

Chinese Restaurants in Malaysia: Concerns Behind the Expansion Boom

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Abstract

Chinese food has gained popularity abroad as a result of China's "One Belt, One Road" initiative. In recent years, many Chinese investors have poured into the Malaysian food and beverage (F&B) industry and occupying a place with a Chinese restaurant. This paper aims to delve into the current state of Chinese restaurants in Malaysia, mainly based on the example of Lanzhou Noodle Flagship Store and Chengdu Huangchengba Hotpot Outlets in Malaysia. This study, which was qualitative in nature used interviews and retrospective case studies to collect the required data. Data analysis from interviews revealed five themes that discussed the challenges faced by investors including inadequate localization and taste adaptation, neglect of local regulations, high operating costs, poor location choice, lack of effective marketing and promotion, as well as staff management and service quality issues. Retrospective case studies further enhanced the findings of interview data on the cause of failure of food businesses by Chinese operators in Malaysia. Based on these findings, the study extends suggestions to current and future Chinese restaurant operators to actively conduct a comprehensive market research and evaluate their strategic positioning, localizing menus and ensure regulatory compliance, optimize supply chain management, leverage social media and delivery platforms for marketing, and prioritize customer experience and service excellence.

Keywords: Food and Beverage (F&B), Restaurant, Challenges, Chinese Food, Malaysia

Introduction

In recent years, the Belt and Road Initiative (BRI), a global infrastructure development project put forth by Chinese President Xi Jinping in 2013, and other multilateral collaborations have created numerous opportunities for Chinese capital to "go out" and establish businesses

abroad (Xiong, Gao, Zhang, Li, 2022). These opportunities have significantly strengthened economic and cultural exchanges between China and Malaysia.

This enhanced relationship has created new opportunities for Chinese businesses in Malaysia, particularly in the food and beverage (F&B) industry, which is viewed as a vital conduit for cultural dissemination. Chinese restaurants, with their rich culinary traditions, are at the forefront of this trend, enjoying growing popularity among Malaysians (Ma Lin, 2019). From noodle houses specializing in hand-pulled noodles to traditional hot pot chains and Cantonese fine dining, the proliferation of Chinese restaurants has reshaped Malaysia's dining landscape (The Star, 2025). However, despite these achievements, Chinese restaurant operators face numerous challenges. These range from cultural differences in culinary tastes and dining habits to logistical difficulties such as ingredient sourcing, labor shortages, and adapting to stringent local regulations (Ma Lin, 2019). The high initial enthusiasm for expansion is often followed by disillusionment when businesses fail to achieve long-term stability.

While existing studies on Chinese food globalization emphasize its role in cultural diplomacy and economic expansion (Ma Lin, 2019; Xiong et al., 2022), limited attention has been given to the business sustainability of Chinese restaurant chains operating abroad. In Malaysia, research has explored halal certification (Zannierah et al., 2012), food safety compliance (Abdul-Mutalib et al., 2012), and themed restaurants (Ishak et al., 2021), but few studies have examined how foreign Chinese operators adapt their menus, services, and marketing strategies in a Muslim-majority, multicultural context. Moreover, most hospitality research highlights factors for success, while neglecting the causes of failure of international F&B ventures (Mun & Jang, 2018). This paper addresses these gaps by presenting qualitative case studies of two prominent Chinese restaurant chains, Lanzhou Noodle and Chengdu Huangchengba Hotpot, that struggled to sustain their Malaysian operations. The study contributes to the literature on international F&B management by developing a framework of operational and cultural adaptation challenges, thereby extending current knowledge of how Chinese restaurants can balance authenticity with localization in Southeast Asia's competitive dining markets.

Literature Review

Literature review delves into the current development trends and variety of Chinese-operated restaurants in Malaysia

Market Overview and Development Trends

Malaysia, as one of the fastest-growing economies in Southeast Asia, offers a fertile environment for the development of the foodservice industry (The Business Times, 2019). Aided by a growing middle class and rising disposable income, Malaysia's dining-out culture is thriving. Industry reports indicate that in 2023, Malaysia's F&B market reached an estimated size of 40 billion ringgit, reflecting an impressive annual growth rate of 8.5%. Within this vibrant market, the Chinese food segment stands out, accounting for approximately 15% of the total market value, driven by its perceived exoticism and authenticity (Global data, 2021).

Chinese entrepreneurs have seized this opportunity to establish a wide range of restaurants targeting both local Malaysians and expatriates. The opening of Chinese restaurants in cities

like Kuala Lumpur, Penang, and Johor Bahru highlights a strategic focus on urban centers with diverse, cosmopolitan populations and established Chinese communities. These regions also attract tourists, further amplifying the appeal of authentic Chinese dining experiences.

