
Winning China's lower- tier markets

**A systemic strategic
playbook for catering
brands seeking
sustainable growth**

Contacts

China

Julius Shen

Lead Partner, Strategy& China

+86 (21) 2323 2273

julius.shen@strategyand.cn.pwc.com

Cynthia Li

Principal, Strategy& China

+86 (21) 2323 5886

cynthia.yy.li@strategyand.cn.pwc.com

About the authors

Julius Shen is the Lead Partner of PwC Strategy& China, based in Shanghai. He is also the consulting leader of the industrial products and services sector at PwC China. With nearly 20 years of strategy and management consulting experience, he specializes in corporate growth and transformation strategy, operations and supply chain improvement, M&A and investment strategy, and post-merger integration.

Cynthia Li is a Principal at Strategy& China, based in Shanghai. She has over a decade of strategy consulting experience, advising clients across the food and agriculture, transportation and logistics, and industrial products and services sectors. Her expertise spans corporate growth strategy, business transformation, M&A, and project management.

Even Wu is a Manager at Strategy& China, based in Shanghai. She advises clients across consumer goods, transportation and logistics, industrial manufacturing, and technology, with a focus on market intelligence, corporate strategy, and organizational transformation.

Brenda Shao, Narissa Jin, Senior Associate and Roy Li, Associate at Strategy& China, have also contributed to this report.

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EXECUTIVE SUMMARY

The competitive landscape of China's catering sector is undergoing a structural shift.

As the national growth moderates, higher-tier markets (Tier-1, Tier-1.5 and Tier-2 cities) become increasingly saturated. Consequently, lower-tier markets—including Tier-3 and below cities, counties, and rural areas—now represent the primary frontier for brands seeking sustainable, incremental growth.

This strategic transition extends beyond geography. It reflects a fundamental rebalancing of China's consumption landscape, driven by a massive demographic base, ongoing structural upgrades in consumer demand, and an increasingly strong demand for branded dining experiences in lower-tier markets. Concurrently, lower living costs and resilient household balance sheets provide a stable foundation for consumer spending.

However, expanding into lower-tier markets cannot rely on copy-pasting higher-tier models or engaging in race-to-the-bottom price wars. These regions operate under distinct consumer behaviors, economic realities, and competitive dynamics. Trust, familiarity, and social endorsement heavily dictate purchasing decisions. Dining occasions are deeply social, tied to family gatherings, community life, and relationship-building. Furthermore, value perception takes precedence over absolute price, while agile local operators often maintain structural advantages in cost structures and community networks.

The unilateral transplantation of metropolitan models, including product menus, store footprints, pricing tiers, marketing plays, and supply chains, rarely yields sustainable returns. Winning in lower-tier markets requires a dedicated operating model built around five strategic pillars:

- Redesigning store networks by combining high-visibility flagship anchors with high-efficiency smaller formats;
- Optimizing product portfolios through simplification and selective regional localization;
- Calibrating value propositions to protect long-term pricing integrity while capturing price-sensitive demand;
- Cultivating trust-driven marketing ecosystems integrated deeply within local communities;
- Forging robust supply chain capabilities to secure a structural cost advantage.

Ultimately, success in lower-tier markets will belong not to the fastest expanders, but to the brands most capable of aligning operational models with local realities.



CHAPTER 1

Why lower-tier markets are the next growth frontier?

