

Strategic Analysis of Marketing Practices of HEYTEA

-- How HEYTEA can Sustain its Competitive Advantages

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Abstract. HYTEA is one of the most renowned tea beverage brands in China. Obtaining great successes in the past few years, HYTEA, however, is simultaneously facing massive challenges and market competition. In this context, this study adopts the SWOT analysis model to investigate the state-of-the-art of the HYTEA brand. Based on the analysis, two major problems are stated for discussion. With an attempt to solve those proposed challenges encountered by HYTEA, this study also comprehensively appraises its marketing, branding as well as operational strategies in order to propose feasible solutions to leverage more sustainable development of the HYTEA brand. As a result of our analysis, an array of strategic suggestions is delineated in the end.

Keywords: Marketing Analysis; Branding and Marketing; Operational Management; SWOT Analysis; Brand Equity; HEYTEA.

1. Introduction

HEYTEA, formerly known as ROYAL TEA, is a tea brand with a large number of young loyal customers and a high reputation. HEYTEA's first store originated in a small alley in Jiangmen, Guangdong province. It now has 695 stores in 61 cities around the world and employs about 100,000 people. Soon, HEYTEA released its core values and brand culture: Inspiration, Cool, Zen, Design. HEYTEA specializes in producing fresh tea as raw materials for a unique drink with cheese and seasonal fruit [1]. They divide different kinds of tea into other series. For example, they have "original cheese tea", "fresh fruit tea" and "limited-time tea". Although HEYTEA has set up stores in Singapore and is looking to expand abroad, its primary target market and the audience are still in China where we will be concentrating [2].

The main product category of HEYTEA is beverages. In 2019, HEYTEA ranked first in "Top ten tea brands in China" and the survey on brand awareness of Chinese tea. According to HEYTEA annual data report, the annual sales of all stores of HEYTEA have been kept increasing since 2018 [3]. So how did it become such a famous milk tea brand in China? This paper will comprehensively analyze HEYTEA's operation, management, and HEYTEA's most significant problem through the SWOT analysis. From the point of view of HEYTEA's target customers, we will analyze HEYTEA's unique brand positioning in line with the store decoration and its marketing strategies, discuss how to open the situation in the limited milk tea market, and expand the influence of the brand. Also, we are going to evaluate the existing challenges and put forward recommended solutions and implementation to the current problems.

2. Swot Analysis of Heytea

The second section presents the SWOT analysis (Table 1) for the HYTEA brand in general. By conducting the SWOT analysis, it helps to better understand the current situation faced by HYTEA, which enables our following problem statements and further analysis of its managerial practices.

Table 1. Summary of SWOT analysis

Dimension	Description
Strength	1. Good taste: HEYTEA is the originator of the cheese-topping tea, which is also the star product because of its fantastic taste.
	2. Ample supported with funds: HEYTEA has received financing of approximately 4.2 billion yuan, which is very beneficial to its development.
	3. Innovation: Specialized laboratories have been set up in Shenzhen for continuous innovation of HEYTEA's products.
	4. Precision of target customer: Designing products and decoration style according to young people's preferences.
Weakness	1. Products are highly replicable and many competitors of HEYTEA have similar products to HEYTEA. As a result, the current brand characteristics of HEYTEA are gradually inconspicuous.
	2. Hunger marketing like long queues overdraws customers' patience.
	3. Some polysaccharide products are harmful to health if drinking too much, so it means that HEYTEA loses the market for health-conscious people.
	4. HEYTEA also loses the potential market for tea enthusiasts as its products that lack culture are different from traditional Chinese tea.
Opportunity	1. The consumer group of tea is also gradually tending to become younger and the potential of development of the tea industry is vast.
	2. The progress of the internet has provided development opportunities for HEYTEA. It can be closer to the young people in the Internet era, to grasp the trend, quickly gain recognition and numerous loyal customers.
Threat	1. HEYTEA's business model has low barriers to entry and is easy to be copied by its competitors.
	2. A number of HEYTEA's stores were ordered to suspend business for rectification due to sanitation problems, which undoubtedly defeated the image of HEYTEA and negatively impacted its future development.

3. Problem Statement

According to the overall SWOT analysis of HEYTEA, we find that the biggest problem HEYTEA is facing is the fierce competition in the current tea industry. The two leading causes of the problem are the low barriers to entry of the industry and the price variance. Unlike other industries such as IT that may require advanced technology and huge financial support, starting a business of making tea beverages in the tea industry is far more accessible. Simultaneously, HEYTEA's business model and products are highly replicable, so they can be easily copied by other competitors. For example, HEYTEA's star product "cheese-topping tea" is easy to be made as it only requires a fixed formula with a fixed proportion of cheese and tea [4].

