



# Analysis of the Recent Development of the Ready-made Tea Industry in China Based on the Innovation of HEYTEA

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**Abstract.** With the rapid development of the modern economy and society, the ready-made tea industry has shown great development potential, but the competition in the industry is particularly fierce. The purpose of this paper is to analyze the external environment of the industry through the PEST model, and use the SWOT model to analyze the internal environment, so as to summarize the successful operation experience of HEYTEA. This study explores the development prospects of China's ready-made tea industry and proposes development suggestions. At the end of the paper, the development of the ready-made tea industry has entered a high speed, and the industry's competition is becoming more and more fierce. Although the "popularity" of new tea drinks has brought vitality to the tea industry, due to its short development years, it is still in the growth stage, so the market is still in the research and exploration of the business model of new tea drinks.

**Keywords:** HEYTEA · Ready-made tea industry · innovation · PEST model · SWOT analysis

## 1 Introduction

With the continuous improvement of people's material living standards, the tea industry has gradually entered people's attention. Among many brands, HEYTEA stands out and becomes a leader in the industry by virtue of its high product quality and the development concept of conforming to the current consumption trend. The development of the finished tea industry has entered a stage of rapid development, and the competition in the industry has become increasingly fierce. Taking HEYTEA as an example, this paper analyzes the competitive situation of the industry from the current situation and innovation of HEYTEA, studies the successful operation of the enterprise, and puts forward some suggestions for the development of the ready-made tea industry.

## 2 Pest Model Analysis

First of all, the passage will analyze the macro external environment, so as to better analyze the internal enterprise in the following paragraphs.

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## 2.1 Politics

Since the implementation of the Food Safety Law in 2009 in China, the standards for all areas of the food industry have been gradually improved, and the standardization and support for upstream and downstream supply chains have also facilitated the development of the freshly made tea industry. However, there are still deficiencies in self-regulation of the industry and external regulation of the government, and there is no unified standard with industry characteristics for the large-scale ready-made tea industry. The scale, industrialization and intensification of the food industry are not high, and the quality of supervision and management is difficult; The general quality of food industry producers and operators is not high, social credit awareness and legal awareness are not strong enough, the understanding of food safety is not deep enough, the pre-purchase inspection is not strict, inspection records are not reasonable and other major problems still exist [1]. As a result, food safety supervision needs to be strengthened. In the case of major food safety accidents that have not yet been touched, the regulatory authorities have no law enforcement standards for this. We would like to call on the beverage association or the industry itself to stand up and formulate industry rules, in order to ensure that the industry's operations are more safe and reasonable.

## 2.2 Economy

In terms of the economy, in recent years, both national income and consumption have shown a trend of rapid growth, and the freshly made tea industry has a broad space for development, attracting many enterprises and brands to get involved in it. In 2021, China led the world in economic growth and significantly increased its economic strength. China's GDP grew by 8.1% over the previous year, faster than any other major economy in the world. China's GDP reached 114.367 trillion yuan, surpassing 110 trillion yuan, making China the world's second largest economy and accounting for more than 18% of the global economy. The per capita GDP reached 80,976 YUAN, reaching 12,551 US dollars at the annual average exchange rate, exceeding 12,000 US dollars. At the end of the year, China's foreign exchange reserves stood at US\$3.2502 trillion, ranking first in the world [2]. In 2018, the number of stores in the ready-made tea industry increased by 74%, the average consumer price was between 15 yuan and 29 yuan, and the number of tea takeout orders exceeded 200 million. [3] Coupled with its characteristics of high profits, easy standardization and low entry threshold, it has basically replaced the traditional freshly made tea industry.

## 2.3 Society

With the increase of domestic residents' income, the consumption concept and structure are changing. The concept of healthy consumption is being enhanced, and consumers' pursuit of product quality is getting higher and higher. At present, leisure consumption occupies a dominant position in the consumption structure of Chinese residents. Residents pay more attention to experiential consumption and tend to a "healthy" and "health-preserving" lifestyle. Ready-made tea drinks are favored by consumers for their "higher quality tea base" and "healthier ingredients."