However, while market growth has been robust, competition within the industry is becoming increasingly fierce. Local operators are innovating to incorporate Chinese culinary elements, while established Chinese chains must continuously adjust to cater to local palates. Furthermore, the pandemic has left a lasting impact on the F&B sector, altering consumer behaviors and expectations, including a shift toward online food delivery and smaller, more adaptable dining formats (China daily, 2023; Equalocean, 2023)

Main Types of Chinese Restaurants

Noodle Houses

Hand-pulled noodles, a symbol of Northern and Northwestern Chinese cuisine, have quickly won over Malaysian consumers with their artisanal preparation methods and bold flavors (Tan, 2021). Dishes such as Lanzhou beef noodles, characterized by their clear broth, tender beef slices, and chewy noodles, exemplify the artistry of Chinese culinary traditions (Chen & Lee, 2020). Brands such as Zhang LaLa Mee Tarik and Kungfu Ramen not only introduce authentic flavors but also infuse their dining spaces with cultural elements, such as showcasing noodle-pulling performances (Tan, 2021). This strategy enhances customer engagement while emphasizing the craftsmanship behind their offerings.

However, despite their popularity, noodle houses face operational challenges such as sourcing authentic spices and halal-certified ingredients to cater to Malaysia's multi-ethnic population (Rahman, 2022). Furthermore, maintaining the consistency of handmade noodles across different branches can be labor-intensive and cost-prohibitive, especially in a competitive market (Ng, 2021).

Hotpot Outlets

The rise of Chinese hotpot in Malaysia symbolizes the increasing global appeal of communal dining experiences (Chong, 2023). Hotpot chains such as Haidilao, Xiao Long Kan, and Shu Da Xia have not only brought the distinctive flavors of Sichuan-style cuisine to Malaysia but have also revolutionized service standards within the industry (Wong & Tan, 2020). Haidilao, for example, is renowned for its customer-centric approach, offering services such as manicure stations and children's play areas to enhance the dining experience (Lee, 2021).

Nevertheless, operating hotpot outlets in Malaysia comes with its own set of challenges. The high cost of importing quality ingredients, such as Sichuan peppercorns and specialized broths, places pressure on profit margins (Chong, 2023). Additionally, maintaining a balance between authentic spiciness and local flavor preferences requires careful menu adaptation, as not all Malaysian consumers are accustomed to Sichuan-level heat (Rahman & Ismail, 2022)

Cantonese and Xinjiang Cuisine Restaurants

Cantonese cuisine, often associated with refined cooking techniques and an emphasis on natural flavors, has a longstanding presence in Malaysia due to historical migration patterns (Wong, 2018). Restaurants like Dragon-i and Hong Kong Lou serve iconic dishes such as dim sum, Peking duck, and seafood delicacies. These establishments cater to a diverse clientele,

including Malaysian-Chinese communities and tourists seeking premium dining experiences (Malay mail, 2025).

On the other hand, Xinjiang cuisine represents a newer addition to Malaysia's dining scene, appealing to consumers with adventurous palates (Ahmad, 2020). The region's signature dishes, such as Big Plate Chicken and lamb skewers, offer a hearty, spicy contrast to the subtler flavors of Cantonese food. Restaurants like Xin Jiang's Taste have successfully localized their menus by incorporating halal practices, thereby appealing to Malaysia's significant Muslim population (Malay Mail, 2025).

Both Cantonese and Xinjiang restaurants face operational challenges tied to ingredient authenticity, staff training, and cultural misinterpretation. For instance, adapting Xinjiang's bold, meaty dishes for a broader Malaysian audience requires a nuanced understanding of local dietary preferences and religious constraints (Rahman, 2022).

Methodology

Research Design

This study adopts a qualitative research design to explore the challenges faced by Chinese restaurants operating in Malaysia. By using a case study approach, the research focuses on two representative restaurant chains namely Lanzhou Noodle Flagship Store and Chengdu Huangchengba Hotpot, to understand their market entry strategies, operational practices, and reasons behind their successes or failures in Malaysia. The qualitative design allows for an in-depth exploration of the factors affecting restaurant performance and provides insights into the complexities of expanding Chinese cuisine in a foreign market. This is in line with the study by Smith and Morse (2005) which clarified that qualitative studies are appropriate for measuring something subjective, difficult to evaluate, and has broad concepts such as competency studies. A case study approach is widely employed in restaurant studies (Chen, 2014; Ismail, 2012; Shafaei, Khosravi, & Mohamed, 2015) because it allows for in-depth exploration of specific restaurant contexts, providing a rich understanding of complex issues and challenging prevailing assumptions. This method is particularly useful for qualitative research, offering a nuanced perspective on operational challenges, customer experiences, and management strategies within a particular restaurant setting

Sampling and Case Selection

The research specifically focuses on Chinese restaurants that have expanded into the Malaysian market in recent years. Two prominent chains are selected for detailed analysis: Lanzhou Noodle Flagship Store and Chengdu Huangchengba Hotpot. These two case studies were chosen for the following reasons:

- Distinct Subtypes of Chinese Cuisine:
 - Lanzhou Noodle specializes in Northern Chinese cuisine, specifically hand-pulled noodles, which are highly regarded for their authenticity and craftsmanship. The restaurant chain aims to preserve traditional flavors, but its menu and operations may face challenges when adapting to local preferences in Malaysia.
 - Chengdu Huangchengba Hotpot represents Sichuan-style cuisine, known for its bold, spicy flavors and communal dining experience centered around hotpot. This cuisine's popularity in China contrasts with the varying preferences of the Malaysian population, especially concerning spice levels and flavor profiles.

