Subway in China Fast-food Marketing

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Abstract. Nowadays fast-food restaurant is becoming a common choice for people's need due to different reasons. This research aimed to investigate Subway's 4ps (Product, Promotion, Place, and Price) marketing approach in the Chinese market due to the intense rivalry in the fast-food business in China, and also revealed the reason why Subway is less competitive in China other than in the U.S. and Europe. Subway must continue to strive for improved performance to strengthen customer loyalty and attract new consumers to outcompete its competitors. Therefore, Subway's marketing 4P (product, pricing, promotion, and place) was discussed using the SWOT analysis method to guarantee that the company may get a competitive edge in the market. The data suggested that marketing 4Ps tactics are the most significant predictor of a company's success. Possible recommendations are provided by summarizing the different Ps to help Subway better survive in the Chinese market. Contributions and limitations were discussed at the end of this paper.

Keywords: Subway; Fast-food industry; China; SWOT analysis; Marketing mix theory.

1. Introduction

1.1 Research Background

Nowadays, people's lifestyle changed gradually to a faster pace, and the appearance of fast-food restaurants meet people's needs. Customers of fast-food restaurants, which are also commonly referred to as quick service restaurants (QSR), typically place their orders and pay for their meals before sitting down to eat at the establishment. The food supplied by the fast-food business includes both Chinese and Western cuisines. The bulk of fast-food restaurants serving Western cuisine in China is American. Included among them are McDonald's, Pizza Hut, Kentucky Fried Chicken (KFC), etc. In China, there has been a considerable increase in the number of American fast-food restaurants [1]. Among those, Subway is a special existence due to its "healthy" concept and cold food.

The Subway company was founded by Fred DeLuca and Peter Buck in Connecticut, in 1965, and throughout the development of Subway, it has adopted three core values: Family, Teamwork, and Opportunity. Subway is the third largest fast-food company in the U.S., and it is expanding its services worldwide in the last few decades. It is a multinational sandwich chain that has expanded to 33,679 stores in 93 countries and territories with 23,750 of them in the U.S., and most of Subway's business was operated in the U.S., Europe, and Canada [2]. In China, there are only about 150 stores, and the sales are much less than the other countries. Compared with McDonald's and KFC, which have more than 3,000 stores combined, 150 stores are a quite small market share in the fast-food industry of China.

The company's creator, Fred DeLuca, said in 2010 that he planned to surpass McDonald's in China in terms of store count in 10 years [1]. He believed China had significant development potential and set a goal of opening 500 outlets in the next few years, however, he was unsuccessful. The purpose of this research aims to understand why DeLuca failed in his goals and why Subway is less competitive in China compared with another fast-food brand such as Mcdonald's and KFC etc. This means focusing on Subway's marketing strategies and marketing mix to analyze the advantages and disadvantages of Subway in the Chinese market, and also make a comparison with other top-ranked fast-food brands in China to distinguish the differences and summarize the possible reasons for the differences.

1.2 Research Gap

There is a lot of research about the connection between obesity and fast food, but the Subway sandwich is considered “healthy food” by the company. From the marketing perspective of the fast-food industry, research is mainly about the two most famous and similar fast-food restaurants: KFC and Mcdonald's, and the research about Subway outside of the US is minimal. Previous research has analyzed Subway’s marketing strategies and focused on the Danish market. It focused on three specific cities. Although the competition is intense, Subway is generally successful in Denmark. The author used questionnaires to analyze customer preferences, calculated the market share ratio of its competitor, and applied the marketing mix theory along with other theories to understand the Danish fast-food market [3]. Inspired by the article, this research will try to find out why Subway is less successful in China, using the Chinese market as an example to analyze Subway’s marketing strategies. And to achieve this objective, the main research question can be defined: why Subway is less competitive in the fast-food industry in China?

1.3 Fill The Gap

The research will focus on three main perspectives to analyze the problem: the market, the customer, and the competition. For a company, it is crucial to understand the market that it is operating. The fast-food market in China will be analyzed in detail with the question: how attractive is the fast-food market? The ratio and weight of fast food in China’s food industry will be examined and compared. The customer is another important factor needed to be considered. Cultural reasons, diet habits, purchasing power, etc. are all significant perspectives of customers. And lastly, the competition in China’s fast-food industry. Among all other top-ranked fast-food brands, is the competition intense or not? It is vital to know the competitive situation in the market for a company to adjust its marketing strategies.