In addition, in terms of consumer group structure, there are obvious gender differences among consumers. Women are the main consumer group, and the average consumption in stores is less than 30 yuan. According to a research report on China's ready-made Tea Industry, the main consumer group of new tea drinks is women, with the ratio of male to female reaching 1:3. [4] At the same time, in the context of the new retail era, the online and offline joint development has provided more opportunities for the development of the industry. Most of the shops choose to open in commercial centers, schools, stations and other areas with a large flow of people, which also speeds up the popularity of the freshly made tea industry in the social spread, creating good public opinion conditions for the development of the industry.

## **2.4 Technology**

Compared with traditional tea drinks, the production process of new tea drinks is more complicated, and the production time of single-cup drinks is longer, so the waiting time of some brand stores for drinks is more than 30 min. Although each brand of ready-made tea is different in raw material ratio and other aspects, it is highly reproducible once the standard is formed. The supply of raw materials is mainly provided by the necessary agricultural and sideline products for the production of tea, including fruit, tea, dairy products, animal cream, etc. The middle part of the industrial chain is the design-manufacturing-packaging process of tea drinks, which can be roughly divided into fruit tea, fresh fruit tea, and cream tea. Due to the dilution of the beverage properties of traditional tea, the quality gap is difficult to distinguish after processing and mixing. Fresh milk and other ingredients belong to daily consumer goods, which are less difficult to purchase and have limited quality differences. These are the reasons for the rapid development of the freshly made tea industry. The development of science and technology enables the tea industry to ensure the standardization and diversification of tea drinks.

# **3 The Innovations Of Heytea**

## **3.1 New Products**

In its products, the founder of HEYTEA, Nie Yunchen was the first to identify a series of changes in consumption concepts brought about by the continuous improvement of living standards and changes in consumption patterns. Nie abandoned creamer and milk powder, but launched a revolutionary product at the time - the first cheese and milk tea. He abandoned the traditional powder style, but used fresh cheese and fresh milk to create a completely different style in China. Based on the cheese style, HEYTEA continued to combine fresh seasonal fruit to further create a more complex flavor. This innovation greatly meets consumers' pursuit of health and flavor, so it is more popular with consumers.



**Fig. 1.** Cheese milk tea

### 3.2 Off-Line Stores

In addition to providing customers with high-quality tea, HEYTEA is also committed to exploring more possibilities about drinking tea, letting drinking tea become a way of life. From product development to store terminals, HEYTEA pays more attention to the overall experience of consumers. The design of each store is a process of interpreting inspiration. Combining with traditional tea culture, “real”, “minimalism”, “aesthetics” and other elements are integrated into the store design to create a space with rich texture levels, bring tea customers an immersive multi-dimensional sensory experience, modify the aesthetic way of modern tea consumption, and make drinking tea more different.

In addition, HEYTEA cooperates with a number of independent illustrators to express the fun of drinking tea in the language of painting and create a series of interesting original illustrations in line with the concept of HEYTEA. The whole product packaging also follows the “cool” and “simple” style.

In 2021, HEYTEA continued to expand its store coverage and open stores in 20 new cities, including Sanya, Nantong, Yinchuan and Yantai, to serve more users. More importantly, HEYTEA has also made a series of efforts and attempts around the store space, providing users in the store a space with more inspiration for rest. [5].

More importantly, Xi Tea 2021 has also made a series of efforts and attempts around the store space, providing users in the store with a space full of inspiration for rest.

