

European Entrepreneurship Case Study Resource Centre

Sponsored by the European Commission for Industry & Enterprise under CIP (Competitiveness and Innovation framework Programme 2007 – 2013)

Project Code: ENT/CIP/09/E/N02S001
2011

Zatise Catering (Czech Republic)

Martina L. Jakl
University of Economics, Prague

Sascha Kraus
University of Liechtenstein

This case has been prepared as a basis for class discussion rather than to illustrate either the effective or ineffective handling of a business / administrative situation.

You are free:

- to copy, distribute, display, and perform the work
- to make derivative works

Under the following conditions:

- Attribution.
You must give the original author credit.
- Non-Commercial.
You may not use this work for commercial purposes.
- Share Alike.
If you alter, transform, or build upon this work, you may distribute the resulting work only under a license identical to this one.

For any reuse or distribution, you must make clear to others the license terms of this work. Any of these conditions can be waived if you get permission from the author(s).

ZATISI CATERING

Introduction

Petr Štefan slung his jacket over an empty office chair, opened his e-mail and decided to make a quick coffee before starting the day's work. He had been out of the office at an event with one of Zátíší Catering's largest clients yesterday; he knew he would be playing catch up most of today. As the Managing Director of Zátíší Catering Group, Petr is responsible for managing and maintaining relationships with clients, which also involves overseeing the management of all catering events for the Zátíší Group, which is headquartered in Czech Republic. The weekly meeting of the senior management team starts at 2.00pm this afternoon at which Petr is expected to make a presentation to the team but he still has to put the finishing touches to his presentation. At the last team meeting the financial results of each group within the company were presented, and Petr's division had shown a decline in the number of events as well as a reduction in total turnover. Today's meeting was critical to deciding which direction the group should take next, and this could potentially become a turning point in Petr Štefan's career. He is slightly nervous but eager to succeed.

Petr sits back in his chair with the freshly made coffee and recalls the recent happenings in his industry. The catering industry has slowed down considerably in the last year, supposedly due to the financial crisis. Amid this decline however there are new business opportunities, especially outside of the Czech Republic. Many of Zátíší's established clients have approached the company with requests for Zátíší Catering to cater for an event abroad. During the last management meeting Petr agreed to prepare a business strategy which would outline the market potential and ability of Zátíší Catering to provide foreign catering services. Immediately after that meeting, Petr instructed two employees in his department to research various possibilities regarding the catering industry abroad. Two days ago he received their research proposals; each proposal outlined possible opportunities and avenues for entering the foreign market. Petr will present his analysis of the proposals at the management meeting this afternoon. He sipped his coffee and re-read the fine detail in each proposal. He has less than five hours before the management meeting

and he wants to present a convincing argument to the senior management team for the strategy he has chosen for Zátíší Catering. He must get this presentation spot on; the impact of this decision has major consequences for the group, the brand, for the long-term growth of the company, and for his career.

Industry Background

The catering industry is a relatively new industry in Eastern and Central European countries, such as Hungary, Bulgaria, Romania, Czechoslovakia, Poland, Albania and the former countries of Yugoslavia (e.g. Slovenia, Croatia, Montenegro, Serbia, Kosovo, Bosnia and Herzegovina, and Macedonia). This type of industry was practically unknown before the advent of the new open markets across Central and Eastern Europe and the lack of international quality standards within the industry is a direct result of the limited length of experience of firms within the sector. To illustrate, some companies only offer ready-made (not fresh) foodstuffs and do not provide additional but basic complimentary services such as providing cutlery, glassware and so on. The catering services in the Eastern and Central European market tended to provide only traditional cuisine of their national country, which was itself quite limiting. Additional opportunities for a wider variety of services were often ignored. Both food quality and service development were lacking and customers simply became accustomed to sub-standard food and service. The situation was aggravated by the fact that the quality of produce in retail stores was also exceptionally poor; there was little requirement through competitive factors forcing catering firms to innovate and improve quality standards and selection. Foreigners visiting Eastern Europe observed room for improvement and an industry with significant market growth potential; some of these foreigners actually took advantage of the opportunities that the industry presented and established several catering companies throughout Eastern Europe. The Zátíší Group in the Czech Republic was one such case. The owner, Mr. Suri, visited Prague and evaluated the opportunities to establish a catering service in a nearly non-existent market. After much consideration, he decided to set up the V Zátíší restaurant in 1991, which sought to introduce innovation and international cuisine to the Czech market.

