

Analysis of the Status Quo of New-style Tea Beverages on the Market——Taking Nayuki as an Example

Nan Jiang^{1,*}

¹International Economics and Trade, University of International Business and Economics, Beijing, China, 100029

*Corresponding author. Email: nanjiang20210228@163.com

ABSTRACT

With the improvement of people's living standard, people have more and more needs for leisure and entertainment, and then the industry of new-style tea beverages has emerged. It has become a way of life for modern young people in China to have a good conversation with friends, while having a good cup of tea. This paper takes Nayuki, which was listed in the market in the middle of this year, as an example. Through consulting its prospectus, white paper on new-style tea drinks, official website and relevant literature, it uses 4P marketing theory to analyze the reasons for the success of new-style tea drinks, and explores the existing problems in this industry. This paper finds that high-end pricing, unique design for target groups, cross-border joint marketing strategies, the establishment of different types of stores, digital upgrades, and even the expansion of overseas markets have all become the boosters of Nayuki's rapid development. However, its shortcomings with poor profitability also lead to its unsatisfactory share price on the first day of listing. To innovate and expand on the premise of ensuring the efficient operation of the management system is what Nayuki has to do now. This article can also be a reference for other brands in the industry of new-style tea drink.

Keyword: *Nayuki, New-style tea drink, 4P theory, listed company*

1.INTRODUCTION

On the night of the lunar new year's eve of 2021, a prospectus was submitted to the Hong Kong Stock Exchange. This company is Nayuki that officially listed on June 30, which also meant the birth of "First Share of new-style tea". However, after the listing, the share price of Nayuki was not ideal.

In recent years, this industry segment has been growing fast in China. The market size of Chinese new-style tea industry was about 77.3 billion yuan in

2020. By 2023, the overall market size is expected to exceed 170 billion yuan[1]. In addition to Nayuki, there are also many other brands such as Heytea, Sexy Tea, and Mixue Bingcheng. This paper intends to take Nayuki as an example to explore the development status of new-style tea drinks. Then, start with the phenomenon that investors commonly have low expectations for this industry segment, to explore the existing problems in this industry, and finally to put forward some suggestions. In a word, it will provide some reference ideas for the listing of other brands in the industry.