- Operational Challenges Despite Initial Success:
 - Both restaurants initially attracted attention and performed well in the early stages of their operations. However, despite early success, both chains encountered significant challenges such as:
 - Cultural Misalignment with local tastes and dietary restrictions.
 - Financial Strain from high operational costs and competition.
 - Regulatory Challenges, including navigating local food safety and halal certification standards.
 - Analyzing these two case studies provides valuable lessons on the hurdles faced by foreign restaurants in a multicultural market like Malaysia.

By focusing on these two specific cases, the study aims to identify common trends, challenges, and strategies that are applicable to other Chinese restaurants in the Malaysian market.

Data Collection

The primary sources of data for this study include:

- Interviews:
 - Semi-structured interviews are conducted with key personnel at both Lanzhou Noodle and Chengdu Huangchengba Hotpot. These interviews include restaurant managers, chefs, and marketing personnel to gather insights into the operational challenges, strategies, and local adaptation processes. The flexibility of semi-structured interviews allows for the exploration of different aspects of restaurant operations, enabling the identification of deeper insights related to the restaurant experience in Malaysia.
- Observational Data:
 - On-site visits are made to both restaurant chains to observe key aspects of restaurant operations, such as the customer experience, food preparation processes, and service delivery. These visits provide firsthand data on the practical challenges and strategies that each restaurant employs to cater to Malaysian consumers. Observations also include the physical environment of the restaurants and how it aligns with the local cultural expectations.
- Secondary Data:
 - The study draws on secondary sources such as industry reports, market analyses of the food and beverage (F&B) industry in Malaysia, business reports, and academic articles to understand market dynamics, consumer behavior, and the level of competition within the restaurant sector. These sources provide a broader context for understanding the operational landscape of Chinese restaurants in Malaysia and inform the development of strategies for successful market entry.

Data Analysis

Data is analyzed using thematic analysis, which is a common method for identifying and analyzing patterns within qualitative data (Braun & Clarke, 2006, 2012). The process involves the following steps:

- Identifying Key Themes:
 - Several key themes are identified and categorized based on the data collected from interviews, observations, and secondary sources. These themes include:
 - Localization Challenges: How restaurants adapt their menus, ingredients, and cooking methods to cater to local tastes and dietary preferences.

- Operating Costs: The financial impact of costs such as high rental fees, ingredient sourcing, and labor.
 - Regulatory Compliance: Challenges related to licensing, obtaining halal certification, and adhering to local health and safety standards.
 - Consumer Preferences: Understanding how local consumers view authentic versus localized Chinese cuisine, and how this affects restaurant strategies.
 - Marketing and Promotion: How restaurants use marketing to differentiate themselves in a competitive market.
 - Staffing and Service Quality: How staffing challenges, including recruitment, training, and service quality in a multicultural context, impact customer satisfaction.
- Cross-Case Comparison:
 - A cross-case comparison is conducted to identify commonalities and differences in the operational challenges faced by Lanzhou Noodle and Chengdu Huangchengba Hotpot. This approach helps uncover similarities and variations across cases, strengthening the robustness of findings (Yin, 2018; Miles, Huberman, & Saldaña, 2014).

The analysis is structured around the following categories:

1. Cultural and Market Localization:
 - Examining the adaptation of flavors, ingredients, and menu items to suit the diverse Malaysian market. This includes understanding how each restaurant balanced authenticity with the need to cater to local tastes, such as offering halal-certified dishes and adjusting spice levels for local preferences.
2. Regulatory and Licensing Challenges:
 - Investigating the processes involved in obtaining necessary permits and certifications, such as halal certification and business operating permits. The study will explore how these processes vary between the two restaurants and how they impact restaurant operations.
3. Financial Analysis:
 - Understanding the impact of high operating costs, including rental fees in prime locations and the sourcing of authentic ingredients, on the financial sustainability of both restaurants. The analysis will also cover cost-management strategies and their effectiveness in managing financial strain.
4. Consumer Behavior and Preferences:
 - Analyzing the extent to which local consumer preferences for spice levels, dietary restrictions, and authenticity shape restaurant offerings. This includes examining how well the restaurants aligned their product offerings with the demographic makeup of Malaysia's population.
5. Staffing and Service Quality:
 - Exploring how staff recruitment, training, and service quality in a multicultural context affect customer satisfaction and retention. The study will evaluate how well the restaurants adapted their service models to meet the expectations of local consumers, including addressing language barriers and dining etiquette.

