

# FOCUS

## Foreign fast-food brands eye quick expansion

Within two years, Subway added nearly 500 stores in China, comparable to combined growth over previous three decades

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Fast-food brand Subway's recently opened store in Shanghai marked its 1,000th outlet in China, with the restaurant chain on track to reach its target of 4,000 stores in the country in the next 20 years.

The development marks a shift for Subway in China, spurting rapid expansion in a market that was previously dominated by global quick-service giants such as McDonald's and KFC.

From its debut in 1995 until mid-2023, Subway's growth in China had been slow, reaching only 500 stores over 28 years. In contrast, competitors like McDonald's and KFC opened thousands of locations, capitalizing on the growing middle-income group and urbanization of tier-1 and tier-2 cities in the country.

However, Subway's fortunes took a sharp turn for the better in June 2023, when the company signed a transformative franchise agreement with Shanghai-based Furuishi Enterprise Development Co Ltd, which accelerated its footprint, leading to an explosion of new store openings. Within just two years, Subway added nearly 500 new locations, a total comparable to its combined growth over the previous three decades.

Subway is expected to open about 300 new stores by the end of this year. Under the new agreement, Subway stores in China have adopted the direct operating model, rather than the previously used franchising model, allowing faster expansion, better brand-building capability and higher profit margins for the brand.

This rapid expansion reflects the broader surge in Western fast-food chains across China. According to the Hongyan Industry Research Institute's 2023 Western Fast-Food Report, the number of Western fast-food outlets in China reached 325,000 by March 2023, growing 6.6 percent year-on-year.

Subway's robust performance mirrors this trend, as Subway China CEO Zhu Fiqiang said that new locations are becoming profitable within their first year, with first-half 2023 sales increasing by more than 30 percent year-on-year. Even excluding the impact of new openings, Subway's existing restaurants posted a healthy 20 percent growth in the second half of 2023.

The rapid pace of Subway's expansion in China is echoed by the performance of other international quick-service chains. Yum China Holdings Inc, the parent company of KFC and Pizza Hut, reported solid results in its latest quarterly earnings release.

Total system sales for the second quarter of 2023 grew 4 percent to \$2.8 billion, with 536 net new store openings, pushing the company's total store count to nearly 17,000 by June 30. Yum's second quarter 2023 year-on-year net to \$100 million, a second-quarter record high.

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Massimo Dutti, sister brand of Zara and the high-end unit of Spanish fashion group Inditex, is maintaining steady growth in China with two new store openings in Xi'an, Shaanxi province, and Tianjin. The brand has a strategic market, with expansion driven by two main pillars: optimizing its store network through site selection, renovating and targeting customers who value timeless designs, quality fabrics and attention to detail.

Massimo Dutti positions itself as a refined, urban label – distinct from sister brand Zara's youth-oriented, trend-driven image – targeting customers who value timeless designs, quality fabrics and attention to detail.

"With the development of Chi-



Above: A view of the booth of Yum China at the third China International Supply Chain Expo in Beijing in July. Left: Customers dine at a McDonald's store in Wuhan, Hubei province. PHOTOS PROVIDED TO CHINA DAILY



Western-style quick-service chains have fared best. Their mature, standardized operating systems, sharp price-value positioning and relentlessly refreshed menus allowed them to deliver the steadiest growth in an otherwise sluggish landscape." said Lu.

Rooney Lu, director of food & drink and food services, Mintel China

Yum China CEO Joey Wat attributed much of the company's success to its digital innovations and an expanding footprint.

"We are continuously exploring ways to broaden our addressable market," said Wat. She said KFC's expansion of KCOFFEE cafes to over 1,300 locations and Pizza Hut's upgraded menu have significantly contributed to sustained growth.

Delivery sales grew 22 percent, contributing roughly 45 percent of

total company sales, and digital sales hit \$2.4 billion, accounting for an impressive 94 percent of total sales.

Furthermore, Yum China's membership program, which has about 660 million members across KFC and Pizza Hut, has proven instrumental in driving repeat business, with member sales accounting for 64 percent of system sales.

McDonald's has also seen marked success in the Chinese market, with executives reporting meaningful

improvements in both market share and same-store sales. The company opened a net 407 new restaurants in the first half of 2023, maintaining a pace of at least two new locations per day.

This expansion is part of McDonald's long-term roadmap to reach 10,000 locations by 2028. McDonald's Corp Global CFO Ian Borden said that chicken products have become a key traffic driver for the brand, which continues to gain

share not only in chicken, but across the broader fast-food sector.

McDonald's remains optimistic about China's growth potential.

In a recent statement, McDonald's China highlighted its loyalty program as a key factor in its performance, with the company noting that the program had become a "best-practice model" for its global operations.

By year-end, McDonald's plans to enter the Ningxia Hui Autonomous region and Qinghai province, achieving 100 percent coverage of all provincial-level administrative areas on the Chinese mainland. The chain is expected to open 1,000 new restaurants this year.

