

# More than a Soft Drink Company

## --An Analysis of Drink Companies in The Digital Age Based on The Case Study of Genki Forest

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### ABSTRACT

In recent decades, digitalization and rising consumption leads to dramatic changes in traditional industries such as the beverage industry, in terms of product development, marketing strategy, form of competition and so on. This essay introduces the relatively newly founded Chinese beverage company Genki Forest, discussing its founders, values, products, funding and investment information and so on. Then the analysis of this company's uniqueness follows, as its several features make it a distinctive presence in the beverage industry. The essay then explains the techniques of POCD framework and SWOT analysis and applies them to Genki Forest. Such analysis could help to explain the reasons for Genki Forest's success. Next, this essay summarizes the evidence and findings presented to derive an overall evaluation of the prospects of the company from an investment perspective and its implications for the industry. Finally, this essay concludes that Genki Forest's success is attributed to its strategy of digitalization as well as its ability to adapt to the demand of the new wave of consumption. This essay also further concludes that Genki Forest is prospective as an investment option its strengths and strategies enables the company not only to be successful at present but also have a large amount of potential in the future.

**Keywords:** Genki forest, beverage industry, POCD framework, SWOT analysis, consumerism, Binsen Tang, Generation Z, digitalization

### 1. INTRODUCTION

Economic growth has caused a rising wave of consumption in the modern era, giving people more disposable income to purchase consumer goods. This consumerism provides profit and opportunities for alert business firms. [1] Consumption is taking an increasing importance in GDP, which contributes to the development and growth of the industry of consumer goods. One particular example of consumer goods industry is the beverage industry. While companies like Pepsi and Nongfu Spring have already established dominance within this industry, the Chinese company Genki Forest entered the industry recently but was able to achieve great success because of its unique products and strategies, as well as its ability to meet the demands of the young generation. Studies have been conducted to investigate the reasons for this company's success. While previous research usually focused on a single aspect, like the founder of the company or its marketing

strategy, this essay aims to examine multiple aspects of the company to provide a comprehensive evaluation of the company's strengths and weaknesses, as well as its future potentials. This essay first introduces the company, then applies the POCD framework and SWOT analysis discuss the company's prospects from the perspective of investment, and finally discusses why the company is worthy of investment and its implications for the industry.

### 2. FIRM'S DESCRIPTION

Genki Forest is a relatively new beverage company founded by Binsen Tang, a long-time entrepreneur who was mainly involved in the gaming industry before entering the beverage industry. Selling products including soda, Rancho, milk tea and so on, the firm cates well into the demands of young people to stay healthy and keep fit at the same time of enjoying the taste of beverages. Genki Forest is also unique for its

largely Internet-based marketing strategy. It is more than just a beverage company, but also a digitalized company which fully takes advantage of the Internet developments by selling their products online and utilizing platforms like social media for marketing purposes. Such uniqueness and strengths of Genki Forest contributed to its fast growth. The beverage industry is highly competitive as there are already very successful companies like Pepsi and Nongfu Spring which dominate the industry as well as the continuous entry of new companies. Genki Forest entered the

industry in 2016, when it was founded and has achieved tremendous growth ever since. According to figure 1, in 2019 it received funds from series B investors and the company value reached \$ 0.58 billion. In a short 3-year period from 2016 to 2019, Genki Forest's company value rocketed from 0 to 4 billion. It received an investment of 150 million from strategic investors in Oct 31, 2019. In 2020, it launched additional products and its annual sales reached \$0.34 billion. In 2021, Sequoia Capital became the firm's strategic partner.