This methodology provides a comprehensive framework for understanding the complexities faced by Chinese restaurants expanding into Malaysia and offers insights into the strategic decisions that can influence success or failure in this competitive market.

Findings and Discussion*Challenges Faced by Chinese Restaurants in Malaysia*

Despite the increasing popularity and rapid expansion of Chinese restaurants in Malaysia, particularly in major urban centers like Kuala Lumpur, Penang, and Ipoh, not every establishment is able to thrive in this highly competitive environment. Many restaurants enjoy brief success during their initial phases of operation but often face challenges that lead to eventual closure (Lifang & Lin, 2018). These obstacles stem from a variety of factors, including market dynamics, cultural differences, operational costs, and regulatory hurdles. Below is a detailed analysis of these key challenges:

Fierce Market Competition

Malaysia now has around a thousand of Chinese-owned restaurants, accounting for 0.5 billion RMB of the total investment (Xiong, Gao, Zhang, Li, 2022). The influx of Chinese investors into Malaysia's food and beverage industry has led to an oversupply of Chinese restaurants, especially in specific segments like noodle houses and hotpot outlets. This market saturation has created a scenario where multiple restaurants, often located on the same street, offer nearly identical menus, pricing, and culinary experiences. Due to this circumstance, the market now has a large number of substitutes (DeFranco, Agnes & Lattin, 2007). Such homogeneity makes it difficult for individual establishments to build a unique identity and foster customer loyalty.

Furthermore, the rise of local competitors has intensified the competitive landscape. Malaysian restaurant chains such as Salam Noodles and Hotpot Kitchen have effectively captured the market by localizing their menus to suit Malaysian tastes while offering affordable prices. These chains integrate familiar flavors and halal-certified ingredients, ensuring their appeal to a broader demographic, including the Malay and Muslim populations. In contrast, many Chinese-operated restaurants struggle to adapt their offerings to meet local preferences, resulting in reduced market share.

The challenge is further exacerbated by the growing prominence of international F&B brands entering Malaysia, which adds another layer of competition. These brands often come equipped with superior marketing strategies, established reputations, and substantial financial resources, making it increasingly difficult for smaller, less-experienced Chinese restaurant operators to compete.

Cultural Differences and Insufficient Localization

Malaysia's multicultural society is composed of three main ethnic groups—Malay, Chinese, and Indian, each with distinct culinary traditions and dietary restrictions (Zhu, Ang, Mansor, & Lam, 2023). While the country's Chinese community forms a natural customer base for Chinese restaurants, the majority Malay-Muslim population poses unique challenges due to their dietary adherence to halal principles.

Zannierah, Marzuki, Hall, & Ballantine (2012) found That the halal certification reinforces a positive image of the restaurant in Malaysia and it also affects the attitude of potential customers toward businesses. Despite this fact, many Chinese restaurant operators, particularly those new to the Malaysian market, underestimate the importance of obtaining halal certification (Chinanews, 2019) and fail to modify their menus to exclude non-halal

ingredients, such as pork and alcohol. This oversight limits their ability to attract Malay customers, who represent a significant portion of the population whose confidence level in the quality and safety of the food increases when it is halal certified (Zannierah et al., 2012). Additionally, the strong preference for milder flavors among some Malaysian demographics contrasts sharply with the bold and often spicy profiles of traditional Chinese cuisine, such as Sichuan hotpot or Xi'an-style dishes. While these flavors resonate with a niche audience, they may alienate other customer groups. Restaurants that fail to offer a diversified menu risk limiting their appeal to a narrow segment of consumers.

Moreover, cultural misunderstandings extend beyond food (Lifang & Lin, 2018). Differences in dining habits, service expectations, and marketing approaches can further complicate the localization process. For example, the communal dining style of traditional Chinese hotpot may not align with the faster, individual-oriented dining culture preferred by some Malaysian consumers. Failing to address these nuances can hinder a restaurant's ability to establish itself in the competitive Malaysian market.

Since there has always been a significant demand for real Chinese food abroad, Gao Fu, head of the Chinese Food Culture Special Fund connected to the China Cultural Heritage Foundation, stated that the Chinese eateries to open abroad should serve food tailored to local preferences. Adding to it, he emphasizes the standardizing the dishes, presenting Chinese culture, and interacting with local culture are the keys to running Chinese restaurants abroad (China daily, 2019).

High Operating Costs

The financial burden of running a restaurant in Malaysia is a significant challenge, particularly in metropolitan areas like Kuala Lumpur, where rental prices and labor costs are notably high (Ishak, Mazlan, Lokman, Karim, & Mohamad, 2021). Another challenge for all restaurants in their early stages of operation may be finding a suitable restaurant location (Kotler et al., 2018).