### 3.3 Cross-Brand Cooperation

In order to cater to the novel tastes of consumers, HEYTEA not only continuously launches new product styles, but also seeks cross-border cooperation and continuously launches cross-border co-branded products. It incorporates richer elements into the brand, which differentiates HEYTEA from other tea brands in product content and packaging. HEYTEA has launched cookies, chips, popcorn and other retail products, and launched a sugar-free bubble aquatic product Xi vial. This product is like tea in another new consumption, new forms, the continuation of the ultimate pursuit of products, as tea has always been in the introduction of products. Xi Vial features “fiber added, not only zero sugar”, and adds more functional elements, to provide consumers with more “bottled inspiration”. According to the HETTEA Annual Report 2020[6], the Tmall flagship store of HEYTEA increased the number of fans by about 620,000, and sold a total of 400,000 Xi vial sparkling water, 80,000 popsicles and 4 sippy cups.

## 4 Swot Analysis

In order to analyze the company more systematically, the passage below will use SWOT analysis to introduce it.

### 4.1 Strength

AS we have mentioned previously, traditional milk tea drinks use cheap tea powder and milk powder as raw materials, while HEYTEA rejects these unhealthy raw materials, and employs raw leaf fresh tea and fresh milk as the tea base of the product, and innovatively mixes salty cheese to create a healthy cheese and milk cap tea with “tea fragrance as the main configuration”. With its innovative products, healthy and high-quality ingredients and strong taste, HEYTEA has quickly become popular among young customers.

Besides, HEYTEA caters to the current popular fashion minimalist style. In addition, HEYTEA caters to the trendy minimalist style of the moment. In accordance with its brand concept of “cool, inspiration, authenticity, design”, the store sets up a comfortable waiting area for customers. Customers can entertain, socialize, work, etc. here, as well as conduct daily social interactions, such as in-store gatherings. HEYTEA empowers businesses with store space design and redefines the experience of the tea industry.

HEYTEA has jointly-designed products with more than 50 brands, including cosmetics, cultural and creative products, clothing, daily necessities, and so on. It not only caters to the novelty characteristics of young customers but also makes use of the brand influence of both brands to form complementary consumer groups and increase the discussion of brand topics.

Therefore, high quality raw materials, catering to customers’ consumption needs and designing co-branded products have all helped HEYTEA attract more customers.

### 4.2 Weakness

Currently, most HEYTEA products are priced between 21 and 33 yuan, which is even close to the price of Starbucks, while other tea brands in the industry are priced between 12 and 20 yuan, which is obviously much higher than the average price of the industry. Considering the cost, most customers are not willing to spend more than 15 yuan to buy a cup of milk tea, or just buy once or twice to taste fresh milk tea, which makes HEYTEA not have an advantage in the market competition.

Even during off-peak hours on weekdays, the shop is often packed with customers who have to wait more than an hour to buy a cup of milk tea. Although the “hunger marketing” at the beginning brought a high degree of online discussion heat to HEYTEA and was quickly known to the public, it also caused certain negative effects. Customers’ long wait for many times has eroded their purchasing enthusiasm and affected the image of the brand in customers’ minds.

HEYTEA’s stores are mostly located in popular business circles in the first and second-tier cities. The leisure areas set up in the stores make the store area larger and the number of employees is significantly higher than in other tea stores. High store rent, employment costs and production and operation costs lead to the high operating costs for HEYTEA.

### 4.3 Opportunities

The current market is optimistic about the development of the new tea industry, and predicts that its market size will continue to increase year by year. And the market size of the new-style tea industry will show a growing trend in the next few years, indicating the great potential of the new-style tea industry in the future.

According to the 2020 annual report[6] released by HEYTEA, 81 percent of consumers chose online ordering in 2020. With the development of the “Internet +”, digital management transformation is the inevitable development trend of the new tea industry in the future.

A healthy outlook on life is no longer the “privilege” of middle-aged and elderly people, and these concepts are also popular among young people. This requires the market to produce truly healthy and delicious drinks, and this is the direction of product innovation. According to the report mentioned above, more than half of consumers choose to reduce the sweetness when ordering, and HEYTEA is the first milk tea brand to add zero-calorie sugar to its drinks.