There has been much change in the industry over time, particularly with regard to higher quality standards. Petr is concerned that the industry will take a step back in time with the pressures of coping with the financial crisis and the economic slowdown. The financial crisis has caused many corporate customers to cut their budgets for business events and the average spending per person has decreased. When spending is cut, catering suppliers reduce their prices to win competitive contracts and this often means a negative impact on quality and level of service. Customers fuel the situation further by being overly focused on price above quality. The assessment criteria for catering companies are generally related to the following criteria:

- Ability to cater for one-off large events,
- Qualification in food preparation and delivery,
- Adherence to European hygienic standards,
- Evidence of good working relationships with corporations,
- Ability to work with the customer according to budget restrictions.

Petr knows that in reality it is the final criteria that most concerns clients and that unless he can be competitive with his prices, then none of the other criteria will even be assessed.

Company Background

At the time when Zátíší Catering was being established in 1997, the industry was an attractive market space far from saturation point and arguably any newcomer was able to carve out a niche and grow a profitable business. During the past 14 years, the catering industry in the Prague region and in other major cities in the Czech Republic have witnessed a number of key players beginning to compete in terms of quality with a strong focus on creativity, innovation and international cuisine. Indeed, the Czech experience within the catering industry very much mirrors that of the majority of other Eastern European countries since many high-quality catering companies that offer services comparable with the Zátíší Catering Group can now be found in every major city in Eastern Europe.

Petr is proud that since its early beginnings, the catering services of the Zátíší Group have been compliant with the highest standards of quality, professionalism and service, even though the organisation caters for both large events of several thousand people and for smaller corporate affairs. The Zátíší Group can design a ‘production line’ system to handle several thousand portions or if necessary make custom-made high-end dishes by hand for smaller parties. All of the Zátíší products fit the production process because they are relatively uncomplicated to produce, easy to handle and to simple to transport (quality is not harmed during transportation). Zátíší dishes are made with the finest variety of local and international ingredients and the Zátíší Group has been a pioneer in setting standards within the luxury restaurant and catering industry in the Czech Republic. The company operates in the high-end sector, offering top quality service with a diverse range of food products and service to customers. The company’s clients include large corporations, government and private individuals, a strategy which has been widely successful for the company. However, the Zátíší Group is currently experiencing some development issues. In many respects the company has become the victim of its own success, being unable to communicate its high-end services to smaller customers. Although the message seems to have been misinterpreted, the company remains firmly client-oriented. For instance, the entire production team is strongly customer oriented and with each contract attempts to fulfil the client’s every need. At Zátíší the customer is not viewed as a client, but rather as a partner.

Organisational Structure

The Zátíší Group consists of three relatively divided divisions: the restaurant division, the catering division, and the convenience food division. The Zátíší brand Restaurant division includes three restaurants ‘V Zátíší’, ‘Bellevue’ and ‘Mlýnec’. These restaurants are all located in Prague near the Charles Bridge. They are categorised as high-end restaurants catering for the Czech upper-class and tourists. The second division, the catering division, is also located under the Zátíší brand. This relatively separate division consists of two groups ‘Zátíší Catering’ and ‘Žofín Catering’ (the latter providing catering services on Žofín Island in Prague only). The third division is the most recent acquisition; it does not operate under the Zátíší brand since it was considered as a potential threat to the luxury end brand. It is called ‘Fresh & Tasty’ and it involves convenience food catering. The Zátíší Catering division is the largest division and it has typically been the most profitable part of the business. Zátíší Catering operates across the entire