Prime commercial properties in popular shopping districts or high-traffic locations command premium rents, which can account for a substantial portion of a restaurant's operational expenses. Lee et al. (2017) note that increasing rental costs brought on by the ongoing increase in property values make choosing a location challenging. In addition to rental costs, labor costs in Malaysia have steadily risen due to government-mandated minimum wage policies and the increasing competition for skilled workers in the hospitality sector. Chinese restaurants often require chefs and kitchen staff trained in specific culinary techniques, such as noodle pulling or Sichuan-style cooking. These specialized skills may necessitate hiring Chinese nationals, further increasing labor expenses due to visa and permit requirements. In this regard, Mun and Jang (2018) find that high prime costs (food costs and salary expenses) could be a significant concern for full-service restaurant businesses and cause lower profitability.

Ingredient sourcing poses another significant challenge. Many Chinese restaurants rely on importing specialty ingredients from China, such as Sichuan peppercorns, handmade noodles, and proprietary spice blends, to maintain the authenticity of their dishes (Essfeed, 2025). However, this reliance on imports exposes restaurants to risks such as fluctuating exchange

rates, high shipping costs, and supply chain disruptions. Additionally, the logistical complexity of importing halal-certified ingredients further inflates operational costs (*ibid*, 2025).

Regulatory and Licensing Challenges

Navigating Malaysia's regulatory environment is a daunting task for many Chinese investors, particularly those unfamiliar with the country's legal and administrative systems. Establishing a restaurant requires obtaining multiple permits, including food handling licenses, business operating permits, and, for establishments targeting Muslim customers, halal certification. The process of securing these certifications can be both time-consuming and costly, requiring strict adherence to local standards and inspections. Non-compliance with these regulations can result in fines, operational delays, or, in severe cases, forced closures (Halim, Mutalib, Ghani, & Hashim, 2024).

Employment regulations add another layer of complexity. The Malaysian government imposes strict quotas on the employment of foreign workers in the F&B industry (ASEAN briefing, 2025). Employers must demonstrate that the roles they wish to fill cannot be adequately staffed by local workers, a requirement that involves extensive documentation and lengthy approval processes. Additionally, foreign workers require work permits, which are subject to stringent conditions, including minimum salary thresholds and proof of specialized skills. The bureaucratic nature of these processes often leads to delays, hindering restaurant operations and expansion plans (dining out world, 2024).

Moreover, the government's enforcement of strict hygiene and food safety standards further complicates compliance. For instance, restaurants must regularly undergo health inspections and adhere to prescribed protocols for food storage, preparation, and waste disposal. Any violations, even minor ones, can result in penalties that negatively impact the restaurant's reputation and profitability (Halim, et al., 2024).

According to the Studies conducted in both West and East Malaysia, Many food handlers in Malaysia still exhibit poor food safety practices despite having sufficient understanding of food safety (Abdul-Mutalib et al., 2012; Lim, Chye, Sulaiman, Suki, & Lee, 2016). According to Mohlisi et al. (2018), who conducted an inquiry into food safety procedures, food handlers attend the training session but lack an understanding of the knowledge taught.

Case Studies: Operational Challenges of Chinese Restaurants

Failed Case Study 1: Lanzhou Noodle Flagship Store in Malaysia

In 2022, the well-known Chinese noodle chain Lanzhou Noodle launched its flagship store in Kuala Lumpur, aiming to bring authentic Lanzhou beef noodles to Malaysian diners. The restaurant strictly adhered to traditional preparation techniques, including using imported noodles and spices to replicate the original taste. While this strategy initially attracted Chinese expatriates and tourists, it failed to resonate with local Malaysians.

The lack of halal certification excluded the majority Malay-Muslim demographic, while the emphasis on maintaining "authentic" flavors resulted in a limited menu that did not cater to the diverse preferences of the Malaysian population. Additionally, high operating costs, including expensive imports and prime location rental fees, further strained the restaurant's

financial performance. Within a year, the flagship store was forced to shut down, underscoring the importance of balancing authenticity with localization in foreign markets.

Failed Case Study 1: Analysis of the Lanzhou Noodle Flagship Store in Malaysia

The failure of the Lanzhou Noodle flagship store in Kuala Lumpur offers valuable lessons on the challenges faced by Chinese restaurants entering foreign markets. Despite its initial ambition to introduce authentic Chinese flavors to Malaysia, the restaurant struggled to adapt to local market demands and ultimately failed to establish a sustainable operation. Below is an in-depth analysis of the key factors contributing to its closure:

Insufficient Localization of Flavors

The restaurant maintained a strict adherence to traditional recipes, relying heavily on imported seasonings and noodles from China. While this approach ensured the authenticity of the dishes, it failed to account for the taste preferences of Malaysian consumers. Many local customers complained that the noodles were too firm, and the broth was excessively oily—features that align with Chinese culinary standards but conflict with the lighter, less oily flavors preferred by Malaysian diners.

Moreover, the lack of menu flexibility further alienated customers. For instance, the restaurant's limited customization options did not cater to dietary restrictions or flavor adjustments, leaving it ill-equipped to appeal to a broader demographic. This failure to adapt to local palates significantly hindered the restaurant's ability to retain customers beyond its initial novelty appeal.

