

<http://www.costar.com/News/Article/After-Becoming-Worlds-Largest-Restaurant-Chain-Subways-Sales-Struggles-Lead-to-US-Store-Closures/200430?ref=/News/Article/After-Becoming-Worlds-Largest-Restaurant-Chain-Subways-Sales-Struggles-Lead-to-US-Store-Closures/200430&src=rss>

After Becoming World's Largest Restaurant Chain, Subway's Sales Struggles Lead to U.S. Store Closures

Chain Planning to Close Hundreds of U.S. Locations, While Continuing to Expand Internationally

Milford, CT-based Subway said this week it will close, consolidate or move “a few hundred locations” in 2018, adding to the hundreds of its restaurants shuttered in recent years.

Subway said it has nearly 26,000 locations in the United States and 43,700 worldwide. All the restaurants are owned and operated by franchisees.

The decision to shutter hundreds more of its restaurants nationwide is likely the result of ultra-fast growth, stiff competition, inexperienced operators and lingering fallout from the downfall of its former spokesperson, according to analysts who follow the chain.

"This is what happens when you grow too quickly. You bring in less-experienced franchisees, you're not training them well, and they cannibalize each other," said Barry Wolfe, a retail broker for Marcus & Millichap in Fort Lauderdale, FL. "The food quality is okay, but it's not at the level of Jersey Mike's or Jimmy John's," a pair of Subway competitors.

Wolfe also said he doesn't think Subway has fully recovered from former spokesman Jared Fogle's legal troubles three years ago. The former face of the sandwich franchise, Fogle was sentenced to more than 15 years in prison after pleading guilty to possessing child pornography and traveling for sex with minors.

But while Subway is shrinking its store count in the U.S., the chain is aggressively growing overseas. It intends to open more than 1,000 locations outside North America this year.

“Looking out over the next decade, we anticipate having a slightly smaller, but more profitable footprint in North America and a significantly larger footprint in the rest of the

world,” the company said in an emailed statement.

Katy Welsh, senior vice president of retail at Colliers International South Florida, said Subway is pushing a new store concept that allows customers to order their food at an iPad near the entrance. The sandwiches no longer are made at the counter, but rather in the back. And the stores are stocked with green peppers, tomatoes and other fresh foods, Welsh said.

It costs about \$350,000 to retrofit each store, and franchisees who don’t make the change will not have their operating agreements renewed, she said.

“It’s a really good-looking format,” Welsh said. “I’m a big fan of Subway. Subway changes with the times.”

Another industry observer insists that the world’s largest restaurant chain isn’t in any danger and is simply undergoing a market adjustment.

"This is merely a matter of what everybody does," said Richard Lackey, a restaurant consultant in Palm Beach Gardens, FL. "From time to time, you take a look at what you are doing and get rid of stores you shouldn't have opened in the first place. You don't rest on your laurels, and you assess everything."

Lackey praised Subway’s decision to expand outside North America, saying other chains have found big success internationally.

Meanwhile, in an interview on CNBC on Thursday, short seller Jim Chanos said he’s shorting Dunkin’ Brands and Burger King’s Restaurant Brand International. Chanos, who didn’t mention Subway by name, said he’s not a fan of so-called 'asset-light' companies that don’t own restaurants but collect royalties from franchises, many of whom are struggling in the face of higher labor and commodity costs.

"I wouldn't disagree," Marcus & Millichap's Wolfe said. "The franchise model is fantastic, but some are overly leveraged and light on capital, and they're not as successful."