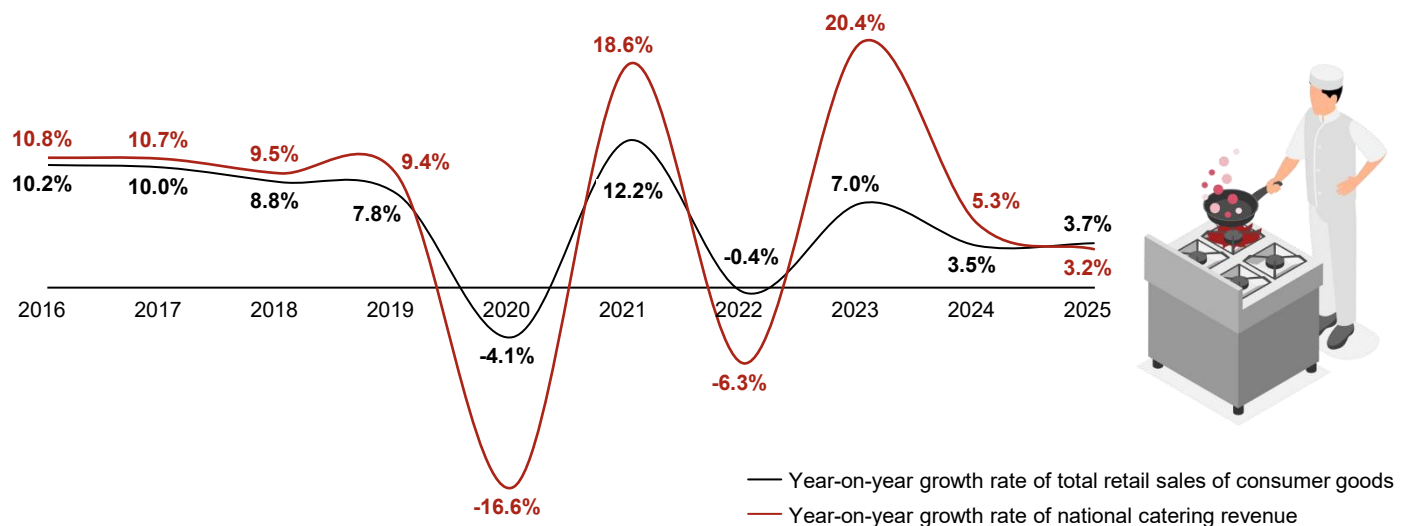
A new competitive era

China's catering sector has transitioned from land-grab expansion to a mature era of operational excellence and disciplined growth. While overall consumer spending continues to rise, the rate of growth has cooled significantly, exposing intense saturation across virtually all dining categories.

Macroeconomic data highlights this structural shift: while China's total retail sales of consumer goods crossed the RMB 50 trillion threshold in 2025, growing 3.7% year-on-year, the catering sector signaled a sharp growth deceleration. National catering revenue growth cooled from 5.3% to 3.2% in 2025, falling below the broader retail growth average and signaling market saturation (see Exhibit 1).

EXHIBIT 1

Growth rate of total retail sales of consumer goods and catering revenue in China (2016-2025)



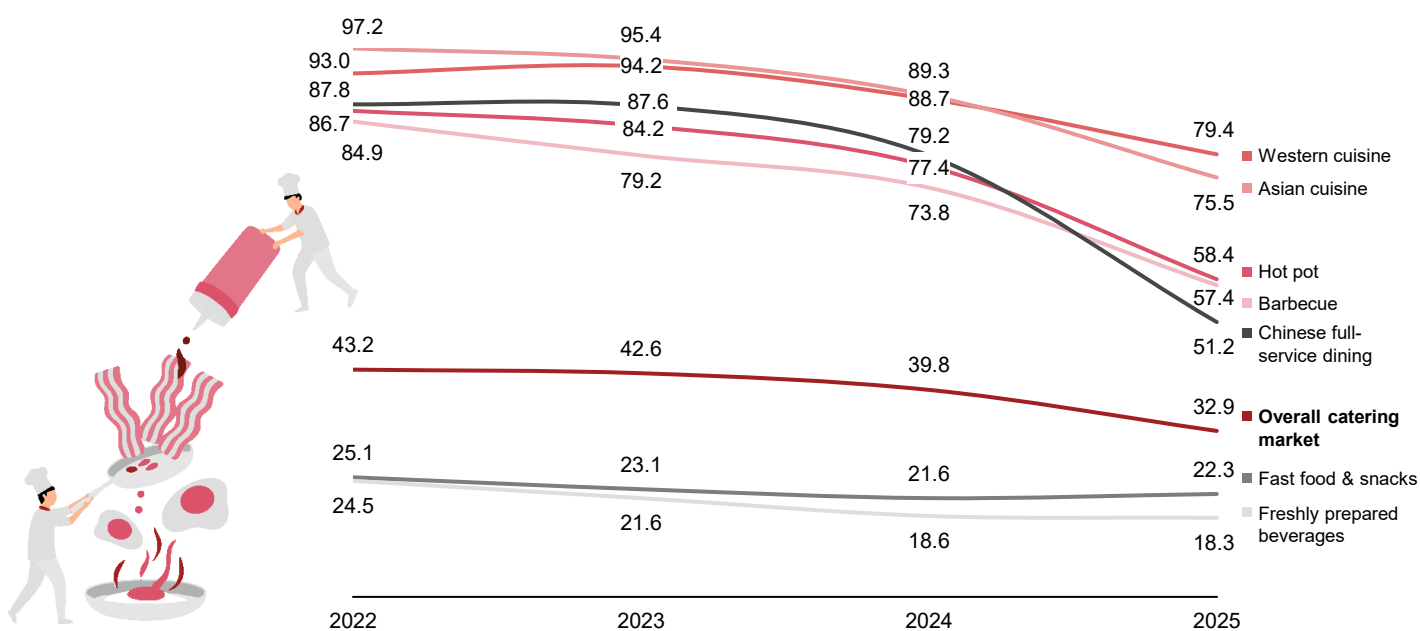
Source: National Bureau of Statistics of China

Consequently, the traditional expansion playbook—opening more stores in higher-tier markets—has reached its economic limit. Prime commercial locations are exhausted, labor costs continue to rise, and rental expenses remain elevated. Simultaneously, consumers have grown highly discerning, demanding premium quality, exceptional service, and elevated brand narratives alongside higher value for money. This double squeeze on margins is visible in industry metrics: average per-capita dining spend plummeted from RMB 43.2 in 2022 to RMB 32.9 in 2025, a contraction of nearly 24% (see Exhibit 2).

