

It's a jungle out there on the supermarket turf

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Yu Kee Food Company Limited, the supermarket chain that has been around for 21 years, has been put into liquidation over longstanding losses and heavy debts.

This is the food company that boasted about its unbeatable prices. It also stressed the large variety, freshness, high quality and good prices of its products.

At its prime, Yu Kee had 72 branches that employed more than 800 workers.

And the company had announced plans to increase the number of branches to 100.

Unfortunately, before its ambition was accomplished, Yu Kee was last week handed over to provisional liquidators who estimate its debt to be more than HK\$150 million involving 100 creditors.

The founding couple were even taken to court for writing bad checks.

The fall of Yu Kee is ample proof that it is not easy to survive in businesses that present low prices as their main selling point.

Unless the operator has special abilities to lower costs to beat rivals, or it runs its business on a larger scale than its competitors, offering lower prices will certainly be paired with lower quality or lower profit.

Low profit margins mean very high risks. Should the situation deteriorate, the small profit may turn into a loss.

Also, the scale of operation is an important factor in keeping prices low. A business may develop too fast, resulting in great pressure on capital flow.

Prolonged losses will dry out cash flow - which is comparable to human blood. Once it dries up, it will spell the demise of the company. This is almost the main reason behind most business failures.

Actually, we already have two extremely large-scale supermarkets that both boast low prices.

Competition will be very keen if a newcomer takes on the same low-price orientation.

Even adMart - the web-based home delivery service set up by Jimmy Lai Chee-ying in the late 1990s - had to close down, let alone small businesses that will surely find survival a struggle.

If one has to enter the supermarket business, I think it won't be easy to survive unless there is a niche market or added value. Media guru KK Tsang, CEO of GroupM, takes a candid look at life.