

South Tuen Mun Government Secondary School
Business, Accounting and Financial Studies
WS: Itamae Sushi

Established in 2004, Itamae Sushi has become a popular sushi chani among Hong kong diners. The chain provides a wide variety of sushi at reasonable prices. For example, the price of two pieces of sashimi ranges from \$9 to \$35. While the chain keeps its prices reasonable, it spends a lot of money buying different kinds of fish from Japanese suppliers.

As the chain purchases fish in bulk, it can often buy special marine products from suppliers. Recently, it also bid for the largest tuna at a Tokyo auction. This allows the chain to offer unique sushi to its customers. Apart from Mongkok and Causeway Bay, the chain has opened outlets in second-tier districts such as Tsuen Wan and Tsing Yi. In these districts, there are fewer competitors and growth potential is high.

In 2007, the founder of Itamae Sushi, Ricky Cheng, established the Itacho Sushi chain. This chain targets more upscale customers and sells sushi at a higher price. It offers distinctive sushi which gives it a competitive advantage over competitors. To promote the two sushi chain, Ricky Cheng acts as the spokesperson for his business. **(Total: 20 marks)**

3a. What are the target markets of Itamae Sushi and Itacho sushi, respectively? (2 marks)

3b. Explain if Itamae Sushi should adopt the following pricing strategies?

i) Price war to knock off competitors (5 marks)

ii) High prices to build a premium image (5 marks)

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- a** Itamae Sushi targets the general public. Itacho Sushi targets more upscale consumers (i.e., consumers with higher incomes). (2 marks)
- b i** This strategy is not appropriate. (1 mark)
This will intensify competition among rivals. All competitors, together with Itamae Sushi, would eventually suffer from decreased profits or even losses. (2 marks)
Moreover, Itamae Sushi spends a lot of money buying fish for sushi. This suggests that the operating cost is probably high. If the sushi chain launches a price war, it may suffer a loss. (2 marks)
- ii** This strategy is not appropriate. (1 mark)
Itamae Sushi has kept the prices of its products reasonable because it targets the general public. If it sets high prices for its products to establish a premium image, it may lose its existing customers. (2 marks)
Itacho Sushi, another chain in the same group, already targets high-end consumers. The proposed pricing strategy may lead to direct competition between Itacho and Itamae. This will hurt the profits of the entire group. (2 marks)
- c** Itamae Sushi has adopted product differentiation. (1 mark)
It buys special marine products from suppliers to differentiate its products. It also bids for the largest tuna at a Toyko auction. This allows the chain to offer unique sushi to customers. (2 marks)
- d** Ricky is using an upward stretching strategy. (1 mark)
When compared with Itamae Sushi, Itacho Sushi targets a more upscale consumer group. It also charges consumers higher prices. (2 marks)