



P.F. Changs Geographically Integrating into Shanghai

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Founded in 1993 by Paul Fleming and Phillip Chiang in Scottsdale, Arizona, P.F. Chang's has been dominating the Asian-American food market acquiring four bistro restaurants forming P.F. Chang's China Bistro Inc. Chang's did not only vertically and horizontally integrate itself, by P.F. Chang's China Bistro Home Menu, focusing on frozen appetizers and meals, but also geographically integrated with more than 16 countries in their portfolio.

In late December, 2017, P.F. Chang announced it would open a branch in Shanghai during the first part of 2018. The company believed that entering China's food market as a Chinese-American restaurant was an advantage as China was becoming more globalized and acquired a taste for foreign food. This decision, however, failed with P.F. Chang's closing its restaurant 9-months later in 2019. This paper will analyse the challenges and potential solutions to P.F. Chang's misguided strategy

P.F. Chang's is situated in the Asian food niche market in America combined with fast-food chains. To understand P.F. Chang's industry, an analysis of the restaurant in America has to be done. By using Porter's 5 forces, P.F. Chang's appears to be a very profitable company in America: the threat of entry is low; the threat of substitution is high; buyer power is high; supplier power is high; competitive rivalry is high.

There is a low threat of entry in the restaurant business in America because there are high barriers to entry with government, construction and food licensing; P.F. Chang's is also located in malls, which have a limited amount of space. Although P.F. Chang's marginal costs for produce suffers from economies of scale, the initial investment requires intensive capital expenditures lowering the threat of entry even more. The high threat of substitution for P.F. Chang's comes from the restaurant's location in malls with many different substitutes:

Outback, Applebees, Panda Express, McDonalds, etc; these alternative restaurants all come with a lower price than P.F. Chang. The Buyer Power for consumers is very high since consumers are price sensitive and the food is very simple with many restaurants offering cheaper alternatives. Chang's prides itself as a local food source restaurant; therefore, their supplier power was relatively high meaning switching costs of production was high since the restaurant would suffer drastic taste alterations and lose its consistency. There was a high competitive rivalry among the restaurants; not only there were many restaurants but also there was a large range of cuisine. There was little brand loyalty to P.F. Chang's as there were many restaurants that could serve asian fast-food at a consistent level.¹

P.F. Chang's believed that creating its food from scratch would enhance its value as a firm; to achieve this, the restaurant requires a lot of labor which did not increase the costs of its operation due to the simplicity of the food. This differentiation of fresh and never frozen food allowed for P.F. Chang's to increase the willingness to pay from its consumers by targeting its fast-food competitors with the quality of its food. It achieved this increase in willingness to pay by also investing in its restaurant environment as a sit-down venue with high quality food.

P.F. Chang's markets itself as a fast-food chain due to its location and cuisine, since most asian restaurant chains, are considered to be cheap fast-food in the American culture; however, by differentiating its product from fast-food restaurants and its sit-down environment, P.F. Chang can leverage itself as a healthy food venue with the convenience and consistency fast-food chain can offer. This core competence, of providing fresh consistent food in fast-food industry, allowed P.F. Chang to geographically integrate itself with more than 470 restaurants

¹ "P.F. Chang's China Bistro, Inc. From 10-K for the Fiscal Year ended January 1, 2012." SEG.gov. Securities and Exchange Commission, June 22, 2012, <https://www.sec.gov/Archives/edgar/data/1039889/000103988912000003/pfcb10k2011.htm>

around the World². P.F. Chang's core competency and competitive advantage, however, can not be translated into all international markets such as China.