While higher-tier markets remain essential for brand equity, innovation pilot, and trendsetting, they no longer represent the engine for volume expansion. Growth capital is systematically rotating elsewhere.

EXHIBIT 2

Average spending per meal in China's catering market by category (2022-2025, RMB)



Source: Hongcan

Growth beyond higher-tier markets

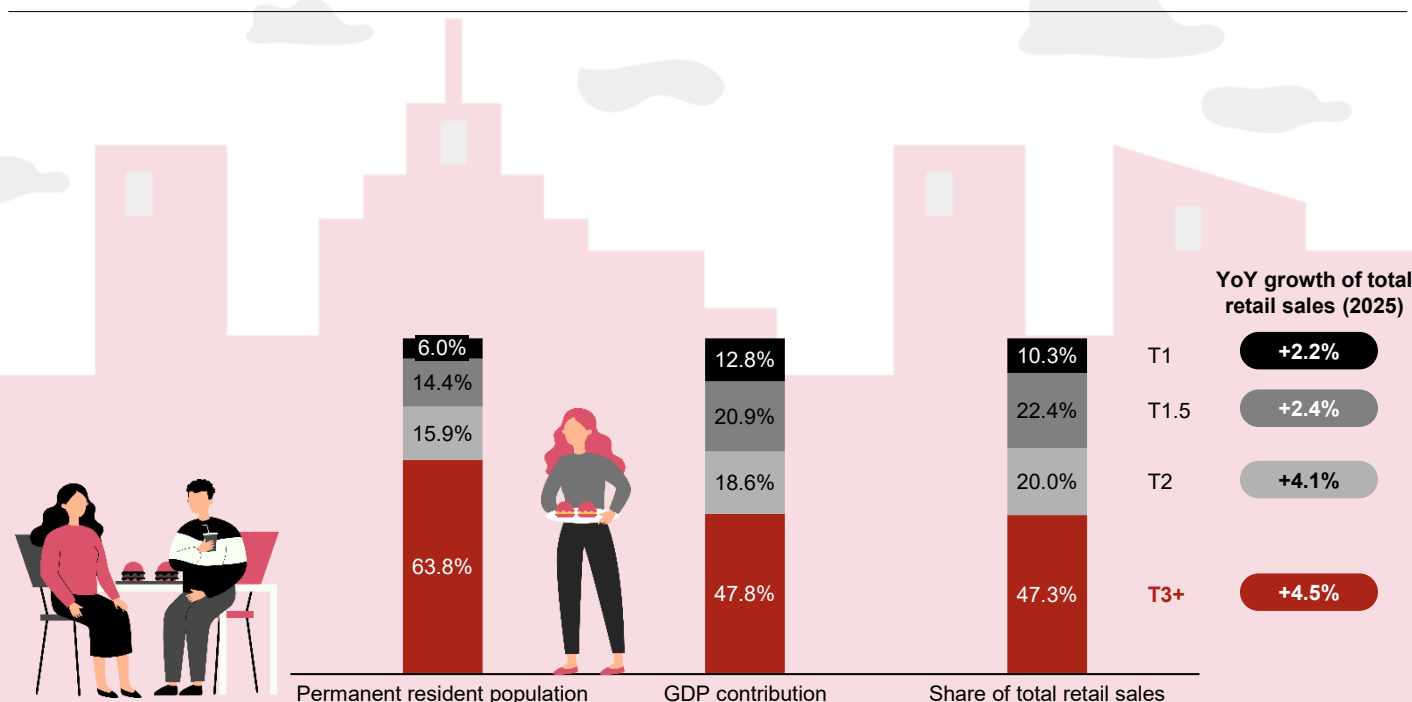
While higher-tier markets face mounting headwinds, lower-tier markets are propelled by robust fundamentals:

- **Massive demographic and economic scale:** In 2025, permanent residents in Tier-3 cities and below accounted for approximately 64% of the national population, contributing about 48% of GDP and 47% of total retail sales (see Exhibit 3), offering massive untapped headroom.
- **Resilient disposable income and confidence:** Unlike metropolitan consumers burdened by high living expenses, lower-tier residents enjoy lower rigid costs (such as housing and transit), yielding a higher proportion of disposable cash flow and stable consumer confidence.
- **Upgrading consumption and quality demand:** Driven by digital flattening and the return of small-town youth, consumer expectations are shifting from purely functional dining toward reliable, high-quality, branded experiences.

For catering brands, these dynamics create a significant opportunity to capture market share in underpenetrated territories.