Meanwhile, Restaurant Brands International, the parent company of quick-service chain Burger King, is also making strides in China. CEO Joshua Kohza highlighted the progress at Burger King China in the second quarter of 2023, where same store comparable sales turned positive and unit economics improved quarter-over-quarter.

The wider Western quick-service food chain boom in China, as evidenced by the performance of McDonald's, Yum China and Subway, also highlights the changing consumption patterns and eating habits of Chinese consumers, according to industry research.

Rooney Lu, director of food & drink and food services, Mintel China, said since the start of 2023, restaurant revenue has shown only modest growth, but consumer confidence has improved only slightly. However, leading brands have continued their expansion over the past 12 months.

"Western-style quick-service chains have fared best. Their mature, standardized operating systems, sharp price-value positioning and relentlessly refreshed menus allowed them to deliver the steadiest growth in an otherwise sluggish landscape," said Lu.

Major chains have increasingly turned to discounting: McDonald's 9.9 yuan (\$1.38) burger-and-snack deals, Pizza Hut's buy-one-get-one offers, and, in late 2023, McDonald's announced its 2023 Value Year campaign, while Pizza Hut launched its value-oriented WOW sub-brand.

"These giants leverage scale and brand power to protect margins, even as they trade margin for traffic," she added.

Yet, Western food faces growing competition. Against the backdrop of surging "China-chic" dining trends, 35-24 year olds are drifting away from Western fare, said Lu.

In Mintel's 2023 fast-food study, this group's preference for Western food is dropping, but their market share, or even love, Chinese cuisine. More worrying, this same demographic shows the highest likelihood of becoming ultra-frequent users of Chinese fast food.

If this trend persists, Western brands are losing market share among the demographic that once fueled their growth, said Lu.

## Massimo Dutti maintains China growth

na's economy, we have observed a growing emphasis on quality, safety and sustainability among customers," said Bregolat. "We continuously adapt our designs and products to meet the evolving needs of our customers."

He added that Chinese consumers have developed a deeper understanding of fashion – no longer blindly chasing trends, but engaging with fashion as a means of self-expression and self-affirmation. According to Euromonitor International, retail value in the Chinese women's wear sector in China rose 2 percent in current terms in 2023 to 1.06 trillion yuan (\$150 billion).

"The Chinese market still holds enormous untapped consumption potential – the very reason global brands refuse to look away," said Cheng Weixiong, a fashion analyst and founder of Shanghai Liangji Brand Co Ltd.

However, China's womenswear market has become so competitive in recent years that shoppers now jump to the wallet-friendly "dupes," with an ultra-efficient supply chain collapsing the timeline from factory floor to store shelf, accelerating



Customers visit a Massimo Dutti store at a shopping center in Tianjin on Aug 26. PROVIDED TO CHINA DAILY

homogenized styles and popping every pricing bubble, Cheng said. Cheng added that mid-to-premium European and US fashion houses still command premiums through distinctive aesthetics, constant research and development in

materials, and strong storytelling, while many domestic players lack identity or technical depth, are quickly sidelined.

To engage more deeply with local consumers, Massimo Dutti is tailoring products for Chinese tastes

while introducing global limited collections. For Spring, Festival, it launched a "Year of the Snake" limited edition with a campaign by fashion photographer Leslie Zhang. In April, a global capsule collection debuted at its Shanghai Nanjing West Road store.

Digital channels are a growing focus. The brand has launched official flagship stores on Tmall and JD.com and maintains brand accounts on RedNote and WeChat to engage directly with consumers.

E-commerce and short-video platforms are seen as key traffic drivers for China's apparel sector. "Recognizing that younger generations predominantly engage with brands online, we continue to expand our digital presence to offer more diversified touchpoints," Bregolat said.

Analyst Cheng added that the Chinese consumer base remains vast and alluring, but foreign brands must fully embrace the nation's e-commerce boom – tapping digital ecosystems and platform efficiencies – to survive in this race. Massimo Dutti's supply chain strategy combines global sourcing

with proximity manufacturing in Spain, Portugal, Turkey and Morocco, allowing close collaboration with nonexclusive suppliers, reduced carbon footprints and achieving rapid product turnaround.

The company uses this approach, supported by its production runs, offers flexibility and control, enabling it to produce a wide range of responsible fashion. Its integrated inventory management system enables services such as in-store pick-ups and online-to-offline returns and shipping from nearby retail locations.

The push in China comes as parent company Inditex reported modest growth in its latest quarter. During the first quarter of 2023, sales rose 1.5 percent year-on-year to 8.3 billion euros (\$9.66 billion), gross profit climbed 1.5 percent to 5 billion euros, and EBITDA increased 1 percent to 2.6 billion euros.

With Chinese consumers placing greater emphasis on quality, safety, sustainability and self-expression, the brand said it will continue adapting designs and introducing Asia-specific collections, including more Chinese-style pieces, or "fashion trends in the Chinese market inspire and inform our collection design to better serve Chinese customers," said Bregolat.