

Spicy Steak House: Marketing for Survival

Looking back at his business, Mr. Satranarakun sighs: *It was such a good opportunity. I wish to continue...* Unfortunately, after 10 years of operating within the same business model and all marketing activities remaining intact, the situation had shifted dramatically. A steak house restaurant that used to be overflowing with customers was now hardly breaking even. But there is easy access to information about the customer base and markets, making it fairly straightforward to track changes in customer preferences. By uncovering what might be the root cause of the restaurant's deteriorated market position, it would be possible to develop a plan of transformation. Mr. Satranarakun admits that something needs to be done - and done quickly - or he will be forced to close.

COMPANY BACKGROUND

Mr. Satranarakun opened the Spicy Steak House restaurant in the Sriracha, Chonburi province in Thailand in 2007, and a second branch, under the same business model, in Bangsaen, another beachfront city in Thailand, just a 15-minute drive from Sriracha in the Bangkok direction, in 2013. The idea to open a steak house restaurant was quite innovative at that time. Being Thai, Mr. Satranarakun knows Thai culture and Thai eating habits very well. Thai culture is a food culture where it is important when, what and with whom a person eats.

Mr. Satranarakun did not want to have another local eatery that would serve typical Thai dishes and get lost in a field of numerous similar places. As he observed the market, he spotted an opportunity. Thai people seemed to be trending towards eating more higher quality meat, especially steaks, as they started to copy foreign eating habits. Mr. Satranarakun looked to copy some elements of these foreign solutions, but since he was the first in the province to open a steak house, his offering was recognized as new to Thai customers. The risk was limited by the fact that the business model was founded on some market observations and the conviction that a steak house would meet the trending needs of Thai customers. He would enjoy first-mover advantage.

The success of Spicy Steak House over the past 10 years is attributed to great extent to the learning from failure and applying the lessons. It was not his first time starting a business in the hospitality sector. Mr. Satranarakun made a similar attempt before – but failed. *This time it will work* – he promised himself.

The original restaurant began its operations in 2003. It was a partnership between two friends with a long history. Mr. Satranarakun brought into the partnership capital and market expertise, and being a Thai, understood the Thai's obsession with good food. His friend had worked in various positions in the restaurant industry her entire life. As a cleaner, waiter and manager, she was able to uncover risks and challenges, and had a holistic perspective on how to run a restaurant.

Both were determined to have their own business which would be run according to their vision and their rules. They picked Silom, a downtown district in Bangkok, Thailand, as a restaurant location for two reasons: firstly, it was a modern and expanding district at the moment, secondly, it was heavily populated. However, such a location had its disadvantages as well: intense competition and very high rental fees. The restaurant was to be a steak house, filling a gap in the market that only promised to grow as Thai people's eating habits were trending towards higher-quality meat variations. Yet, after 2 years in operation, the restaurant, closed. Mr. Satranarakun gathered his experience in the restaurant sector fully before he founded the Spicy Steak House restaurant in Sriracha in 2007.

OFFERING

Mr. Satranarakun realized that although steak houses were quite popular, they were under-utilized as a business model. He decided to develop a steak house that would leverage taste preferences but that would eliminate the known obstacles (such as location and prices) for a profitable development.

While spotting that steaks had become a popular dinner choice for many Thais, Mr. Satranarakun noticed that steaks were served solely in big department stores and premium hotel-owned restaurants which charge an average of 300-400 BHT (ca. 9,5 – 13 USD) per meal. He found that this price was not reflective of food quality and serving size but related more to the restaurant location. He assumed that because of the relatively high price, fewer customers picked steaks for their dinner, especially when they are already in a department store – presumably shopping - they will order less than they usually do when specifically dining out.

In Thailand it is customary to order many dishes and share them with everyone at the table. Going out for a meal is a standard practice for many, and not limited to wealthy people. It is recognized as an opportunity to meet, socialize, relax, spend good time together. Being forced to limit their consumption due to price would spoil the experience and cause some discomfort.