EXHIBIT 3

Population and economic contribution by city tier in China (2025)



Note: City classification based on the 2025 City Tier List by Yicai/ New First-Tier Cities Institute

Source: National Bureau of Statistics of China, statistical communiqués of China on national economic and social development

Lower-tier markets: more than volume

Many companies approach lower-tier markets simply as volume plays. However, the opportunity extends far beyond population size alone. Consumers in these markets increasingly demonstrate a willingness to pay for quality, convenience, food safety, and trusted brand identities. Nearly 75% of small-town young and middle-aged consumers explicitly state they are willing to pay a premium for high-quality goods (see Exhibit 4). In many categories, the gap between consumer aspiration and high-quality market supply remains wide.

This dynamic favors well-managed catering chains that can deliver operational consistency and food safety at accessible price points. Importantly, lower-tier markets should not be misconstrued as low-price environments; they are highly value-conscious. Consumers will spend when they perceive meaningful value, but they quickly filter out offerings that fail to justify their cost. The core mandate is not to lower prices, but to create a value proposition tailored to local expectations.

Persistent brand struggles

Despite the clear opportunity, many brands fail to secure sustainable returns in lower-tier markets. The most common pitfall is assuming that lower-tier consumers mirror metropolitan purchasing habits. In these markets, decisions are shaped by distinct social structures, interpersonal trust, and channel preferences. Trust is earned through peer recommendations rather than broad-based advertising. Family-centric occasions frequently outweigh individual convenience. Community network influence is more powerful than digital influence. Brands often encounter consumers who are simultaneously highly brand-conscious and highly price-sensitive.

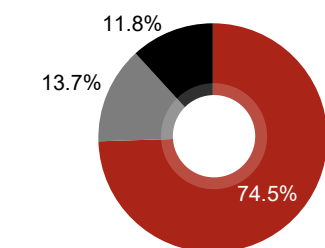
Successfully navigating these differences requires brands to reengineer their operating models rather than simply stretching existing practices into new geographies.

EXHIBIT 4

Quality and brand perception among small-town young and middle-aged consumers

Nearly 75% willing to pay premium for high-quality products

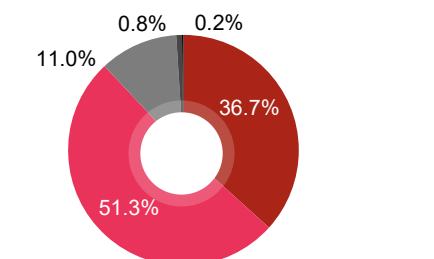
Q: Are you willing to pay higher prices for high-quality products?



Yes Not sure No

88% acknowledge the importance of brand for product quality

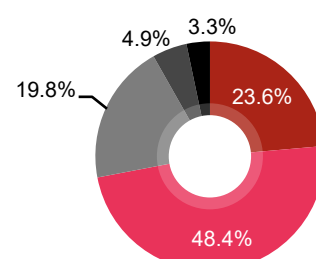
Q: How important do you think brand is for product quality?



Very important Important Neutral Not important Not important at all

72% demonstrate higher purchase inclination toward branded products

Q: Are you more inclined to purchase products from well-known brands?



Always Often Sometimes Rarely Never

Source: Consumer Insights Report on Small-Town Young and Middle-aged Population, December 2024, QuestMobile

CHAPTER 2

What makes lower-tier markets fundamentally different?

Beyond income: understanding the lower-tier consumers

Traditional market analyses often focus on income levels. While lifestyle and purchasing mindset remain important, they are far from the only factor shaping consumer behavior.

Higher-tier vs. lower-tier markets

		Higher-tier markets (Tier 1-2)	Lower-tier markets (Tier 3 and below)
Social context	 Local norms	Stranger-based society with relatively loose social networks; digital channels are widely embraced for social interaction and emotional engagement	Acquaintance-based society with close-knit social networks, where face-to-face gatherings and dining remain central to everyday social interaction
	Pace of life 	Fast-paced lifestyle characterized by long commutes and fragmented leisure time	Slow-paced lifestyle with relatively fixed activity radius; higher "time affluence"
	 Dietary habits	Broad information exposure and diverse experiences; more sophisticated preferences; stronger demand for personalization; and greater openness to emerging concepts (e.g., sugar-free products)	Strong attachment to the local palate; greater acceptance of localized offerings; preference for larger portions; lower sensitivity to flavor personalization
Consumer landscape	Consumption habits 	High-frequency, convenience-driven consumption; diverse lifestyle choices with greater emphasis on functionality and quality; aspiration for differentiation ("having what others do not")	Low-frequency, occasion-driven consumption with stronger ritualistic elements; value-conscious, promotion-responsive, yet willing to pay a premium for "face" consumption; aspiration for parity ("having what others have")
	 Competitive landscape	Highly saturated market with intense competition from global and niche brands	Competition is shaped by a mix of leading national brands, local brands, and unbranded stores; highly localized and fragmented market structure
	Brand perception 	Brands serve as expressions of identity and personal taste, rather than simply scale or reputation; loyalty is shaped by cultural affinity and self-expression, with consumers highly influenced by digital marketing	The lower the market tier, the more brand are perceived as "big-name"; brand perception is heavily shaped by physical store presence and word-of-mouth recommendations from trusted social networks

Source: Strategy& analysis

Lower-tier markets operate within high-trust, tight-knit social networks. Purchasing decisions are heavily mediated by peer recommendations, family members, and local opinion leaders. In these environments, social proof and emotional validation are critical pillars of brand preference.