The second is regarding the price difference within the tea industry. The prices of HEYTEA's products are relatively higher than many other brands, which HEYTEA's price range is about 25 - 35 yuan and some other brands' range like Coco is only about 10-20 yuan. Hence, HEYTEA is very likely to lose its competitiveness in such a competitive market environment as more and more customers tend to choose brands of lower prices. After knowing the two major challenges faced by HEYTEA [5], a comprehensive strategic analysis of HEYTEA is performed below to illuminate pertinent suggestions in the following.

4. Analysis of Hyetea

4.1 Subsidiary Brand

HEYTEA fundamentally owns two subsidiary brands that focus on different aspects. One of its brands is MINI HEYTEA which is also a fighter brand of HEYTEA. Compared to HEYTEA which is required to make the best tea drink with the highest standards, MINI HEYTEA is committed to

providing the most appropriate products as affordable as possible on the qualified standard. Also, its price range fell to 12-16 yuan from 25-35 yuan of HEYTEA. The emergence of MINI HEYTEA means that HEYTEA entered the retail market as well and appeared in convenience stores and supermarkets. According to the annual report of MINI TEA, in the first year since its opening, it has sold more than 2.8 million drinks and the average daily sales of all stores have exceeded 2,000 cups. That is to say, MINI HEYTEA has been a great success as a subsidiary brand of HEYTEA. And another subsidiary brand is HEYTEA Bakery and this brand also symbolized the entry of HEYTEA into the baking market. HEYTEA developed a completely new model of eating bread and drinking tea together to compete with its biggest competitor NAYUKI [6]. Therefore, HEYTEA has successfully expanded its market as well as its target customers and improved its competitiveness because it has a different price range of products and similar modes to its competitor.

HEYTEA BAKERY



MINI HEYTEA



Figure 1. Heytea Bakery and Mini Heytea
(<https://baijiahao.baidu.com/s?id=1703439129527497028&wfr=spider&for=pc>)

4.2 The Biggest Competitor: NAYUKI

NAYUKI, a well-known Chinese tea brand, focuses on the combination of tea and bakery. And young women aged 20-35 are their main customer group. On 6 June 2021, 5 Brand Dissection of HEYTEA NAYUKI has been listed on the Hong Kong stock exchange which became the world's first listed milk tea chain. Both HEYTEA and NAYUKI have a lot in common such as positioning in the middle and high-end market [7], the average price of their main products is about 30 yuan, and they both specialize in the first and second-tier cities. However, HEYTEA is more focused on the development and innovation of the product itself, and NAYUKI's main mode is developing derivative products and opening franchise stores. And NAYUKI's brand positioning is "A good cup of tea, a mouthful of the bakery." Further, HEYTEA's decoration style of stores is minimalism, but NAYUKI's design style is bright, warm, and relaxing. According to the earnings report, NAYUKI maintains the synchronous and rapid growth of scale and performance since 2021. As of June 30, 2021, NAYUKI had 578 tea stores, with 93 new stores opening in the first half of the year. It adheres to the layout of opening stores in first-tier cities. In the first half of 2021, the number of newly opened stores in the first-tier and new first-tier cities accounted for 65.6% of the total number of newly opened stores, effectively driving the continuous growth of the re-purchase rate by improving the consumption convenience of its customers [8]. Nevertheless, NAYUKI's earnings report shows that NAYUKI's store performance exceeded expectations that the store operating profit is 385 million yuan this year and 64.5 million yuan in the same period last year, which is an enormous increase of 497.2%.

4.3 Marketing Strategies

Co-branding is one of HEYTEA's marketing strategies that helps HEYTEA increase its brand awareness and became a hot topic on the internet. Figure 2 shows some of its co-branding partners.



Figure 2. HEYTEA Co-branding

HEYTEA has a good command of crossover cooperation with a variety of brands in many different industries to launch co-branded products. On the whole, HEYTEA's co-branding has penetrated a variety of life scenes and the audience of these brands is also highly consistent with HEYTEA. The first advantage of co-branding is that a scarcity atmosphere can be created: Co-branded products are generally sold in limited quantities, so using "hunger marketing" to create a situation that demand exceeds supply can increase consumers' desire to buy. The advantage of hunger marketing is to bring more topicality and a large number of sales, but it will not lead to a period of depressed sales after the event like sales promotions. And the second advantage is that HEYTEA can reemphasize brand values: One of the reasons for launching co-branded products in recent years is to use international brands to promote itself and many international FMCG brands who are also willing to use "co-branded marketing" and hope to find products that are compatible with their own brand concepts. Therefore, HEYTEA can rejuvenate the brand and even gradually make the brand into a "trendy" one [5].

Also, HEYTEA has a good way of marketing on social media. Some popular food bloggers posted their experiences and feelings of consumption and tastes of HEYTEA products on social platforms. Bloggers would take selfies in the store, post about themselves, and show that they are very interested in HEYTEA's products and like their distinctive tastes and styles. By selling goods in the form of publicity and recommendation, the brand HEYTEA is becoming more and more popular. Food bloggers make comprehensive evaluations by purchasing various types of drinks and recommend the drinks which they like. This strategy makes HEYTEA a unique and eye-catching web celebrity brand and leads to an increasing number of consumers who are willing to buy its products.