So Mr. Satranarakun decided to reduce prices by at least half, down to 100-200 BHT (ca. 3-6 USD) per meal so that his restaurant would be within the reach of more customers and allow them to eat as much as they like. His vision was to make steaks an affordable dinner option for as many Thais as possible, all the while providing a relaxing atmosphere.

With prices set at 100-200 BHT per meal, Spicy Steak House restaurant's positioning was in the middle of the market. It was right between fancy eateries located in department stores and restaurants in premium hotels (where the price range starts at 300-400 BTH per meal) and low-end portable food kiosks located in the streets and night markets. Street food kiosks are 30-40% cheaper in comparison to Spicy Steak House prices, but the selection of food is totally different (limited ingredients used and fewer eating options). The former was recognized as premium through the price level and the location, which made these places to be visited occasionally. The later was perceived as low quality fast food, to be grabbed in a hurry during the day and in the evening just to satisfy hunger on the spot. Night markets offered the same quality and variety of food as street food kiosks operating during the day, with the only difference that they operated from 6 pm until 8 or 9 pm and customers often have some dining area nearby. For example, at such a night market a Thai can purchase satay for 10-20 BHT a piece, papaya salad for 30-60 BHT, pork or chicken barbecue stick for 20-40 BHT and iced coffee for 30-40 BHT. Street food and night market food is not considered by Thai people as a proper meal and is definitely not perceived as high quality. None constituted a direct competition to the Spicy Steak House restaurant, which aspired to be an everyday dining place offering high quality homemade dishes.

COMPETITION

KFC had been a great competitor at the beginning, when American brands were popular and when KFC entered Thailand. But then it lost its attractiveness to Thai customers, due to the fact that going to KFC for a dinner was predictable and boring - there were almost no changes in the menu and the quality of food was not perceived as high. Plenty of other options had also started to appear in the neighborhood.

The Italian restaurants were not serious competition either. Although perceived as sophisticated, they were only considered as an occasional place for special celebrations. On a daily basis, they were not appreciated as they did not meet the taste preferences of Thai customers. Thai people do not like experimenting with food (they prefer local tastes) and they

enjoy meat a lot. Italian cuisine is more diversified than that and such tastes (along with higher prices) are accepted in such specific locations as premium and hotel-owned restaurants.

Country of origin effect also plays a big role here, since customers' attitudes towards products and ideas may reflect also their perception of the specific country of origin and derive from their attitudes toward foreign products in general. Many Thais are ethnocentric when it comes to food – they prefer Thai products to foreign ones, and when it comes to purchasing decisions, the country of origin of the purchased product (or restaurant) is not very important to them, as long as the product meets their needs.

Buffet-style restaurants, on the other hand, were well-suited to Thai eating habits and preferences. They offered a great variety of meat, usually at affordable prices, allowing customers to eat unlimited amounts within a set price (sometimes including soft drinks in the price), and building the image of a local Thai, familiar place. In Sriracha there were approximately 60 buffet restaurants, while in Bangsaen, about twenty.

Copying the steak house concept from abroad, Spicy Steak House restaurant could not be positioned as a Thai restaurant but rather among American and European eateries. Still, Mr Satranarakun believed that Thai restaurants offer the strongest competition for him. He designed Spicy Steak House to fight for customers in the first place with Thai restaurants. As odd as it may seem, he wanted to leverage the advantages of foreign restaurants and downplay disadvantages of Thai restaurants.

The restaurant was to operate as a steak house to bring a new concept in affordable prices to Sriracha and Bangsaen. Being first in the district boosted the image of newness and added attractiveness. Many customers initially entered Spicy Steak House from curiosity and willingness to try something new. They also wanted to taste something different than the typical Thai dinner options. No matter how tasty pad thai (fried noodle Thai style), tom yum (hot and sour prawn soup), tom kha gai (chicken in coconut milk) or panang curry with chicken are, people get bored with them by eating them constantly. A switch to steaks spoke to Thais' curiosity at least for the first couple of years.