**Table 1.** Investment and funding information of Genki Forest (Source: Tian yancha)

| Date     | Amount   | Round     | Valuation | Investors  |
|----------|----------|-----------|-----------|--|
| 21/3/30  | -        | Strategic | \$6B      | Huaping capital, L<br>Catterton, Temasek,<br>Sequoia capital |
| 20/3/1   | -        | Strategic | \$2.17B   | Sequoia Capital,<br>yuansheng capital,<br>yiyuan capital     |
| 19/10/31 | \$0.023B | Strategic | \$0.58B   | Longhu capital, gaorong<br>capital, heiji capital            |
| 19/3/8   | -        | Series B  | -         | Fengshang capital,<br>qianxian capital                       |
| 18/8/10  | -        | Series A  | -         | Guangkong capital,<br>gong qingchen capital                  |
| 17/12/19 | -        | Angel     | -         | Challenger capital   |

### 3. POCD ANALYSIS

This section applies the POCD framework to Genki Forest. In this framework, there are four dynamic components of any entrepreneurial process or venture: the people, the opportunity, the external context, and the deal. People refers to the individuals or groups who perform services or provide resources for the venture. Opportunity refers to any activity requiring the investment of scarce resources in hopes of future returns. Context refers to factors that affect the outcome of the opportunity but that are generally outside the direct control of management. Finally, deal refers to the complete set of implicit and explicit contractual relationships between the entity and all resource providers. The POCD framework provided a systematic way to think about and analyzes the challenges of managing a growing entrepreneurial venture. [2] Moreover, the traditional methods, including the debt-to-equity ratio, the valuation on cash flow, and the cost are not suitable for Genki Forest compared to the POCD

Framework, since none of them can fully reflect other aspects besides the financial status. [3]

#### 3.1. People

To a large extent, Genki Forest's success has to be attributed to its founder Binsen Tang. Tang is a long-time entrepreneur and was previously mainly involved in the gaming industry, in which he achieved great success. He accumulated rich experience and acquired the relevant entrepreneur skillset while he was in the gaming industry. He is very familiar with the financing and management process of a company from his experience of running a successful gaming company. He was able to successfully transfer the experience and skills across the border of industry, which contributed to Genki Forest's success. In 2008, Tang founded Zhiming Xingtong, a game development firm. In 2010, the company's game Happy Farm spread across 20 different

countries, attracting more than 0.5 billion players. In 2012, he founded a game publication company with investment from Tencent. The company's most successful game spread beyond China, where his company was based, and achieved great success globally. It won the best game award by Facebook in 2015. In 2014, he sold Zhiming Xingtong at a net worth of \$15.5M. In the same year, he founded Challenger Capital, which provided funding for Genki Forest as an angel investor in 2017. Thus, Tang's involvement in the gaming industry also allowed him to accumulate capital to fund for Genki Forest. A famous quote from Tang is "Pick the right industry if you want to get rich". Tang argues that the difference between China and the developed countries is in consumer goods rather than high-tech products. Tang successfully identified a rising wave of consumption in China and entered the beverage industry, which is a typical consumer good industry, to adapt to this trend. Tang has also set foot in the beverage industry before during his initial campaigns as a graduate student, providing him with relevant background knowledge. Kaifu Li commented that Tang could be the next Huateng Ma, showcasing his excellence and potential as an entrepreneur.

### 3.2. Opportunities and context

Genki Forest fits well with macroeconomic trends and the demands of the young generation, and is thus able to take advantage of the trends to profit. In China in the next 10 years, the importance of consumption within GDP is estimated to increase and would take about 70% of the country's GDP, which means that people would have more disposable income to purchase the consumer goods like beverages. This trend is reflected by the fast growth rate of the beverage industry recently. The annual growth rate of the beverage industry in the last 3 years is 5-8%. The annual growth rate of carbonated drinks in the last 3 years is 20%. Also, it seems that China's beverage industry is transitioning to resemble Japan's, which has 80% drinks containing zero sugar. Sugar-free drinks is a representative feature of Genki Forest, which provides evidence of Genki Forest's extent of fitness to the market. Also, there is an increasing number of convenience stores in comparison to traditional supermarkets recently. Unlike traditional brands like Nongfu Spring who placed its products in supermarkets, Genki Forest placed most of their products in convenience stores, where their target customers, the young generation, would go to frequently. The digitalization in the modern era also benefits Genki Forest, who uses online platforms to collect data by monitoring the behaviors of their customers and creates strategies accordingly to better meet their demands.