Most restaurants in China make "food to order" similarly to P.F. Chang's; therefore, Chang's competitive differentiation is lost when geographically integrated in China. By analysing the restaurant market in China, some of the challenges P.F. Chang faced can be examined. In the restaurant market in China: there is a high threat of substitutes; consumer power is relatively high; supplier power is relatively low; the threat of entry is high; competitive rivalry is high.³

Some of the challenges of P.F. Chang's attempted to enter into the Chinese food market was the substitute restaurants offering authentic Chinese food; therefore, marketing itself as Chinese-American restaurant while selling its food at a premium causes many conflicts and challenges. The consumer's power is high due to the high level of substitutes in the market: there are many cheaper Chinese food restaurants in China than P.F. Chang. Although P.F. Chang's have the advantage in the lower supplier power due to the cheaper food sources, the restaurant still has to train new employees increasing its costs. There is a very high threat of entry in the restaurant markets as restaurants are not subject to many capital controls as America; however, P.F. Chang's costs for entry were relatively high as it was an American restaurant expanding to China⁴. The competition against rival restaurant was relatively high for P.F. Chang's due to the vast restaurants offering authentic Chinese cuisine.

² "American Chinese Diner PF Chang's Opens in Shanghai." *American Chinese Diner PF Chang's Opens in Shanghai - Chinadaily.com.cn*,

³ Pcharuvajana, and Pcharuvajana. "Central Asia/China and Fast Food." *International Strategy Junto*, 7 May 2012, <http://internationalstrategy.blogs.wm.edu/2012/05/07/central-asiachina-and-fast-food/>.

⁴ "American Chinese Diner PF Chang's Opens in Shanghai." *American Chinese Diner PF Chang's Opens in Shanghai - Chinadaily.com.cn*,

Comparing the Porter 5 forces, competitive advantage and core competencies between P.F. Chang in China and American, it can be concluded that the markets are not similar enough for P.F. Chang to emulate its strategy internationally. The most critical non-overlapping issue between both markets is the target audience the restaurant is trying to reach. Buyer power in both countries is relatively high, however, P.F. Changs can differentiate itself lowering the Buyer Power in America, while this differentiation strategy does not work in China. P.F. Chang's rival's McDonalds and KFC all changed their menus and food to cater to the Chinese palate, while P.F. Chang believed its food already caters to the Chinese taste.

In order for P.F. Chang to succeed internationally in China; it should have analysed the Chinese restaurant market and differentiated their product by marketing it as American food. This differentiation strategy would support P.F. Chang's premium(Exhibit 1) over the food and solve the alternative Chinese restaurant's issue since the P.F. Chang's would not be competing against Chinese restaurants. P.F. Chang's should have also altered some of its food to fit the Chinese palate similarly to KFC and McDonald's, this would ensure that P.F. Chang can compete against its competitors. Another major issue against P.F. Chang was the taste of the food, where it catered towards American palate with a sweet and sour taste; the restaurant should have foreseen this issue and created more authentic Chinese food, if it wished to pursue the Chinese restaurant food strategy.

As a potential solution to P.F. Chang's challenges of geographically integrating itself; I believe that the understanding of the market and culture was a critical aspect P.F. Chang's overlooked. Its food and positioning in the market should have taken into account the Chinese consumers tastes. Chang's should have also considered the price range of food in China: its

price for dishes far surpassed the Chinese restaurants with the attempt to sell Chinese food at American food prices did not support its competition against its rivals. P.F. Chang's location was also an issue being located around a mall with various Chinese restaurants in Nanjing-East Road. Chang's should have strategically placed itself around international restaurants and communities, where it could brand itself as a foreign restaurant.

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Exhibits:

Exhibit 1 P.F. Chang's Menu Prices For some items (Conversion rate was used from 2018)			
China		USA	
Food	Price(Converted to USD)	Food	Price
<i>Chicken Lettuce Wraps</i>	\$ 9	<i>Chicken Lettuce Wraps</i>	\$ 9.5
<i>Pork Jiacama Tacos</i>	\$ 11.3	<i>Pork Jiacama Tacos</i>	\$7.5
<i>Mongolian Beef</i>	\$ 18	<i>Mongolian Beef</i>	\$ 18.50
<i>Honey Chicken and Scallion Pancakes</i>	\$ 28	<i>Honey Chicken and Scallion Pancakes</i>	?

<i>Mandarin Crunch Salad</i>	\$ 7	<i>Mandarin Crunch Salad</i>	9.95
<i>Kung pao Dragon Roll</i>	\$ 9.7	<i>Kung pao Dragon Roll</i>	\$ 10.95