When designing the original menu, Mr. Satranarakun tried to introduce the dishes he had enjoyed when visiting steak houses abroad. As he spent time observing his clients and exchanging feedback with them, he started to diversify his menu. From time to time he would add a new item to the menu and then await the reaction. If the item passed the market test, it

stayed on the menu: if not – it was withdrawn after a reasonable amount of time and a new item put forward to replace it.

On the other hand, despite their willingness to try something new, it was hard to ignore the fact of how devoted Thai people are to their favorite tastes and food combinations. So while the aim of the restaurants was to introduce a foreign concept of a steak house in Sriracha and Bangsaen, Mr. Satranarakun decided to include some adaptations. The restaurant was to operate as a steak house which focused on providing customers with a wide variety of meat. While beef was the original mainstay for a steak house, it was still not very popular with the masses in Thailand. So, in addition to meat, the menu included pork and chicken variations. Driven by the same logic, where French fries were served traditionally with a steak, at Spicy Steak House, patrons could order rice instead. The goal was to make customers feel comfortable, almost like they were having a meal at home, but still enjoying an evening out by being in a restaurant.

LOCATION

The location for the restaurant was chosen very carefully. After his bad experience with Bangkok, Mr. Satranarakun decided to seek a much smaller, yet viable and prosperous town. He bet on Sriracha for five main reasons.

- Firstly, Sriracha is the hometown of Mr. Satranarakun and his family which means he is better able to understand local customers and know the market in terms of competition and suppliers.
- Secondly, locating the business close to where he lives, makes it convenient to run.
- Thirdly, Sriracha and Bangsaen (where a second branch of Spicy Steak House restaurant opened in 2011) were the closest beachfront cities to Bangkok --, less than an hour and a half drive away - making both towns great weekend getaway spots for Bangkok residents. The market and range of customers, especially during weekends and holidays, was far reaching.
- Fourthly, as a less developed location, with the local touch and little international exposure, the city allowed Mr. Satranarakun to have a first-mover advantage and become a trend setter among restaurants. His Spicy Steak House restaurant was the first to serve steaks at affordable prices in the area. The practices that were norms in the restaurant industry in Bangkok, in Sriracha would be considered innovations. Lessons

learnt in Bangkok on how to attract customers, find a good location, source from reliable suppliers, could bring positive results here.

- Fifthly, the rental fees for real estate were much lower and remained constant over time and for the long run.

Mr. Satranarakun was careful in selecting a particular town district too. He wanted to place his restaurant on a busy street, in downtown, but also close to the beach. With such a location, he assumed, it would be easier to attract more customers – not only those who searched the internet for a restaurant before they left home, but also those who liked walking around and seeing it through a window, make the decision to enter a particular restaurant on the spot. The close proximity to the beach was to increase the chances that tourists would find the restaurant, too – by happy accident or because they were advised by the hotel reception staff. Both Sriracha and Bangsaen met all these requirements.

The restaurant was rather small – there are 10 tables able to accommodate 40 customers in total. In case of reaching full capacity, it is possible to adjust by adding 6 tables just outside the restaurant, on the street. Such a practice is a norm in Thailand and sitting outdoors café style is perceived as being as enjoyable as sitting inside the restaurant - except for the lack of air conditioning which, in a country with an average temperature of 30 C degrees - might well be a deterrent. (On the plus side, it would encourage advance reservations to sit inside!).

COMPETITIVE ADVANTAGE & CUSTOMER TRENDS

There might be many qualities that local customers may value in a restaurant such as Spicy Steak House. Mr. Satranarakun is certain:

The competitive advantage for a restaurant used to be: location, location, taste, price, ingredients. Now it is completely different set. Now we have location and decoration.

In other words, 10 years ago, customers entered a restaurant in search of good food at good prices. Now they seem to be not as concerned about the taste of food, but more about the overall experience and ambience. People pick a restaurant due to its interior design (colors, fabrics, spacious layout) or the type and presentation of food (modern, surprising, traditional). They select the atmosphere of a particular place. They want to snap photos and upload them to Instagram or Facebook and receive positive comments. They want to be “followed” and “liked”. Good food is not enough to achieve these social goals. That is why, according to Mr.