### 3.3. Deal

The company has completed a shift from an asset-light strategy to an asset-heavy strategy since its establishment. Previously the company engages in outsourcing to allow external contractors to produce their products but now they have built their own factories, which improves the efficiency of production and the quality of products because the channel changes from an indirect to a direct one. Their factories excel at large-scale production. In 2020, a factory in Anhui province was put into use, producing 45 million bottles annually. In 2021, factories in Guangdong and Tianjin were put into use, producing 1.32 billion bottles annually. As Genki Forest produces sugar-free beverages, it has to turn to other alternative sources of sweetener, and Genki Forest uses erythritol. While all other polyols have the distinct disadvantage of causing digestive distress, erythritol is well-tolerated. Scientific reports show that at typical consumption levels, erythritol has no laxative effect. [4] Genki Forest gets supply from Bao Lingbao – the one and only erythritol supplier in China. According to figure 2, the annual revenue of Bao Lingbao grew from \$1.59B in 2017 to \$2.05B in 2020, showcasing the increasing popularity of erythritol over the traditional sweeteners.



Figure 1. Baolingbao Biology Co., Ltd. annual financials (Source: Yahoo Finance)

## 4. SWOT ANALYSIS

SWOT analysis is a technique used to analyze a firm's strengths, weaknesses, opportunities, and threats. Within market research contexts, SWOT analysis tends to involve the identification of internal strengths and weaknesses and external opportunities and threats through "hard" extant data: information that is empirically obtained and independently verifiable. [5] POCD and SWOT together presents a comprehensive overview of a company.

### 4.1. Strengths

One of the strengths of Genki Forest is that its personnel is very qualified and talented. In addition to

the founder Binsen Tang being very competent, it is known that Genki Forest has attracted talents from other companies like Bytedance and Luckin Coffee. The ability to attract talents provides Genki Forest with a continuous supply of qualified, competent employees, which contributes to its potential in the long run. Genki Forest also benefits from the development of the digital age. Genki Forest collaborated extensively with online shopping platforms and spent a tremendous amount of money to publish ads on social media like Tiktok, Bilibili, and so on. In the 11.11 shopping festival on Taobao, Genki Forest constitutes 40% of the sales of beverage products. The manufacturing process of Genki Forest is also very digitalized. Traditional beverage companies would conduct a market survey and then produce accordingly. Genki Forest, however, undertakes a different strategy as a result of its digitalization. It would first experiment, which means to produce multiple flavors without making market surveys. They test these products by producing them at a small scale and place them in the market. They then monitor their customers taking advantage of their Internet and data technologies. If the feedback was bad for a product, they would stop producing that product. If the feedback was good, however, they would produce that product at a large scale and creating ads featuring that product. This strategy is more efficient than traditional marketing and is made possible only by their digitalization. According to a survey, most customers learn about Genki Forest through online platforms. Today, companies across industries need agility, speed, flexibility, and the ability to pivot rapidly to pursue new business opportunities and keep up with a fast-changing global business environment, [6] which were achieved perfectly by Genki Forest.

#### **4.2. Weaknesses**

Like many others, Genki Forest relies on hot-selling products to a large extent and has not yet established its reputation as a brand. So far, Genki Forest has launched over 100 different drinks, but only 4 of them are successful. The company decided to stop producing products that were unsuccessful. If those successfully products eventually lose popularity as a result of the development of new trends, Genki Forest, as a brand, without the support of these hot-selling products, would face a significant downfall. A similar example of this situation would be the company called Taizi Milk. Its milk product was one of the best-selling milk in China 15 years ago. The company decided to focus solely on the production of this product, failing to establish its stand as a brand within the industry. Eventually the company went bankrupt in 2010. Genki Forest has to be cautious not to undertake a similar trajectory, as over-reliance on popular products is a shared weakness of the two companies. Also, it might be difficult for Genki Forest to build brand loyalty as a result.