Concurrently, dining out carries a high degree of social weight. Restaurant visits are frequently tied to family gatherings, celebrations, relationship maintenance, and networking. Emotional trust and localized social credibility are just as vital to brand success as product flavor and quality.

Three core consumer segments

To win, brands must recognize that lower-tier consumers are not a monolithic block. Three segments drive the bulk of market demand:

- **Young and middle-aged consumers:** This segment represents the core engine of volume consumption and frequently seeks a balance between brand credibility and functional value. They rely heavily on authentic word-of-mouth recommendations, with family-oriented dining serving as their primary consumption occasion.
- **Students and younger consumers:** These high-engagement consumers prioritize social media-friendly experiences, trending brand concepts, and peer validation. However, their brand loyalty is highly volatile and highly price-sensitive.
- **Older consumers:** While demonstrating lower transaction frequency, this group places significant emphasis on trust, familiarity, simplicity, and convenience. They respond best to straightforward value propositions over complex promotional frameworks.

Developing tailored product mixes, marketing strategies, and customer experiences for each group is essential to drive commercial traction.



Distinct consumption occasions

In high-tier markets, dining is largely functional, serving the needs of high-tempo professional lifestyles. Conversely, lower-tier dining is fundamentally experiential, social, and leisure-oriented. Restaurants function as social hubs for community and family gatherings.

This behavior places a high premium on restaurant atmosphere, localized hospitality, and perceived social value. Selecting a restaurant is less about quick fueling and more about facilitating a positive, shared social experience.

Different channel economics

Channel dynamics are similarly distinct. The tighter geographic footprint of lower-tier markets means consumers are highly willing to travel short distances, reducing structural reliance on delivery services. Moreover, these consumers exhibit high sensitivity to friction costs like delivery and packaging fees.

Consequently, dine-in and self-pickup play a larger role in the channel mix. Brands must redesign their channel strategies, pricing structures, and operational models around these realities rather than assuming delivery-heavy urban profiles will work.

“

Lower-tier markets have become the primary engine of growth, making success beyond higher-tier cities a strategic imperative for achieving sustainable leadership in China's catering sector.”

Julius Shen, Strategy& China



CHAPTER 3

How can brands win in lower-tier markets?

Pillar 1: Reengineering the store network

Why traditional expansion formats fall short: brand vs. efficiency trade-offs



Replicating high-tier, large-format stores in lower-tier markets is a structural mismatch. In higher-tier markets, large-format stores rely on dense pedestrian flows and premium spending profiles to absorb high capital expenditures and long payback cycles.

In smaller cities, the lower population density and dispersed retail nodes render these large footprints economically unviable. However, arbitrary store downsizing is equally hazardous, as it risks diluting brand authority and consumer trust.

The challenge therefore lies in balancing brand presence with strict capital efficiency.



Strategic implication: flagships build equity, smaller formats drive scale

To scale profitably, brands should implement a multi-format, hub-and-spoke network strategy. Premium flagship locations placed in high-tier retail centers serve as brand anchors, establishing brand credibility, create visibility, and reinforce premium positioning. These stores function as brand showcases, helping consumers experience the full proposition and building confidence in relatively unfamiliar markets.

At the same time, smaller-format stores enable broader geographic coverage and more efficient market penetration. Positioned near residential communities, schools, hospitals, and transportation hubs, these locations improve accessibility while generating stronger capital efficiency.

This balanced portfolio approach leverages the brand-building power of the flagship to fuel the rapid, profitable expansion of smaller formats.

Key actions

- **Develop a multi-format store portfolio:** Build a tiered network integrating flagship anchors, standard community hubs, and high-velocity satellite or community formats to optimize market coverage.
- **Optimize investment economics:** Focus on maximizing return on invested capital by simplifying interior fit-outs, standardizing modular construction, and reducing kitchen equipment requirements without compromising customer experience.
- **Improve operational productivity:** Implement flexible staffing models and structured lease agreements (such as turnover-linked or fixed-hybrid models) to lower break-even thresholds while maintaining service quality.



Case example 1 Strategic store-format portfolio by a leading fast-food chain

- Entering lower-tier markets, the brand typically establishes its first outlet in a standard-format store of approximately 180 ~ 200 square meters, replicating the format deployed in higher-tier cities. These flagship locations are typically situated within the city's premier commercial complexes to maximize brand visibility, build market awareness, and establish a strong brand presence.
- Once the brand has established an initial market foothold in the market, expansion shifts toward smaller, community-based format sited near residential neighborhoods, schools, hospitals, and other high-footfall areas. Compared with standard stores, these formats reduce floor space by 40 ~ 50%, adopt a simplified fit-out, replace premium seating with more functional furnishings, and streamline kitchen equipment specifications.
- This lean-format model reduces upfront capital expenditure per store by approximately 30 ~ 40%. Fixed-rent lease terms, combined with leaner staffing (typically two to three fewer employees per shift) further raise store-level operating margins by 2 ~ 3 percentage points.