Satranarakun, Spicy Steak House has to undergo a huge renovation and remodeling. Such an investment will be costly, but it may be necessary to strengthen its market position and market share. As he explains:

Spicy Steak House is not ready for this change. We bet on location and quality of food and affordable prices. Because there was a complete alignment with customers' expectations we were successful. But now we need to reconsider our basic assumptions and verify what we can do to regain this alignment again. The insight about changing the restaurant's layout is interesting but I am not sure if that will be enough to stop the declining trend in our revenues and win back our customers.

CUSTOMERS

Spicy Steak House restaurant aimed at serving Thai people willing to try more western-style dinner dishes in a friendly, home-like atmosphere but with the distinction that it was still dining out. It offered a compromise solution between premium, sophisticated eateries at big department stores and in grand hotels, and fast food options (like KFC and street food kiosks). The prices were kept at a reasonable level so that customers could keep their eating habits of ordering a couple of dishes to share without going broke after one evening. Good taste and affordable prices were to guarantee their satisfaction and boost their willingness to return soon and often.

There are plentiful eating options: street food, department stores, regular restaurants, home cooking. All these options come in various price-ranges, making the choice of where to go for a lunch or dinner difficult. But for Thai people it is important to have such a broad choice – not only to get a nice meal, but also to have fun and avoid boredom. Having a good atmosphere is next to quality of food and affordable price as an important factor in decision making.

In Thailand it is also customary to dine collectively: rarely is just a single person dining out. Going out for lunch or dinner usually involves a couple of family members, friends and/or acquaintances. Adding this social dimension to the act of satisfying hunger also adds complexity to the decision-making process. The role of the dinner host/organizer that makes the recommendations when it comes to which restaurant to choose is taken interchangeably.

For a restaurant to survive on a competitive market, it may be risky to identify its target group narrowly. The focus on Thai customers seemed sound for the Spicy Steak House restaurant. Its

cost leadership strategy mixed with differentiation brought good results – at least initially. In the first few years the restaurant built a solid customer base, with 90% loyal Thai customers who dined in the restaurant regularly and quite frequently. Mr Satranarakun estimated that they came to his restaurant on average twice a week. However, with time, the number of these loyal customers started to shrink. Mr Satranarakun estimates that his restaurant has experienced a 10 to 20% decline in the number of loyal customers annually. Increasingly, fewer of them returned and those who did remain loyal, came to the restaurant less frequently. Why?

To cite a few reasons: new restaurants were opening up and luring Spicy Steak House's customers by offering new interior designs and new menus that reflected changes in customer trends and tastes. Where ten years ago the new cuisine was steak, now the interest was in Korean and Japanese food. Mr. Satranarakun bluntly admits that such changes in consumer preferences is a norm in the restaurant business and was easy to predict, but he did nothing to prepare for it. While he had observed changes in the market, he did not devote any time or effort to adopt or adjust accordingly.

In the case of both the restaurants in Sriracha and Bangsaen, foreigners constituted another good market segment. They attracted foreigners for two main reasons: close proximity to Bangkok and the lack of Bangkok's disadvantages: no massive traffic jams, no huge air pollution, lower real estate prices and access to the beach. The Scandinavian Village at Bangsaen is evidence that many Scandinavians come to the province to stay much longer than a few weeks. According to some estimates, 10% of them spend over 3 months there, or sometimes even the entire European winter. More affluent than middle class Thais, Scandinavians constitute a potential target for all restaurants. A similar situation was to be observed with the growing Japanese community in Sriracha. Employed by international brands, mainly in high-tech, automotive and rail industries, Japanese people were picking a cheaper location outside Bangkok, still easy to commute to their offices in the capital. As meat lovers, the Japanese would be attracted to the Spicy Steak House.

One of the key qualities of Bangsaen as restaurant location was the fact that it was a university town, with Burapha University as its heart. The whole public infrastructure is designed around the campus which is just 7-minute walk from the beach. To benefit from being located in the university town and on the main road from the main campus entrance in the direction to the beach, Spicy Steak House decided to target students specifically. There are ca. 50 000 students who attend Burapha University annually. Mr. Satranarakun estimates that 70% of the customers of Spicy Steak House restaurant in Bangsaen within the first two years were students. Now the

percentage is down to 50%. As new places opened, students wanted to go and try something new.