#### **4.3. Opportunities**

The rise of Generation Z provides good opportunities to Genki Forest, as the values of the company align perfectly with the demands of Generation Z. The demands of Generation Z differ from other generations. The target customers of Genki Forest are people aging from 18 to 35, which coincides with Generation Z. These people do not only want a good flavor, which is the usually expectation people hold toward beverages, but also they want to keep healthy, which translates into minimum addition of sugar and low level of calories for beverages. Current industry efforts include the promotion of alternative beverages perceived to be healthier. [7] Genki Forest incorporates these elements into their products to meet the demands of Generation Z, which account for the high sales of such products. Generation Z is heavily reliant on Internet, which Genki Forest utilizes for marketing. Generation Z has formed such a digital bond to the Internet that they identify feeling emotionally attached to it, with more than 90% of participants indicating that they would be upset about having to give up an Internet connection as a punishment, according to a survey of Generation Z youth between age 13 to age 17 conducted by Palley (2012). [8] Genki Forest also uses unique color collision, let people in a short time to get the key information. Instead of a bright color, the outer packaging of "Genki Forest" is plain white, and each flavor will have a corresponding pattern. The bottle body is not a regular square bottle body, but a curved bottle body, not only easy to hold, but also from the bottle body recognition, forming a "brand impression". [9] In this way, Genki Forest appeals to young people's aesthetic preferences.

#### **4.4. Threats**

Genki Forest faces threats from a combination of new and old rivalries. The beverage industry has a relatively low barrier of entry in comparison to some other industries, which means that a lot of entrepreneurs would be eager to enter this industry to get a share of the profitability. Old rivalries refer to companies that have already dominated the beverage industry, like the company Nongfu Spring in China. Nongfu Spring has previously issued a decree to prevent stores from displaying Genki Forest drinks alongside with their drinks in the same case. Genki Forest counter-attacked by issuing a similar decree. Nongfu Spring has already successfully established its brand name while Genki Forest has not. This poses a serious threat because with the exception of a very few product categories, a major objective of marketing strategy is to facilitate the process of consumers repurchasing a brand through preference. [10] The reliance on ads also poses threats to Genki Forest. Binsen Tang claimed that Genki Forest has 95% of products that have not launched yet, which

means that cost of ads would go up quite a lot in the future in order to keep up with their target sales.

## 5. INVESTMENT ANALYSIS

Although it must be admitted that Genki Forest faces some weaknesses and threats as mentioned above, the company is overall worthy of consideration for investment, as its success is not a coincidence. Investment in Genki Forest is an investment in people. The founder and the team know the language of internet. Genki Forest is not merely a soft drink company; it's an Internet company that can thrive in the digital age. Investment in Genki Forest is an investment in their strategy: digitalization and large-scale advertising. The company places ads on multiple channels including railway stations, elevators, Tiktok, Bilibili and so on, making it such a unique presence in the beverage industry. Their factories provide solid support for their development and expansion. Moreover, Genki Forest is a firm with infinite potential. The founder Binsen Tang made the claim that 95% of the companies' products are still on its way. The company is very ambitious in that their 2021 target sales is \$1.16 billion. Overall, as a company with unique strategies and infinite potential, Genki Forest is a good investment option.

## 6. CONCLUSION

A review of the company's history and strategies shows that Genki Forest's success is attributed to its unique strategy of digitalization and ability to meet the demand of consumers from the young generation. The POCD framework suggests that the company is advantageous in personnel, can take advantage of the opportunities provided by the context of digitalization, consumerism, and rise of Generation Z. It also benefits from the contractual relationship with its erythritol supplier, who provides raw materials for the company. According to the SWOT analysis, the strengths opportunities of Genki Forest outweigh its weaknesses and threats, giving the company a large amount of potential in the future, as a majority of their products are still being developed. Therefore, the company is overall a good choice for investment based on its potential and its funding and valuation from previous rounds. The success of Genki Forest provides inspiration for businesses, as the strategy of digitalization and the transformation caused by the Internet have led to a significant shift in many industries. It is likely that some new companies would imitate Genki Forest to pursue a digitalization strategy and achieve different levels of success in the future. Finally, the fact that the digital

analysis and marketing strategy of the company is relatively time-consuming to implement raises the question of whether the company's product development and production can keep up with the pace of rapidly developing trends in the modern society, which provides a good angle for future research into this company to focus on and investigate in a more detailed manner.

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