Pillar 2: Optimizing portfolios without losing brand identity

Why product replication often fails: localization paradox



The direct transplantation of metropolitan menus into lower-tier markets frequently fails. Consumers in these markets may be less receptive to highly niche concepts, complex flavors, or premium menus requiring high cognitive education. Conversely, over-localization risks diluting the brand's unique identity and introducing immense complexity to the back-end supply chain.

The objective is to achieve localized relevance without sacrificing consistency.

Strategic implication: adapt the portfolio, not the brand

The optimal approach is selective localization. Brands should preserve their core identity and hero SKUs while adjusting the supporting menu to align with regional tastes, keeping operational complexity low while enhancing local appeal.

This approach ensures the kitchen remains highly efficient while matching local consumer expectations.

Key actions

- **Rationalize the SKU base:** As brands push into smaller formats and thinner-density markets, menu simplification becomes a priority. Reducing low-performing SKUs sharpens kitchen throughput, concentrates purchasing scale, simplifies inventory, and cuts food waste, while freeing staff to deliver a more consistent customer experience.
- **Localize through selection, not creation:** Brands should leverage existing product portfolios to identify offerings that best align with local consumer preferences. In many cases, careful product selection proves more effective than developing entirely new products. This approach preserves supply chain integrity while improving local market acceptance.
- **Expand both entry-level and sharing occasions:** Lower-tier markets typically present two distinct demand opportunities: low-commitment trial purchases and group-oriented consumption occasions. Smaller portions and entry-price offerings help lower the barrier to trial, while larger formats and family-sharing options increase average ticket size and enhance relevance for group dining scenarios.

Case example 2

SKU rationalization by a western-style dining chain

- In 2024, the brand undertook a comprehensive portfolio optimization initiative, reducing the number of SKUs in standard stores from approximately 140 to 80 ~ 85.
- The rationalization strategy was differentiated by store format. Categories such as salads, complex side dishes, desserts, and selected beverages were selectively removed. The assortment in satellite stores was streamlined to approximately 60 ~ 65 SKUs, while the smallest store formats operated with as few as 18 ~ 20 core SKUs.
- The initiative was underpinned by two key considerations. First, consumers in lower-tier markets demonstrate limited willingness to pay for novelty-driven flavors and health-oriented product propositions. Second, smaller store formats operate under inherent constraints in kitchen capacity and labor availability.
- As a result, the brand significantly reduced equipment investment while improving labor productivity, operational efficiency, and inventory management.

Case example 3

Product localization by a value coffee chain

- To accelerate penetration into lower-tier markets, the brand deliberately reduced its emphasis on traditional coffee offerings characterized by strong bitterness and higher adoption barriers.
- Instead, it prioritized more accessible products, including milk-based flavored lattes, fruit-infused coffee, and milk tea. These offerings were positioned as hero SKUs and featured prominently in customer recommendations.
- This portfolio shift reflects broader consumer preferences in lower-tier markets for sweeter, more familiar flavor profiles and more experiential beverage choices, lowering trial barriers and improving acceptance among mass-market consumers.



Pillar 3: Maximizing value perception over price erosion



Why price wars are a strategic trap: the race to the bottom

Lower-tier markets are often characterized as highly price-sensitive. While this assessment is broadly valid, many brands respond with the wrong strategy: aggressive discounting.

Price cuts may generate short-term traffic, but they rarely create sustainable competitive advantage. More importantly, indiscriminate discounting can erode brand equity, compress margins, and provoke competitive responses that are difficult to unwind. The result is often a race to the bottom with few long-term winners.

Strategic implication: preserve price integrity while strengthening value perception

Consumers in lower-tier markets are not simply seeking the lowest price. They are seeking the best value. Winning brands therefore focus on maximizing value perception rather than reducing prices. They maintain pricing discipline while improving affordability through targeted promotions, membership benefits, and personalized offers.

This enables brands to remain accessible without compromising long-term brand equity.

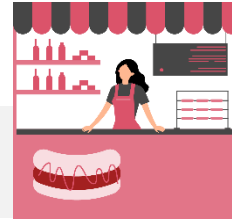
Key actions

- **Implement differentiated pricing and promotion strategies:** Not all markets require the same promotional approach. While maintaining consistent base pricing, brands should calibrate discount intensity, promotional frequency, and offer mechanics to reflect local purchasing power and competitive dynamics.
- **Leverage lifecycle-based membership ecosystems:** The most effective membership programs drive engagement, advocacy, and repeat visits rather than relying solely on discounts. CRM platforms enable brands to deliver personalized value by aligning offers with customer lifecycle stages, purchasing behavior, and visit frequency. This improves marketing effectiveness while strengthening customer retention.