Neglect of Local Regulations

Another critical oversight was the restaurant's failure to obtain halal certification during its early operations. In Malaysia, where a significant portion of the population is Muslim, halal certification is essential for attracting Malay customers. The absence of this certification excluded a large segment of potential patrons, limiting the restaurant's customer base to non-Muslim locals and expatriates (Halim, et al., 2024).

Additionally, the restaurant faced regulatory challenges related to its workforce. Many of the chefs and service staff were Chinese nationals who initially entered Malaysia on short-term visas. However, the management failed to secure timely work permits for these employees, resulting in expired visas and forced suspension of work. This not only disrupted day-to-day operations but also exposed the restaurant to fines and legal actions. The diminished staff capacity negatively affected service quality and customer satisfaction, further damaging the restaurant's reputation and operational efficiency.

High Operating Costs

The restaurant's heavy reliance on imported ingredients significantly inflated its operational costs. Specialty items such as Lanzhou noodles, traditional Chinese spices, and authentic broths had to be shipped from China, incurring high transportation fees and import duties. Furthermore, the premium location in Kuala Lumpur's city center came with steep rental costs, exacerbating financial pressures (Dining out World, 2024). Combined with rising labor expenses, these factors left the restaurant with razor-thin profit margins.

The inability to balance costs with revenue was particularly evident during periods of reduced customer traffic, such as weekdays or non-peak dining hours. Without sufficient profit buffers or cost-cutting strategies, the restaurant struggled to sustain its operations, ultimately leading to mounting financial losses.

Outcome and Lessons Learned

After less than a year of operation, the Lanzhou Noodle flagship store announced its closure in 2023, citing persistent losses and declining customer numbers. This case underscores the risks associated with over-reliance on domestic success models when entering foreign markets. It highlights the critical importance of localization, including tailoring flavors, understanding regulatory requirements, and optimizing cost structures to align with local market conditions.

Key Lessons From this Case Include

Adapting to Local Tastes: Striking a balance between authenticity and localization is crucial for appealing to diverse customer bases in foreign markets.

Prioritizing Compliance: Ensuring adherence to local laws and obtaining necessary certifications, such as halal certification in Malaysia, is essential for market accessibility.

Cost Management: Developing efficient supply chain strategies and selecting cost-effective operational models can help mitigate financial risks.

The failure of the Lanzhou Noodle flagship store serves as a cautionary tale for Chinese brands seeking to expand internationally, emphasizing the need for a strategic and well-researched approach to market entry.

Failed Case Study 2: Chengdu Huangchengba Hotpot Malaysia Outlet

Chengdu Huangchengba Hotpot, a well-known hotpot chain originating from Chengdu, China, is celebrated for its authentic Sichuan-style spicy hotpot and its immersive cultural dining experience. The brand enjoys significant popularity in China, where it has built a strong reputation for combining traditional flavors with a modern dining atmosphere. In 2023, the chain entered the Malaysian market by opening a flagship store in the heart of Kuala Lumpur. However, despite its strong branding and high expectations, the restaurant failed to achieve its intended market success. After less than six months of operation, the outlet announced its closure, marking one of the most prominent failures of a Chinese hotpot brand in the Malaysian market. Below is a detailed analysis of the factors contributing to this outcome.

Failure Analysis: Chengdu Huangchengba Hotpot in Malaysia

Inadequate Localization and Taste Adaptation

Chengdu Huangchengba Hotpot's commitment to preserving its authentic Sichuan-style spicy broth, a hallmark of its success in China, became a double-edged sword in the Malaysian market. While the intense flavors and high spice levels were appealing to a niche group of Sichuan cuisine enthusiasts, they were unsuitable for the majority of Malaysian diners. The population's dining preferences are shaped by its multiethnic composition, with Malay, Chinese, and Indian communities each having distinct culinary expectations (Dining out World, 2024).

For example, Malay customers, who form the largest ethnic group, often prefer milder flavors and are less accustomed to the heavy oiliness and numbing spice of Sichuan hotpot. Similarly, Indian diners, whose cuisine emphasizes aromatic spices and balanced heat, found the broth excessively overpowering. Without offering milder or alternative broth options, the restaurant failed to address the diverse needs of the market.

Furthermore, Chengdu Huangchengba did not introduce any locally inspired dishes, such as curry-flavored hotpot or herbal broths, which could have widened its appeal. The absence of menu flexibility and cultural sensitivity ultimately restricted its customer base, causing a steady decline in patronage after the initial excitement waned.

Poor Location Choice and High Operating Costs

The choice to open the flagship outlet in Pavilion Kuala Lumpur, a premium shopping district, reflected an ambition to position the brand as a high-end dining option. However, this decision placed significant financial pressure on the business. Pavilion Kuala Lumpur is renowned for its high rental costs, which can be prohibitive for new entrants without a well-established customer base.