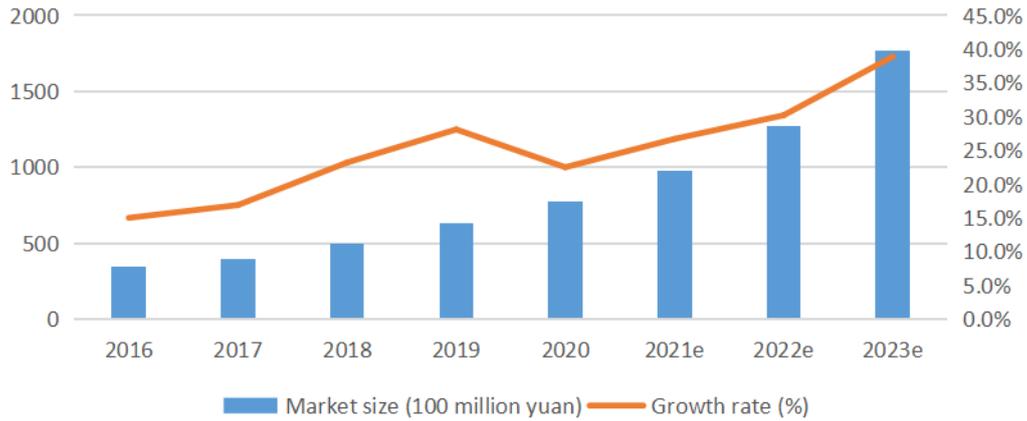


Figure 1: Market size of China’s new-style tea industry from 2016 to 2023

Source: iResearch

2. ANALYSIS OF THE REASONS WHY NAYUKI BECAME THE FIRST IPO OF NEW-STYLE TEA DRINKS

Nayuki, founded in 2015 by Peng Xin and Zhao Lin, is headquartered in Shenzhen, Guangdong Province. The name of “Nayuki” originates from Peng Xin's online name “Naixue”. Relying on the marketing model of great investment, innovation and business culture, it only took Nayuki two years to open nearly 400 new stores. At present, there are more than 500 direct stores in the world. After five rounds of financing, the corporate value has already reached RMB13 billion, accounting for 18.9% of the market, second to Heytea. Nai Xue submitted its prospectus to HKEx on the 11th of February this year.

There is no doubt that Nayuki is successful for its fast expansion speed, which can be accounted for a large number of reasons, such as its fine product innovation and the establishment of many store types to different needs. The following will have an analysis in detail from the angle of 4P.

2.1. Price

Nayuki mainly follows the high-end price route, providing their customers with high-quality products and a great ‘third place’ experience in 200-square-meter stores[2].

As Nayuki tea products are mainly based on fresh ingredients, the cost of fruit and tea is currently the highest cost source of this company, which is up to nearly 40% and accounts for the highest proportion among China's top ten tea beverage brands[3].

According to the prospectus, Nayuki plans to open more than 600 stores from 2021 to 2022, of which about 70% are equipped with stores with more than 200 square meters, which will further create a third space

for customers to socialize[4]. Therefore, it is not difficult to understand the high-end pricing of Nayuki, which is also consistent with its target group of middle-and-high-paying female white-collar workers.

2.2. Product

At the beginning of its foundation, Nayuki took Starbucks as its product positioning. Different from the traditional stereotype of “roadside stall” and “brewed with milk essence and saccharin” in the past, Nayuki uses fresh fruit, pure milk and high-quality tea as core raw materials to make fresh fruit tea. At present, Nayuki has created three classic high-end product lines: domineering fresh fruit tea, treasure fresh fruit milk tea and cold tea. Moreover, combined with the season, some seasonal limited fruit tea and upgraded products are launched every month, which have won high praise from young consumers who pursuit the novelty and fashion style. In order to ensure that the taste of the beverage is uniform throughout the country and is available all the year round, Nayuki also regulates the channels of the purchase for raw materials to the maximum extent. For example, it has set up its own strawberry planting base in Yunnan.

Nayuki targeted at urban white-collar women aged 20-35 in first and second-tier cities with medium and high salary levels. According to the characteristics of women's exquisite mind and the pursuit of novelty and beauty, Nayuki also made corresponding product design. For example, an easy-to-hold Nayuki cup, which is also slender has been designed based on the palm size of founder Peng Xin. The groove on the cup lid is specially designed to prevent girls’ lipstick from sticking to the cup. The concept of four seasons store space is to create the effect of different stores with the same brand, which always gives people a brand-new feeling.

In terms of the supporting services, Nayuki changed the impression of small milk tea shops around high

school. Most of its locations were settled in Shopping Mall in more than 60 major cities all over the country. Besides, these stores not only have a dining area, but also have space for guests to meet and talk with others, which highlights the high-level style of the stores and accords with their high-end product positioning.

To sum up, it was the targeted products and the high quality that have laid the foundation for Naixue to win a good reputation.

2.3.Promotion

Nayuki mainly carries out marketing through cross-border methods to empower the brand.

On the one hand, in terms of the internal product marketing model, it can be seen from the slogan "one cup of good tea, one mouthful of soft-euro bakes, two beauties in Nayuki". Nayuki's products are not only limited to tea drinks, but also extend to the sales of bread products, creating a better consumption experience for young white-collar women.