IMITATION PRACTICES

After just 2 years of running Spicy Steak House restaurant in Sriracha, Mr Satranarakun had to face imitation practices. As the barriers of entry to the restaurant sector are pretty low in Thailand, soon numerous restaurants copying his steak house model appeared in the district. Now there are three steak houses on the same street where Spicy Steak House is operating. Copying the restaurant model is easy: a would-be competitor simply dines in a place a couple of times, observes the service, make notes about the menu, hears comments of other customers and tries to find out about recipes and other challenges (like finding a good meat supplier). Visiting and following the same procedure in few places provides a pretty complete picture of the industry segment. Mr. Satranarakun is sure that his direct competitors copied his business model to some extent. But even if they offer lower prices, he offers higher quality and quantity of food (within a dish), which he hoped would be enough to engage customers. Mr. Satranarakun believes that it is difficult to prevent imitation practices and that they constitute a real threat to his business. As they stick with the same competitive advantages, it becomes harder and harder to compete with them and remain distinctive. He notes:

Even though Thai people still like going out for lunch and dinner, I feel that the market is saturated. There are more and more steak house restaurants along with other food type eateries, yet, the number of customers is relatively the same over years. We need either to offer them something extra to get their attention and make them choose us, or find a way to attract new customers, in bunches... However, we need to take into account one more fact: Most restaurants in Chonburi province open and close within one year only. The longevity of a restaurant is really short. Still, Spicy Steak House is on the market for many years now which speaks in favor of the business model or its other qualities.

MARKETING ACTIVITIES & ORGANIZATION

Spicy Steak House has not undertaken any marketing activities on a regular basis. Mr. Satranarakun admits this is not his strong suit, but he has never used any help from a

professional marketer. At the beginning, when the restaurant was booming, he saw no need for it; later he downplayed the need. Just before opening each branch, some promotion activities were introduced. These were mainly leaflets distributed around each town, in main public facilities and hotels (in the case of the Bangsaen location, it was also on the university campus). Some were handed out in the streets surrounding the restaurants. It was a one-time effort.

There was no website for Spicy Steak House, it was not present in any foodie or restaurant review portals or platforms (neither local nor international). Promotion was limited to a Facebook page and word-of-mouth. Facebook seems to be the main communication channel for restaurants. This is the place where you can find sample dishes, information about special events and some discounts. Spicy Steak house follows this trend but is not a trend setter. As it is not targeting foreigners, there is no information about the company or its offering in any language besides Thai.

As far as discounts are concerned, Spicy Steak House restaurants allow price discounts a few times a year. They try to combine price discounts with Thai holidays to increase the demand and they post the information only their Facebook page. Special price discounts are granted to freshmen (first-year students) at Burapha University who appear in the restaurant in Bangsaen with a special ticket which can be collected in selected places around campus. This kind of promotion is to make the brand recognizable and instill some loyalty among young students who might easily return to the restaurant during their four-year presence at the university.

Spicy Steak House is a family business. No actual marketing organization is in place. For the first 6 years it was Mr. Satranarakun who ran his own business, but then he decided to step down and took on a position in a public rail company in Bangkok. It was just a personal motivation to try himself in a different role. He handed the reins to the restaurants to his two siblings. He admits that his siblings are doing great job at managing daily operations, but they lack vision for defending their market position and planning further development. They do not have any training in entrepreneurship or management. For these reasons Mr. Satranarakun is considering leaving the rail company and returning to Spicy Steak House restaurants as a fully committed CEO. He has observed the market changes, falling brand recognition and shrinking numbers of customers and knows that he needs to take on a serious repair plan if he is to save his business. The big question is how to obtain that goal?

I am fully aware that this year I need to make a final decision what to do next and, specifically, how to maintain the margins. This is the reality. I do not have any more time to waste. This is a live or die situation now. Mr. Satranakun says.