Czech Republic, with some of its best known locations including Prague Congress Centre, Strahov Library, The State Opera, Kampa Museum, and many other Czech Palaces and Castles. The firm's headquarters are located in Prague. Zátíší Catering also has a sales subsidiary in Budapest, offering catering services on 'Europa Boat', 'Géllert Bath', 'Zsófia Boat', the Vam Design Center, and a variety of museums. In Vienna, Zátíší Catering Group offers catering services at 'the Neuwaldegg Castle', 'Niederösterreich Palais' or 'Lichtenstein Palais'. Zátíší Catering offers a wide variety of services and has extensive experience in organising gala dinners and corporate celebrations, as well as catering for smaller events such as cocktail parties, buffets and weddings.

In the Czech Republic, the production and preparation of all food is located at the Prague Congress centre. It is from this location that the food is prepared, stored and taken to an event. In 2009, during the Czech Republic's EU presidency, Zátíší Catering was the official caterer to the European Union. Zátíší caters for the Czech Republic Congress, including their conferences and seminars where contracts can include breakfast, coffee breaks, lunch and dinner requirements. Open air catering, for instance at the Royal Garden, is a different type of catering event which Zátíší Catering is now exploring. Zátíší also provides office and home delivery catering services. Despite the variety and diversity in Zátíší Catering's services, clients are continuing to reduce budgets for business events, and so catering orders are tending to become smaller, or worse still, cancelled. Zátíší Catering, a high-end and high quality catering services provider, is now faced with heavy financial losses due to the financial downturn. Clients are choosing price over quality and therefore replacing higher quality and superior service with lower quality and cheaper catering services.

A Growing Trend in Foreign Investments

Many of Zátíší Catering's corporate clients, including multinational companies with their regional head office in the Czech Republic, are undertaking expansion opportunities for their businesses within European markets. These countries are mainly located in Central and Eastern Europe, namely Slovakia, Hungary, Romania and Bulgaria. As these companies evaluate the new markets, they are preparing business meetings and conferences in these new countries. These corporate clients of Zátíší Catering in Czech Republic are finding it difficult to source reliable

and high-quality catering service for their needs within the proposed new markets. The Zátíší Catering Group has been invited to cater for such foreign events based on the brand reputation of Zátíší Catering as a high quality services provider that is reliable and trustworthy. This could prove to be a significant market opportunity for Zátíší Catering but it is not a decision that can be taken lightly. Petr has spent years cultivating relationships with these corporate clients and he is afraid that declining the customer's request would have a negative impact of the company's reputation and brand image, especially since the business model is customer-orientated. Yet, on the other hand, if Zátíší Catering offers to provide catering services abroad, then the organisation will face many additional and unknown organisational challenges. Currently, there are a large number of requests for Zátíší Catering to facilitate this service for their corporate customers. Zátíší Catering understands that this is a unique opportunity with the potential to expand its business into new emerging markets, and that this is an opportunity for the organisation to grow the business and strengthen the brand of the company across many Central and Eastern European countries. However, before Zátíší Catering can offer these new services to their clients and add this service to its portfolio, the pros and cons of this expansion must be evaluated.

Petr's has had two key employees set aside time from their day-to-day operations to review the foreign market potential. They identified key strengths of the firm to enter the emerging markets based on:

- Brand name and product quality: The Zátíší Group remains a combination of a great atmosphere, a perfect service and an outstanding product.
- Customer loyalty: Customers return to the Zátíší Group because of the non-traditional experience in terms of food that the Zátíší Catering provides, and these clients are willing to pay an appropriate price for a top-quality service.
- Innovativeness: the Zátíší Group uses innovative methods to prepare food, satisfying client's demand on unusual recipes using exotic ingredients.
- Strong social commitment: The Zátíší Group donates 20% of its annual profit to various non-profit organisations such as the Unicef Life project 'Sance', the Tereza Maxova foundation and project 'Street Children'.

- Customer orientation: The entire production team is strongly oriented to the customer's needs and always strives to exceed the demands of the client.