On the other hand, from the perspective of external product marketing model, Nayuki has now conducted cross-border joint marketing in several different industries. On Children's Day, they jointly signed with Wangzai Milk to help consumers find their original innocence; Together with the People's Daily, they shared with their consumers the past fun of drinking tea while reading newspapers; Jointly with the glory of the king, they showed the domineering side of Nayuki; Cooperate with OPPO mobile phone, Nayuki created a music carnival for young people - the Red and Blue Music Festival, launching a special drink with red and blue gradient. This new model of pioneering marketing can attract more consumers and enrich the service scene, thus improving the profitability of the enterprise.

2.4.Place

In terms of marketing channels, Nayuki has made unique efforts to create different consumption experiences for customers, by building up theme stores with different styles, such as "Nayuki's Dream Factory", "Nayuki's Gift", "Nayuki's Bar" and "Nayuki PRO Tea and Beverage Store". These stores retain only 40% of their similarities, breaking the "one style at different stores" pattern in the catering industry, thus catering for customers' consumption needs from different perspectives. All of these actions can achieve differentiated operation and successfully strengthen the brand's third space positioning.

After the 1.0 stage of raw material iteration and the 2.0 stage of category integration with multiple scenes, the new tea beverage has entered the 3.0 stage of online and offline digitalization in 2020[5]. Due to the sudden arrival of the COVID-19 epidemic, in order to adapt to

the measures of home isolation and social distance limitation, Nayuki accelerated its strategy of digital new retail transformation, and joined the wave of this new business model through the mini programs-- the quick-to-access applets of WeChat and Alipay. Since last February, the company has canceled its delivery fees and provided "contact-free" delivery services for orders placed on third-party takeaway apps and WeChat mini-programs. It has been seen that the orders on these platforms increased by 83% by the end of March[6].

In addition to continuously exploring the domestic market, Nayuki is also exploring the opportunity to go abroad. Nayuki opened Hong Kong's first tea shop in Taiping Mountain in November 2019 and Japan's first tea shop in Osaka in July 2020[7]. At present, there are already more than 500 Nayuki's tea shops in the world. However, Nayuki's goal is not only to attract overseas Chinese and Chinese tourists, but also to develop a local customer base. "With our commitment to becoming an innovator and purveyor of Chinese tea culture, we hope to deliver our unique and exceptional tea experience to the world." , said Peng Xin, Founder of Nayuki[8].

3.NAYUKI'S UNSATISFACTORY LISTING

After nearly six years' financing, on the night of the lunar new year's eve of 2021, Nayuki submitted its prospectus to the Hong Kong Stock Exchange and officially launched the IPO process, which means that "the first share of new-style tea" will soon be born.

Contrary to previous expectations, the share price on the first day of Nayuki's listing closed at HK\$ 17.12, falling by 13.54% from the issue price. By the close of that day, its market value was HK\$ 29,363 million. This indicated that the investors did not approve of the tea profitability of Nayuki as expected, which reflected that there are still certain problems in its performance, profit, single store management and the internal control system of the whole company.

The low expected profitability may be related to the industry segment in which Nayuki is located. Gao Jianfeng, founding partner of Shanghai Bogey Consulting, once pointed out that the real profitability of Nayuki at this stage is weaker than that of the traditionally understood consumer goods industry. But on the other side, it is not so exact to define it as a technology-based and internet-based enterprise, because the price-earnings ratio of Nayuki is not that high[9].

After receiving initial financing since its establishment in 2016, Nayuki expanded rapidly after five rounds of capital injection. However, at the same time it also led to successive huge losses in 2018 and 2019. Although it made a profit in 2020, it is just a technical profit after accounting adjustment. As a non-internet enterprise, high profitability is very important, but why is Nayuki's profitability still

unsatisfactory under the condition of high pricing? This can be explained from the perspective of expensive

operating costs of fresh raw materials and larger stores mentioned in the pricing strategy above.

