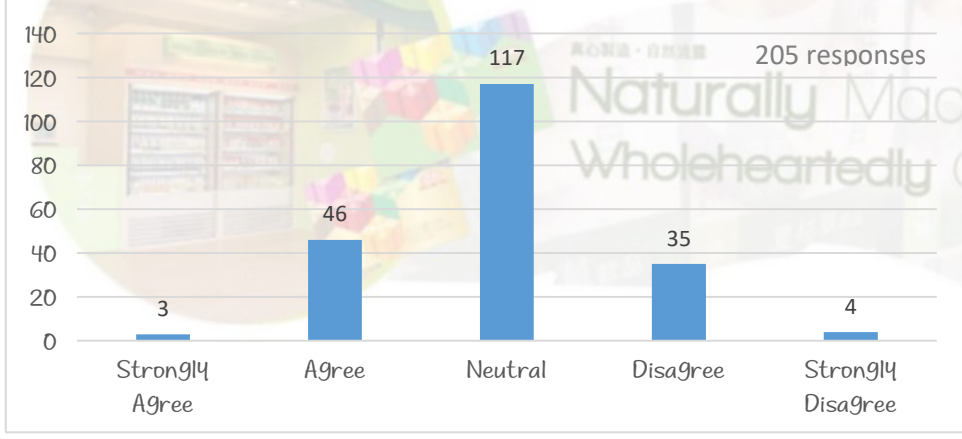
**Would you like to have your own customised drinks?**



**Where have you seen Hung Fook Tong's promotion and advertisement before?**



**To what extent do you agree that Hung Fook Tong retail shops are modernised and attractive?**



**Would you like to have your own customized drinks?**