Petr largely agreed with their analysis but he was concerned about the impact of the economic crisis: Clients of Zátiší Group Czech Republic belong to the upper-class members of society, business people and foreign visitors, and within these segments there had been a severe cut in spending due to the financial crisis. He also felt that the vision for the company was unclear because the company had grown quickly by undertaking a broad differentiation strategy, which has led the management team to ignore core business markets. Zátiší was also guilty of poor marketing and communication with potential customers: There are no target marketing promotions focused on emphasizing a certain kind of product or service to customer segments. Petr very much saw it as his job to devise a strategic model for expanding into foreign catering markets while also paying attention to the weaknesses that he had identified.

He jotted down the opportunities on his notepad so that he could visually refer to them during the meeting if necessary. He wrote:

- Competitive advantage: Expanding its catering services to western countries (e.g. Germany and Austria) would be an opportunity to diversify their clients and enter new markets. Within these markets Zátiší Catering Group can provide a high end service, and the competitive advantage in these markets would be value-for-money.
- Expansion into the developing Eastern European market: An opportunity is available for the company to expand into the new rapidly growing markets of Eastern Europe, namely Poland, Slovakia, Hungary, Romania and Bulgaria.
- Doing business with new European Union Members: Currently, the Zátiší Catering Group is not able to extend its services outside of the EU because of the barriers to trade with non-EU countries. However, the EU is continually expanding and therefore creating new markets for the Zátiší Catering Group.

Petr knew that some of the senior management team would question the risks associated with this strategy. No one knew better than Petr that customer behaviour was crucial and that a change

away from the Zátíší Catering Group based on price issues was a real problem going forward. Then there were the many human resource issues connected to maintaining the brand image and reputation abroad. Petr was certainly under pressure, his sales were down, and he had a good market opportunity to explore that would involve working with reliable contacts, but the company was not overly familiar with these new markets and more importantly, he had little knowledge of its potential competitors. Petr had to convince the team either to expand into foreign markets or to re-focus within its core business markets to prevent company stagnation.

Issues for Consideration

In Zátíší's core business of 'gala dinner catering', the threat of substitution is relatively low as buyers perceive Zátíší's products as superior in terms of quality. Although the costs of switching to another provider are almost non-existent, there is a low propensity for change because there are simply hardly any providers of high standard catering in the Czech Republic. This is particularly true in the luxury catering segment where buyers are less price-sensitive and reputation is more crucial to success. Nevertheless Petr has continued to talk to his clients throughout this financial crisis and some would consider shifting to lower priced, middle class catering providers. The Zátíší restaurant division has already witnessed a similar trend but there is more competition in the restaurant trade. However, the threat of new entrants is relatively high in both the catering and restaurant segments, as relatively little capital investment is required to set up in this business. At present Zátíší Catering has a strong market share of approximately 22% of the entire catering market (75% of the gala dinner market and 20% of the buffet market). The restaurant market is highly fragmented and already quite saturated. In 2009 the Czech convention food and catering service market decreased by 9% compared to the previous year. The profitability in this segment depends on cost control and highly effective marketing. As Petr finalises the slides of his presentation, he takes a moment to review the four options he foresees as worth exploring for the internationalisation of the company. Each option involves different levels of investment. It will be up to the team to debate which option they perceive to be the most appropriate basis for the internationalisation strategy. Petr knew which option he preferred but it has to be a consensus approach as otherwise they would get stuck at this stage and the strategy would fail to be incorporated into the revised strategic business plan. A feeling of excitement was growing in the pit of his stomach; he had the market launch event in his sights already.

The first option proposes the continued use of the organisation's current facilities in Prague, where the food would always be prepared and then transported directly to the location of the event. The products can be finalised at the location, but the main production would be carried out at headquarters with the final touches being orchestrated onsite, at the event location. The preparation team would be responsible for transporting the prepared food, stationery and utilities and so on. Petr would highlight here the importance of having a strategic base in Hungary, even though it was currently a sales office only. He would plant the seed that this base could be a preparation centre in the future. This option resulted in the group not making any significant investment. Its success relied upon effective utilization of the current location, which would grow six-fold due to increased orders. Utilising the same location ensures high quality and standards because the same preparation teams (with expert know-how) are in place. The downside of this option is the travel time of goods. Transportation will significantly increase the final price of the service and require further quality management procedures. The current limit on food transportation is approximately 7 hours distance from the place of preparation, which limits the potential market area. To date the Zátíší Catering Group has guaranteed the quality of food for 24 hours from preparation.