2. Literature Review

2.1 Marketing Mix Theory

The four Ps of the marketing mix is derived from the one P of microeconomics: price [4]. McCarthy introduced the "marketing mix," commonly referred to as the "4Ps," as a technique to implement marketing strategy. The marketing mix is a conceptual framework that identifies the variables that contribute to marketing success; it is not a scientific theory. The Marketing Mix paradigm has practical applications and is easily applicable to most marketing situations. The four Ps consist of product, pricing, location, and promotion. Each of these four parts may be evaluated alone, but in actuality they are interrelated. The 4P definition can be straightforward to comprehend: product refers to an item or service that is provided by the company based on the needs of the customer; price refers to the price that customers are willing to pay for the product; place refers to where the product is sold and how it is stored and distributed, and promotion refers to advertising and joint marketing campaigns.

2.2 History and Important Result

Borden states that he was the first person to use the term "marketing mix" and that he derived the concept from Culliton's description of a corporate executive as a "mixer of components" [5]. Borden also claims to have invented the term "marketing mix." The early marketing concept, presented by Stackelberg in the 1930s and theoretically analogous to the marketing mix, was based on the notion of action parameters. Rasmussen then developed what would subsequently become known as parameter theory [6]. According to him, pricing, product quality, service level, and marketing are the four criteria that affect sales and competition. The Product Life Cycle Concept is an implementation of this concept created by Mickwitz in 1959. According to Frey, there are two types of marketing variables: the offering (which comprises the product, its packaging, its brand, its price, and its degree of service) and the techniques and instruments [7]. Borden was the first to suggest the marketing mix concept. To satisfy the target market, he rearranged Borden's 12 factors into four elements, which he termed the "4Ps," and placed them under the control of marketing managers. These include goods, pricing, promotion, and location.

In a previous study about the 4Ps, from a price perspective, researchers show that customers buying behavior changes according to the different price levels [3]. For promotions, it is supported that a product's promotion can significantly affect its sales [8]. Hypothesis testing was performed to prove that promotion and purchase intention are positively related [9]. On the product side, the attribute of a product is related to customers' purchase intention as well [10]. Especially, product quality can affect people's purchase intention significantly [11]. The taste of the food and localization of the food is also important to factor affecting customers' purchase intention [12].

2.3 Summary

The 4Ps structure separates four distinct, well-defined, and independent management processes. The execution of the 4P policies continues to fall largely on a variety of different departments and people inside the company, despite the ongoing efforts made by many physical firms to handle the 4P in an integrated way. The client will often feel the distinct impacts of each of the 4Ps at various times and locations, even if some organizations make a concentrated attempt to completely integrate their marketing operations across the company.

Together, these studies outlined that Marketing Mix is a well-defined and matured framework that is widely applied around the world for more than 50 years. The 4Ps: product, price, place, and promotion can be a guideline for researchers to examine the marketing strategies of different companies. After analyzing the advantages and disadvantages of a company's 4P, recommendations can be provided to improve its marketing strategies. Nevertheless, as time goes by, this paper should rethink the effect of the 4Ps to adopt the new era and adjust more Ps into the theory to make it completer and more comprehensive.

3. Method

3.1 Research Design

A variety of methods are used to analyze a specific brand in a market, each has its advantages and disadvantages. However, in this research, SWOT analysis will be applied to analyze the marketing mix theory of Subway. SWOT Analysis is a part of strategic planning for evaluating the "strengths," "weaknesses," "opportunities," and "threats" of a company [13]. SWOT analysis is widely used in the last decades on market mix theory and many of the studies have proven its effectiveness. Recent research was conducted to analyze the Universal Picture using marketing mix theory and SWOT analysis, indicating that higher brand awareness and lower prices can be significant strengths for a company. And the expansion of overseas markets can effectively prevent competition and threats from companies in the same industry. Also, if a product is overpriced, this can be a huge weakness in a highly competitive industry [14]. Another study in Poland analyzed the sustainable food industry using SWOT analysis and marketing mix theory. The study identifies the strengths, weaknesses, opportunities, and threats to the construction of a sustainable marketing mix in the Polish food industry, demonstrating the tight relationship between the 4P and SWOT analysis. For example, "Enterprises combine deliveries to several recipients simultaneously" can be a strength in the distribution aspect, yet "Enterprises do not optimize distribution channels by reducing intermediaries involved in distribution processes" is a weakness in the distribution aspect [15]. Therefore, it is clear that marketing mix theory and SWOT analysis can be combinedly and used in this research about Subway in the Chinese market.