Case example 4 Value-centric promotion by a leading fast-food chain

- The brand adopts a substantially more aggressive promotional strategy in lower-tier markets than in higher-tier cities.
- While consumers in higher-tier markets are typically offered discounts of 20 ~ 25%, lower-tier markets rely more heavily on high-value promotions such as "Buy One Get One Free." Leveraging digital analytics and consumer insights, the brand continuously refines coupon allocation and targeting.
- Performance data show that coupon redemption rates in lower-tier markets exceeded those in higher-tier markets by approximately 7 ~ 8 percentage points, indicating stronger promotional responsiveness among local consumers.
- To further accelerate customer acquisition, newly opened stores offer exclusive membership incentives through the brand's mobile app, including deeply discounted snacks and signature products. These initiatives not only encourage trial but also establish a foundation for long-term customer retention and repeat purchases.

Pillar 4: Cultivating trust-driven marketing ecosystem



Why traditional urban marketing often underperforms: the social proximity deficit

Many catering brands enter lower-tier markets using marketing playbooks developed for Tier-1 and Tier-2 cities. These strategies typically emphasize brand storytelling, celebrity endorsements, influencer marketing, and broad media exposure.

While these approaches can effectively build awareness, they do not necessarily translate into trust. In lower-tier markets, purchasing decisions are often shaped more by social networks than by media reach. Recommendations from family members, friends, neighbors, colleagues, and trusted local figures typically carry greater weight than national advertising campaigns. Consumers are evaluating not only products, but also credibility. As a result, marketing strategies designed primarily to capture attention often struggle to convert awareness into sales.

Strategic implication: shift from awareness-led marketing to trust-led growth

Winning brands recognize that trust is the most valuable currency in lower-tier markets. Rather than focusing solely on brand exposure, they invest in building genuine local connections, encouraging community participation, and creating mechanisms that amplify word-of-mouth advocacy.

The objective is not simply to be noticed, but to be recommended.

Key actions

- **Build local community ecosystems:** Community engagement should become a core marketing capability. Brands can leverage membership communities, social groups, local events, and referral programs to accelerate customer acquisition, deepen customer relationships, and increase repeat visits at relatively low cost. When executed well, these communities become self-sustaining acquisition channels, reducing reliance on paid media.
- **Integrate online and offline touchpoints:** Digital engagement remains important but should reinforce, rather than replace, local activation. Brands should integrate digital channels with in-store experiences, community events, local partnerships, and grassroots initiatives to maximize marketing effectiveness.
- **Localize communication and messaging:** Marketing messages should reflect local priorities and resonate with the language consumers use. Communications centered on practical value, affordability, product quality, family occasions, and social gatherings are often more compelling than abstract brand narratives. Consumers should immediately understand both the benefits on offer and why they are relevant.

Case example 5 Community operations by a restaurant chain

- As part of its lower-tier market expansion strategy, the brand places strong emphasis on localized community engagement and private-domain customer operations. Before a store opens, store managers—often selected for their local influence and community connections—actively recruit nearby residents into enterprise WeChat groups. Existing members are encouraged to invite friends and family, creating a grassroots customer acquisition engine. Following the store opening, frontline staff continue to promote community participation among visiting customers.
- Community operations are designed to sustain engagement throughout the customer lifecycle. During the launch phase, activities typically include buy-one-get-one-free promotions, complimentary signature products, and welcome packages for new members. As stores mature, engagement shifts toward coupon distribution, product trials, new product voting, lucky draws, and other interactive campaigns.
- Beyond promotional activities, customers can access value-added services such as table reservations and customized celebration arrangements directly through the store manager's enterprise WeChat account, strengthening customer relationships and increasing brand loyalty. The brand further expands customer acquisition through Douyin content marketing, influencer-led livestreams, and highly visible value offers such as bundled meal promotions.
- By the end of 2025, the brand's membership base had exceeded 200 million users in China, with members contributing nearly 60% of total sales revenue.

Pillar 5: Turning supply chain excellence into competitive advantage



Why supply chain matters more than ever: operational complexity

Many brands view lower-tier expansion primarily as a front-end challenge involving store location, product, and marketing. In reality, long-term success is often determined by what happens behind the scenes.

Lower-tier markets introduce considerable operational complexity. Store networks are more geographically dispersed, logistics infrastructure is less dense, and transportation distances are typically longer. At the same time, lower average ticket sizes leave less room to absorb operational inefficiencies. As brands expand across these markets, supply chain performance increasingly becomes a key source of competitive advantage.

Strategic implication: build structural efficiency, not short-term cost savings

Short-term cost reduction initiatives may improve profitability in the near term, but they rarely create sustainable differentiation. By contrast, investments in procurement, production, warehousing, and logistics establish structural advantages that are difficult for competitors to replicate.