Although the location initially attracted a steady flow of affluent shoppers and tourists, this momentum was not sustained. The novelty of the brand wore off quickly, and the restaurant's premium pricing alienated price-sensitive local customers. In a market where mid-range and affordable dining options dominate, Chengdu Huangchengba's inability to balance pricing with value further reduced its competitiveness. In relation to this challenge, Private investor Mr. Han Xiaoguang (Malaysian Chinese restaurant Xinjiang Dapan Chicken partner) asserts that one of many challenges many Chinese restaurants face is site selection (Lifang & Lin, 2018),.

In addition, the high costs of importing specialty ingredients from China, coupled with elevated operational expenses such as staff salaries and utilities, left the restaurant with razor-thin profit margins. These financial challenges were exacerbated by fluctuating customer traffic, particularly during non-peak hours, creating a cycle of unsustainable losses.

Lack of Effective Marketing and Promotion

Marketing and brand awareness are critical for establishing a foothold in competitive foreign markets (Business plan, 2025), yet Chengdu Huangchengba significantly underperformed in this area. The restaurant relied heavily on its reputation in China, assuming that its brand recognition would naturally translate to success in Malaysia. However, this assumption overlooked the importance of localizing promotional efforts.

In Malaysia, social media platforms like Instagram, TikTok, and Facebook play a pivotal role in shaping dining trends, particularly among younger demographics. Chengdu Huangchengba missed the opportunity to engage with these audiences by failing to create visually appealing, shareable content that showcased its unique dining experience. For instance, the restaurant could have highlighted its signature spicy broths, communal dining atmosphere, or cultural elements such as traditional Sichuan opera performances.

Moreover, the brand did not collaborate with local food influencers or bloggers, who have a strong influence on consumer behavior. This lack of localized outreach resulted in limited visibility and awareness among Malaysian diners. Similarly, the restaurant neglected to partner with popular food delivery platforms like Grab Food and Foodpanda, missing an opportunity to reach customers who prefer the convenience of at-home dining. The absence of an integrated marketing strategy significantly hindered the restaurant's ability to attract and retain customers.

Staff Management and Service Quality Issues

As a newcomer to the Malaysian market, Chengdu Huangchengba Hotpot faced significant challenges in managing its workforce. The majority of the staff were Chinese nationals, recruited to maintain the authenticity of the dining experience (Ma Lin, 2019). However, these employees often lacked the cultural and linguistic skills needed to effectively serve Malaysia's diverse clientele.

Language barriers were a recurring issue, with many staff members unable to communicate fluently in English or Malay, the two most commonly spoken languages in Malaysia. This hindered their ability to explain menu items, take orders accurately, and engage with customers, leading to frustration and dissatisfaction (Lifang & Lin, 2018).

Additionally, the staff received minimal training in customer service and local dining etiquette, resulting in inconsistencies in service quality. For example, some customers reported delays in food delivery, inattentive service, and a lack of understanding of local dining norms, such as dietary restrictions and family-style dining preferences. These shortcomings negatively impacted the overall dining experience, reducing the likelihood of repeat visits and damaging the restaurant's reputation in a highly competitive market.

Strategies and Recommendations for Success

Conduct Comprehensive Market Research and Strategic Positioning

To succeed in foreign markets, businesses must invest in thorough market research to understand local consumer preferences, cultural norms, and competitive dynamics (Diningout world, 2024). For Chengdu Huangchengba, this could have included focus groups, surveys, and pilot testing to identify the most appealing flavors, pricing strategies, and marketing approaches.

Market research can also inform branding and positioning strategies, helping businesses identify gaps in the market and differentiate themselves from competitors. For example, Chengdu Huangchengba could have positioned itself as a cultural dining experience, emphasizing its Sichuan heritage while incorporating local elements to broaden its appeal.

Localize Menus and Ensure Regulatory Compliance

Localization is essential for catering to diverse consumer preferences. For Chengdu Huangchengba, this could involve offering a range of broth options, such as mild or herbal broths, alongside the traditional spicy Sichuan broth. Introducing locally inspired flavors, such as laksa hotpot or curry-flavored dishes, could also attract a wider audience.

Additionally, As an Islamic country, Malaysia provides an ethical environment for the Chinese businesses (Isabel et al., 2020). This may be best illustrated by a strong sense of stakeholder responsibilities in relation to Islam among the Chinese owners, by ensuring the true Halalness of the food. Therefore, obtaining halal certification is crucial for gaining the trust of Malaysia's Muslim consumers. Compliance with local employment regulations, including securing work permits for foreign staff, is equally important to ensure smooth operations and avoid legal complications (Halim, et al., 2024).

Optimize Supply Chain Management

To reduce costs and enhance efficiency, restaurants should establish partnerships with local suppliers and food producers (Essfeed, 2025). For instance, sourcing fresh vegetables, meats, and spices locally can lower procurement costs and reduce dependence on imports.

Implementing technology-driven inventory management systems can further improve operational efficiency, minimizing food waste and optimizing resource allocation. These measures can help create a more sustainable and financially viable business model.