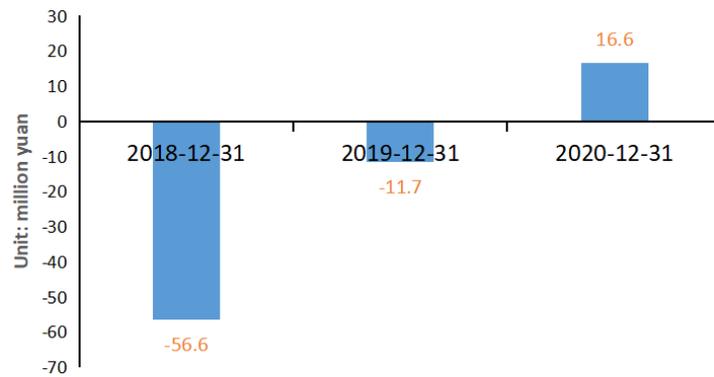


Figure 2: Adjusted profit (not measured under IFRS)

Source: Nayuki’s Prospectus

Raw materials account for nearly 40% of the total cost of the company for the three consecutive years. The tea base which is changed every four hours, the soft-euro bakes with only one day’s shelf life and the fresh fruit ingredients with high consumption are the main factors that cause the massive cost. After completing the process of financing, Nayuki continued to expand its business scale. However, as the number of stores increased, the fixed cost of inputs raised proportionally, but the average number of orders have been pulled down and the sales revenue of each store have decreased, so the total profit cannot become more with the increase of stores.

In addition, the expansion of the company also means that the difficulty of unifying and coordinating in management emerges. Shen Boyuan, a well-known domestic marketing strategy expert, once said: “Capital is profit-driven and pursues a rate of return. For a brand, if the stores expand too quickly, the expenses will become larger and larger, and the management cannot keep up with it. The turnover of a single store cannot reach the agreed target. In this case, the expansion of the stores will bring about the opposite effect.”[10] Nayuki’s tea has been caught in the “food safety storm” many times, which also indicates that there are certain problems in its entire quality control system. In order to avoid the problem of “too big to fail”, they should first do a good job in management and then gradually expand the scale of the enterprise.

4.SUGGESTION

In order to improve the expectations of investors for Nayuki to enable the enterprise to obtain a higher valuation, Nayuki is supposed to continuously innovate and strengthen the profitability, stabilize the profit and then expand, which is really important. In addition to the internal strategic issues, the external environment also brings challenges to the development of Nayuki. Although the new tea beverage industry meets the social

and leisure consumption needs of contemporary young people, it is very competitive due to the difficulty in building trade barriers. Therefore, Naixue needs to enrich its brand culture, innovate its products, optimize its supply chain and improve its operation efficiency, so as to help the enterprise achieve more steady growth.

5.CONCLUSION

In this paper, the 4P marketing theory is used to analyze the development status of Nayuki. The high-end price route, healthy products specially made for the target group, the cross-border joint marketing strategy, the establishment of stores with different styles, the active digital upgrade, and the development of marketing channels in overseas markets have all played an important role in enabling Nayuki, or even the industry of the new-style tea drinks. But the lower stock prices also reflect investors' doubts about the industry's profitability. For Nayuki, it is very necessary to continuously innovate, reduce operating costs in a more scientific and efficient way and do a good job in internal control, and then continue to expand on this basis.

REFERENCES

[1] iresearch consulting. China's new-style tea industry research report. 2021.10:17
 [2][3][4][7] Nayuki’s Prospectus: 202.58.6.142
 [5]2020 New Tea White Paper: 7
 [6] Nayuki Accelerates Digital New Retail Transformation with New Flagship Online StoreHitting Top 3 Catering Brand on Tmall. PR Newswire ; New York [New York]. 27 Apr 2020.
 [8] Nayuki Plans to Expand into the US and Japan. PR Newswire ; New York [New York]. 23 Jan 2020.

- [9] Wang Minjie. Can Nayuki Tell a Good Expansion Story?. *International Finance News* /2021/July /5: 011 Edition
- [10] Liang Wei, Shi Dan. Nayuki rushed to the market, can they break the loss trap? [J]. *Business School*, 2021(Z1):148.