3.2 Research Object

In Bridgeport, Connecticut, Subway was first introduced in 1965 by 17-year-olds Fred DeLuca and Peter Buck under the name Pete's Super Submarines. After being given the name Subway in 1972, franchising activities started in 1974 with the launch of a second location in Wallingford, Connecticut. It has now grown to be one of the biggest fast-food corporations in the world following decades of expansion and development. Fresh, affordable, and nutrient-dense sandwiches are the company's top priorities for its customers. Subway currently provides a wide range of products, including sub sandwiches, salads, snacks, and drinks. Its activities have expanded abroad. However, the submarine sandwich is Subway's main offering. It offered 6-inch and 12-inch sandwiches with a selection of fillings, including Tuna, Steak, Cheese, Meatball Marinara, Spicy Italian, etc. Subway provided a range of pieces of bread, veggies, and sauces to cater to the diverse tastes of its customers. Subway works hard to adhere to its secret formula, even if it often introduces new product flavors, to guarantee that customers everywhere get the same high-quality products and services [15]. In 1995, Subway entered the Chinese market 10 years earlier than Mcdonald's. However, the early entrance did not give Subway many advantages. According to statistics from Statista, the sales revenue of quick service restaurants in China in 2017 was 60,838 minion USD and Subway only contributed 0.2% to this number [16]. Although Subway was successful in the US and Europe, it did not perform well in the Chinese market like another fast-food brands such as Mcdonald's, KFC, and Burger King. So, this research will focus on why Subway is less competitive in the Chinses market and use SWOT and marketing mix theory to find out the underlying reasons.

3.3 SWOT-Analysis

3.3.1 Strength

Although Subway is not performing well in the Chinese market, it still exhibits a few strengths compared with other fast-food brands in China. The main strength will be focusing on the product and distribution. From the distribution and place perspective, Subway is an experienced player in the worldwide marketing arena because of its robust global network, which spans more than 100 countries [17]. It is possible to advise franchisees to follow the advice and experience of the franchisor in the local market. As one of the biggest fast-food restaurant chains in the world, Subway's marketing advantages in China include internal assistance, brand development, and product creation. The franchising business strategy assures speed and reduces workload amid China's growth. In addition, China is very supportive of franchise stores, and it makes franchises maintain effective operations. From the product perspective, it is believed that Subway's unique selling proposition, a healthy idea, coincides with the developing 'health dining' trend in the Chinese market, hence contributing to the development of a distinctive brand image. And the purchase intention of customers will increase due to the matched trends.

3.3.2 Weakness

The weakness of Subway in the Chinese market will be mainly in promotion, product, and price. Even while Subway boasts a high level of brand equity around the globe, the Chinese public is not as familiar with the brand when compared to McDonald's, KFC, and Burger King, who are among its most immediate rivals. The U.S., Canada, Australia, and the U.K. earn far more revenue than China, which represents just 0.6% of Subway's 33,749 outlets globally [18]. In 2009, global sales were $13.8 billion, of which China contributed a "tiny" portion [18]. In addition, from the product perspective, the bread items that Subway sells are still considered an essential component of the Western diet, but in China, they are not considered a normal part of the culture of eating. In Chinese diet habits, people often dislike cold food, so unlike Mcdonald's and KFC which are hot food, Subway is much less acceptable and popular among Chinese customers. Although Subway entered the Chinses market earlier than most of its competitors, Subway did not expand and grow rapidly, thus the customer foundation and market share of Subway are very low. And Subway did not localize its product to adopt the Chinese diet culture. At the very least, as compared to its rival, Subway is in a less advantageous position when it comes to the process of cultivating relationships with the public and the government. Aside from this, there is a lack of expertise in customer behavior in China, which causes it to take more work for Subway to enhance its brand equity in the country. The pace of growth and profit for Subway in China is rather low at first and modest later, so to optimize franchisees' marketing goals, marketing spending in advertising, which is generated from net sales following Subway's franchising law, is kept to a minimum. Therefore, Subway is caught in a negative feedback loop: the sales and revenue were low due to little market share, and the low revenue caused Subway to have no money to spend on advertising and promotion. Studies have shown that price promotion has a significant connection with customers' purchase intention [19]. The less advertisement and promotion have seen by the customers, the less purchase intention they will have.

3.3.3 Opportunity

The opportunity for Subway in China will mainly be from the product and promotion perspectives. For products, more localization and changes can be made to adopt the Chinese eating culture. For example, Subway can provide hot sandwiches or add some local Chinese condiments to make it more like a portion of Chinese food. When the localization is well established, advertising and promotion can be more effective than before.