The objective is not simply to reduce costs, but to build a supply chain that simultaneously enhances quality, consistency, responsiveness, and profitability.

Key actions

- **Adopt a hybrid sourcing model:** Core ingredients should generally be sourced through centralized procurement to maximize purchasing leverage and ensure consistent quality. At the same time, selective local sourcing can improve responsiveness and reduce transportation costs where appropriate. This balanced approach captures the benefits of scale while preserving operational flexibility.
- **Strengthen cost & quality control in production:** As store networks expand, greater control over production can improve both economics and quality assurance. Dedicated production facilities reduce dependence on third-party suppliers, improve product consistency, and strengthen food safety management. Investment decisions should be guided by network scale and long-term economic returns.
- **Build density-driven logistics networks:** Supply chain efficiency improves significantly once store density reaches critical mass. Brands should prioritize cluster-based expansion that maximizes distribution efficiency rather than pursuing geographically dispersed growth. Regional warehouses and distribution hubs can then support broader expansion while maintaining service quality and cost discipline.

Case example 6

Vertical supply chain integration by a fresh fruit tea brand

- The brand has established an integrated procurement model built on direct sourcing from production origins and strategic supplier partnerships. Leveraging a network of more than 10,000 stores, it has developed direct relationships with major dairy suppliers while investing in dedicated cultivation bases for key agricultural inputs, including Yunnan-grown perfume lemons. By removing intermediary layers, the brand strengthens purchasing power, improves supply stability, and enhances resilience against margin pressure amid intensifying price competition in lower-tier markets.
- To support growing demand for fresh fruit and tea leaves, the company has progressively established production facilities across multiple regions, including Hangzhou and Guangxi. Increasing the share of self-manufactured core ingredients allows the brand to capture manufacturing margins, strengthen cost control, and ensure consistent product quality and food safety standards across its nationwide store network.
- The brand operates a highly integrated logistics network guided by the principle that no store opens without cold-chain coverage. By the end of 2025, the network included 24 regional distribution centers and more than 70,000 cubic meters of cold-storage capacity nationwide. Approximately 75% of stores were located within a 150-kilometer service radius of a distribution center, while 98% received cold-chain deliveries every two days. This highly optimized logistics network has significantly reduced fresh fruit spoilage to below 10% while keeping warehousing and distribution costs below 1% of store-level GMV, creating a sustainable cost advantage that supports continued expansion into lower-tier markets.



CHAPTER 4

Strategic imperatives for catering leaders

As competition across China's catering landscape deepens, performance in lower-tier markets will separate enduring leaders from laggards. To win, executives must focus on five strategic imperatives:

Imperative 1: Manage lower-tier markets as a distinct business system

Lower-tier markets should not be managed as extensions of urban operations. Differences in consumer behavior, market economics, and competitive dynamics are significant enough to warrant dedicated strategies, operating models, and performance metrics.

Imperative 2: Balance standardization with localization

Leading brands preserve a consistent core identity while adapting selectively to local market needs. Excessive standardization limits local relevance, while excessive localization erodes scalability. Sustainable competitive advantage lies in striking the right balance.

Imperative 3: Prioritize network quality over expansion speed

Rapid expansion can deliver impressive store-count growth but often conceals underlying weaknesses in unit economics. Sustainable success depends on disciplined site selection, healthy store economics, and consistent operational execution.

Imperative 4: Build trust before pursuing scale

While market share can be temporarily bought via aggressive promotions, customer trust and loyalty must be earned. Establishing local credibility and strong community connections is a prerequisite for scaling profitably.

Imperative 5: Invest early in enabling capabilities

Store networks, marketing campaigns, and product launches are the visible outcomes of growth. Supply chain infrastructure, data capabilities, organizational talent, and operating systems are the underlying capabilities that sustain it. Investing in these foundations before they become constraints is critical to scaling successfully.

The next chapter of growth in China's catering industry will not be written solely in higher-tier markets. It will increasingly be shaped across thousands of lower-tier cities, counties, and rural markets, where consumption upgrading continues and branded dining remains significantly underpenetrated.

Capturing this opportunity, however, requires more than extending urban playbooks. Expansion into lower-tier markets is not simply a matter of geographic replication. It requires a fundamentally different operating model. The brands that succeed will recognize these markets as a distinct competitive arena, requiring differentiated approaches to store formats, product portfolios, pricing, marketing, and supply chain management. More importantly, future leaders will move beyond a narrow focus on market penetration and instead prioritize capability building—developing the localized capabilities, operational discipline, and community relationships needed to create sustainable competitive advantage.

As the industry shifts from expansion-led to capability-driven competition, operational excellence will define long-term winners. For catering brands pursuing sustainable growth, lower-tier markets are no longer an incremental opportunity; they have become the industry's defining strategic battleground.





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