### 4.4 Threat

Although the development potential of new tea drinks is great, the market competition is also very fierce. At present, it is not only HEYTEA and other brands fighting for customers, but also many traditional enterprises and stars, seeing the business opportunities, have joined in the competition for customers. For example, Shanghai Guanshengyuan Company launched White Rabbit milk tea and Tongrentang launched herbal tea.[7] These tea brands can quickly open the market and influence the competition pattern with the help of corporate fame and the star effect.

The main consumer groups of new tea drinks are almost all young people, who pursue individuality and are willing to try new things. Moreover, due to the endless emergence of new tea brands and innovative products, it is difficult to cultivate customers' stable brand loyalty.

HEYTEA, as a leader in the industry, is closely watched by competitors. Once HEYTEA launches innovative products, other brands in the market are bound to imitate each other. Therefore, for HEYTEA, launching innovative products can only improve its popularity in the short term. If it wants to maintain its leading position in the long term, it is difficult to win just by product differentiation.

## 5 Advices

Based on the analysis above, this paper makes several predictions about the future trend of the ready-made tea industry below.

The vast majority of consumers will focus their consumption choices on a few brands, and the consumer groups of those brands are mainly composed of regular and repeat customers. Therefore, it is of great importance to continuously enhance the trust of existing consumers in the brand. 67% of consumers will buy the products of their favorite brands most of the time and try new brands occasionally, 16% of consumers only buy

1–2 products of their favorite brands, 13% of consumers often try new brands, and 4% of consumers consider which to buy according to the actual situation.[8] We should not only maintain an appropriate product cost, but also constantly innovate to improve the freshness of products for consumers.

From the perspective of gender distribution, female consumers account for 70% of the total. The post-90s generation has become the mainstream consumer group of new tea drinks and occupies a dominant position in all age groups, while the number of male consumers is less than one-third of female consumers. Brands can accelerate their expansion into second - and third-tier cities, gradually attacking the downward market. “International style” will also become one of the important development trends for new tea brands.

The lines between the tea, coffee and beverage industries are becoming increasingly blurred, with a large proportion of consumers showing an interest in coffee and alcohol being offered in tea shops. Brands can build multi-scene experience stores around the themes of tea, coffee, wine, food, cultural and creative products, or appropriately increase the brand theme of coffee, wine and other products, to expand the development path. According to the consumer survey, the mainstream collocation of “baked food + tea” has become the most favored combination among consumers, and the appropriate development of dessert combination products can greatly increase sales revenue. The combination of traditional Chinese food and new tea drinks may gradually become a new tea consumption culture with Chinese characteristics.

## 6 Conclusion

As ready-made tea industry facing more and more fierce market competition, this article is based on the external environment of the current market, using pest model to analyzes the current status of the new development of ready-made tea industry. And based on the success of an industry leading brands HEYTEA, the passage summarizes the reasons for its success through swot analysis. Finally, the paper predicts the future development trend of China’s ready-made tea industry and puts forward some Suggestions. Based on the original market, HEYTEA made some disruptive innovations. In terms of products, HEYTEA has abandoned the traditional way of making milk tea, opened up a new sales market, brought consumers a completely different consumption experience, and attracted great social attention. At the same time, HEYTEA has increased the design innovation of offline stores, and endowed milk tea stores with new leisure attributes. Frequent co-branded products with other brands further expand brand benefits and raise brand awareness. According to these successful experiences, the industry should improve its digital management levels, reduce operating costs, strengthen brand marketing, and innovate more products around policies and customer.

However, due to the fact that most of the survey objects are young target customers, the number of samples is limited, and the research is mainly conducted from the perspective of target customers and the current situation of HEYTEA itself.

In the follow-up study, factors affecting the development of the tea market can be deeply studied from the perspective of other subjects, so as to enrich the marketing strategies of the new tea market and drive the development of the traditional tea industry.

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