3.3.4 Threats

Competitors of Subway actively devise strategies to maintain their present consumers and attract new ones in order to seize market share in the China market. Not only do they have persuasive reasons for clients to purchase their goods, but they also have greater marketing experience in China. To establish a foothold in the Chinese market, Subway China must confront the challenge presented by its internal operations and industry competitors. Due to the fierce rivalry in the Chinese fast-food chain sector, the competitive position and relative advantages of Subway will be studied by comparing it to its two major direct competitors, market leaders KFC and McDonald's, one indirect competitor, and market follower Burger King. Burger King and Subway want to expand their operations in China via a distinctive entrance mechanism known as franchising, while KFC and McDonald's can solidify their leading position and brand awareness in the fast-food business through swift and efficient outlet expansion. Additionally, KFC, McDonald's, and Burger's provide a variety of food selections, but Subway offers a smaller selection of more distinctive alternatives, such as the enormous sandwich. Regarding positioning, Subway presents itself as a provider of high-quality cuisine based on the customization of client preferences, without stressing the outlet's physical appearance or the speed of service. Only Subway, as opposed to its three competitors, targets the broad public and the mass market without focusing on a specific demographic like white-collar workers.

4. Result & Discussion

This research discussed the 4Ps using SWOT analysis regarding the question of why Subway is less competitive in Chinses market. The main strengths of Subway are its healthy product and well-established franchise network; the weaknesses are the unmatched diet habit of Chinese customers leading to low sales, and the lack of advertising; the opportunities are possible localizations regarding the Chinese eating habit; and lastly, the threat coming from KFC, McDonald's and Burger King. To conclude, Subway has more weaknesses and threats than strengths and opportunities in China, thus leading to the comparatively low revenue and competitivity for Subway in Chinses fast-food industry.

To sum up, the product is the main weakness of Subway due to the different eating cultures. Cold food like a sandwich is not widely accepted in chinses fast food market, so the purchase intention for customers is low due to the dislike of the food itself. From the promotion perspective, Subway is spending low on promotions in China, and advertisement is hardly seen on China's mainland. The lack of product exposure to the customers is also another reason which affects people's purchase intention. For place and price, Subway has no advantages over another fast-food restaurants in China.

As discussed in this research, the stores and market share of Subway in China mainland is much less than those of KFC and Mcdonald's. Therefore, customers have fewer opportunities to access Subway and its products, thus reducing customers' purchase intentions.

The following are the possible recommendations for Subway regarding the 4Ps. For products, variety should be increased. Subways should not only provide Sandwiches, and more choices like juice, hot food, snacks, etc. can be provided. Also, the dressing and sauces can be more localized by adding more Chinese condiments to them. For promotion, Subway should focus more on the "healthy" perspective, connecting this idea with customers' purchase intention. When customers think of Subway, they should suddenly connect the brand with the word "healthy". For place, Subway can build more stores around the CBD in China's big cities. Fast food is popular among white collars, and when people think of fast food, they often consider it unhealthy. But Subway is different, the "healthy" tag for Subway can become its competitive advantage among the fast-food industry when targeting white-collar customers.

5. Conclusion

This article provided strategic suggestions after researching an in-depth examination and investigation of Subway's marketing tactics for the Chinese market. The study analyzed Subway's strengths and weaknesses using SWOT analysis, and then suggested marketing mix methods based on the 4Ps for its future development. This research mainly explains why Subway is less competitive in the Chinese fast-food market. The strength of Subway is only minimal in the product and distribution due to its matured franchising strategy, and the opportunities can be possible localization from the product perspective. The main analysis is on the weakness and threats. The Subway product itself can be less popular in China than in the U.S. because of Chinese people's different diet habits, so subway can provide more localized products to increase its competitiveness. The promotion and stores are few on China's mainland and people hardly see advertisements for Subway. On the threat aspect, Subway is facing strong competition from well-established fast-food companies like McDonald's, KFC, and Burger King. Those companies have much more market share in China, so the threat and competition are quite intense.

This research indicates that marketing mix theory and SWOT analysis are validated in marketing analysis for a brand. The article also proves that 4Ps and SWOT analysis can be combinedly used to achieve a better result. By combining the two methods, a comprehensive study can be established to provide insights and possible recommendations for a company. Nevertheless, the limitation can still exist. The research does not go deep into its competitor strategies to analyze the similarity and differences. By comparing Subway's strategies with McDonald's or KFC's strategies, people may get a better sense of the reason behind Subway's failure in the Chinese market.

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