Leverage Social Media and Delivery Platforms for Marketing

An effective digital marketing strategy is critical for engaging with today's tech-savvy consumers. In this modern era, social media platforms are used by small businesses to establish personal connections with their clients and connect with new potential clients (Namkung, 2018). Despite the benefits, the majority of restaurant owners struggle to make their advertisements appealing, reliable, and responsive to the customers (Bennett, 2017; Tanamas & Hussain, 2012). Chengdu Huangchengba could have utilized platforms like Instagram and TikTok to showcase the artistry of its food preparation, such as the swirling of Sichuan spices or the presentation of its iconic hotpot.

Collaborating with local influencers and bloggers can amplify brand visibility and attract new customers. Additionally, partnering with food delivery platforms like Grab Food and Foodpanda can tap into the growing demand for convenient, at-home dining options, providing an additional revenue stream.

Prioritize Customer Experience and Service Excellence

Exceptional customer service is a key differentiator in the F&B industry. Investing in comprehensive staff training programs can improve communication skills, cultural sensitivity, and service quality (Mmutle & Shonhe, 2017). Providing multilingual services in Chinese, English, and Malay can further enhance the dining experience for Malaysia's diverse population.

Regularly collecting and responding to customer feedback is essential for identifying areas of improvement and building long-term loyalty (*ibid*, 2017). By fostering a welcoming and accommodating atmosphere, Chengdu Huangchengba can strengthen its reputation and increase customer retention.

Conceptual Framework of factors influencing the success or failure of Chinese restaurants in Malaysia

The framework (Figure 1) illustrates five interrelated domains: cultural and market localization, operational costs, regulatory compliance, marketing and customer engagement, and staffing and service quality, that emerged from the thematic analysis and cross-case comparison of Lanzhou Noodle and Chengdu Huangchengba Hotpot.



Figure1 : Conceptual framework : Factors influencing the success or failure of Chinese restaurants in Malaysia

The findings of this study culminate in a conceptual framework (Figure 1) that highlights the multidimensional challenges faced by Chinese restaurants in Malaysia. The first dimension, cultural and market localization, underscores the need to adapt flavors, ensure halal compliance, and balance authenticity with local consumer expectations. The second dimension, operational costs and finance, reflects the high rental fees, labor expenses, and reliance on imported ingredients that strain financial sustainability. The third dimension, regulatory and compliance, emphasizes the centrality of halal certification, food safety standards, and foreign worker regulations in shaping business operations. The fourth dimension, marketing and customer engagement, demonstrates the importance of social media visibility, influencer collaborations, and integration with food delivery platforms in reaching diverse customer bases. Finally, the fifth dimension, staffing and service quality, shows how multilingual service, customer care training, and cultural sensitivity in dining etiquette contribute to customer satisfaction and loyalty.

By integrating these domains, the framework provides a holistic understanding of why some Chinese restaurants thrive while others fail in Malaysia's multicultural and Muslim-majority context. It not only contributes to the literature on international food and beverage

management but also offers practical guidance for foreign investors seeking sustainable success in Southeast Asia.

Conclusion

This study explored the operational challenges and strategic shortcomings faced by two prominent Chinese restaurant chains, Lanzhou Noodle and Chengdu Huangchengba Hotpot, when entering the Malaysian market. Through thematic analysis and cross-case comparison, the research identified six recurring themes: localization challenges, operating costs, regulatory compliance, consumer preferences, marketing and promotion, and staffing and service quality. These themes were synthesized into a conceptual framework (Figure 1) that demonstrates how success or failure in the Malaysian food and beverage (F&B) industry is shaped by the intersection of cultural, financial, regulatory, marketing, and human resource factors.

From an academic perspective, this framework advances existing hospitality and international business literature in three ways. First, it shifts attention from success stories to the under-explored issue of restaurant failure among foreign entrants. Second, it extends theories of cultural adaptation by showing how halal compliance and menu localization operate as critical mediators in Muslim-majority markets. Third, it contributes a context-specific model that can be applied to analyze F&B internationalization strategies in other Southeast Asian economies.

From a practical perspective, the findings highlight actionable strategies for future Chinese investors and restaurant operators. These include conducting comprehensive market research, balancing authenticity with local tastes, ensuring halal and regulatory compliance, optimizing supply chain management, and leveraging digital platforms for marketing. Additionally, prioritizing service quality through staff training and multilingual customer engagement can help foreign brands build trust and loyalty in multicultural societies.

In sum, the failure of Lanzhou Noodle and Chengdu Huangchengba Hotpot is not simply a cautionary tale but a valuable lesson in the complexities of global F&B expansion. Success in Malaysia requires more than replicating home-country models, it demands adaptability, cultural sensitivity, and strategic localization. By adopting the framework proposed in this study, foreign restaurant operators can better anticipate challenges, develop resilient business models, and contribute meaningfully to Malaysia's vibrant and diverse culinary landscape.

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