The second option proposed is the creation of a new sales subsidiary in Bucharest or Warsaw. This idea is based on the current trend of the rapidly developing Bulgarian, Romanian and Polish markets. These markets cannot be targeted from Prague due to the distance of these countries. Together with the creation of the sales office in one of these locations, a full preparation centre should be opened in Budapest in order to serve the new locations in Romania and Bulgaria. This option requires some investment for new technology and material, and new management and operational teams. This option would also change the organisational structure and management practices, and cross-cultural barriers might become an issue. Despite the above obstacles, this option would secure the high quality standards of the organisation and enable the company to be closer to the new potential customers in these growing markets. These two subsidiaries would form a starting point for possible future expansion and growth to countries such as newer EU members including Croatia or Serbia. The labour costs are still low in these countries. The Zátíší Catering Group could begin by securing the catering services for customers from Czech Republic while also acquiring new local clients and creating of their own customer network. These new

customers can profit from the large and growing structure of the company, which ensures services across the entire Central and Eastern Europe. Petr considered that the company would require a long term investment bank loan to execute this option.

The third option explores partnerships with local catering providers. In each country Zátíší Catering would choose one local provider that matches the company's customer philosophy and quality standards. A strategic partnership would then be established with each company. The local company would have to ensure the catering services in its respective country zone, but if the local partner receives a request for catering services in the Czech Republic or in Hungary, this service would be provided by Zátíší Catering. In both cases the second party would get an agreed percentage of the revenue. This option does not create any significant investment needs, and can be established in a relatively short period of time. The main challenge would be the process of choosing an appropriate partner in each country and maintaining the brand image abroad. Some primary considerations for Zátíší Catering would centre on the ability of local partners to provide customer service and quality.

The final option Petr would put on the table this afternoon was the proposal that Zátíší Catering would provide the service with its own 'know-how' and project team, but the food would be prepared locally in co-operation with a local catering provider with the same high level of quality. When necessary, the food could be prepared by the Zátíší team in the respective country in co-operation with the local partner; this would ensure the high level of quality that Zátíší Catering perceives as its competitive advantage in the industry is maintained and Zátíší Catering's reputation for quality and high level of service delivery would be secured. The only obstacle could be the quality of the food and so to minimize this risk only partners that fulfil the high quality standards of Zátíší Catering should be chosen. In this type of co-operation model Zátíší would buy services from the foreign partner for lower prices and co-operate during the preparation of the food. This option could be established in relatively short period of time.

Conclusion

Petr Štefan's role as Managing Director was to present the senior management team with options for growing the Zátíší Catering Group during these financially worrying times. The company had a small reserve fund, but margins were getting tighter all of the time. In hindsight Petr

acknowledges he has spent so much time fostering the existing business relationships with clients that there has been little time left to secure new potential clients – the firm relied too much on word of mouth recommendation instead of stronger marketing campaigns. This was his opportunity to change that way of doing business. He had worked extremely hard to satisfy existing customers and build the brand. The big corporations had been loyal to the group over the years and in his mind it was a secure footing from which to expand into new markets with the same types of customers. As he tidied away the wrapper of his sandwich paper his computer announced a new mail. It is the client from yesterday's event thanking Zátiší Catering for providing a quality and professional service. By some prophetic coincidence the client asked if it would be possible for Zátiší Catering to provide catering services for the opening ceremony of their new subsidiary in Bucharest. *"The game is on"* are the words that crossed Petr Štefan's mind. Petr straightens his tie and heads for the management meeting that will almost certainly shape the future of the Zátiší Catering Group.