4.4 Brand Positioning and Culture

HEYTEA, the pioneer of new tea drinks, is headquartered in Shenzhen, Guangdong, China. 2012 HEYTEA originated in a small alley called Jiangbianli in Jiangmen, Guangdong Province, and started a new era of tea drinking with an original cup of cheese tea. With the white-collar class and young forces as the mainstream consumer group, HEYTEA is dedicated to creating a new beverage form, integrating traditional milk tea and healthy tea culture. For most young people, tea is the drink of their parent's generation, plus the taste of the tea itself is somewhat bitter, and the tea ceremony gives people a complex impression. Now young people oppositely advocate fashion, love life. Although HEYTEA also has the word "tea" in it, it is easy to see from the positioning that HEYTEA is a fusion of milk tea and traditional tea culture, starting with the milk tea that young people like and thus transforming the image of tea in people's minds. HEYTEA's brand positioning is "cool." And cool is very abstract, so they embodied "cool" as "inspiration" and "Zen." "Inspiration" is originated from

the function of tea since ancient times because many poets and authors use tea and wine to spark inspiration. At the same time, this is what HEYTEA has always insisted on since its establishment - doing things based on inspiration [6]. And that is why HEYTEA is considered as "Inspiration of Tea." Their slogan, store design, unique way of publicity, and continuous innovation in the formulation embody their idea "inspiration" all the time. Further, HEYTEA conveys that drinking tea can also be cool and is committed to making drinking tea a trend and lifestyle, making tea culture "young". From product experience, packaging design to store style, and marketing activities, HEYTEA makes consumers feel cool, which fits its main audience - young consumer groups [6].

4.5 Creative Expression Audit

HEYTEA also has a unique aspect in creative expression and design. The design of HEYTEA often adopts a simple style, comfortable color, and its painting style presents simple and refreshing, rich in childlike strokes. From the tea samples displayed by HEYTEA, people can feel the most simple and comfortable life. HEYTEA executes its brand positioning through many touchpoints and expresses it to its customers. For example, the logo of HEYTEA is a profiled face: a person holds a cup of HEYTEA, and when the drink is about to be delivered to his mouth, he closes his eyes and looks enjoyable. The idea comes from the figures on the currency which consistently show people profiled faces. Its logo is straightforward, but it makes others think it is cool. Further, its store design also executes its positioning as "cool" [7]. Each store has been given a new concept with its personality. No two stores are the same. HEYTEA always believes that designing every store is a process of inspiration and interpretation. For instance, the design team integrated the terraces into the store's design to express the concept of Zen. They incorporate Zen, minimalism, aesthetics, and other elements into the store design to make tea drinking even cooler. At the same time, it can also attract more customers and increase their sense of experience. HEYTEA's brand positioning is also reflected in its advertisement.

The posters designed by HEYTEA for various products have their unique characteristics. And it will design for a whole series of products with a special and matched style including the colors, fonts, and slogan. Now there are nearly 400 HEYTEA shops all over China, which can be said to be "thousands of shops and thousands of faces". While focusing on the research and development of tea drinks, HEYTEA has also made the store design extremely localized and full of scientific and technological sense. For example, HEYTEA shop in Xiamen incorporates elements of local culture, adding local culture to HEYTEA; HEYTEA in Hangzhou is inspired by the "tea garden", cleverly using green plants, wood, ceramics, tiles, glass, and fabric to create an indoor tea garden. The whole spiral staircase of Zhengzhou International Trade 360 Square store looks like a cup of enlarged tea, giving consumers the wonderful experience of "soaking in tea", which has also become a vital memory point. Moreover, on HEYTEA's official app, an enthusiastic illustrator drew a comic book about HEYTEA that humorously introduced HEYTEA's information of stores and products [7].

4.6 Target Consumers

According to the founder of HEYTEA, the target customers of HEYTEA are young white-collar workers because the price of a single cup of HEYTEA is not very low, so it is not suitable for students to drink. This is also the reason why HEYTEA did not open a school store. The brand concept of HEYTEA is very novel, and the central idea is "Inspiration of tea". To a certain extent, its target customers must have a relatively high acceptance of new things and a certain consumption capacity. Workers aged 20-35 are entirely in line with their thoughts on the target customers of HEYTEA. Therefore, when choosing a location, the store of HEYTEA will decide to be next to the office building so that when white-collar workers take a break or pass by the HEYTEA store to get off work, the purchase of HEYTEA will increase [8]. Furthermore, HEYTEA has a very high output of product culture. There will be a lot of tea samples in the store, which directly tells consumers that HEYTEA's products are directly related to tea. As young people's acceptance of the "national tide" is getting higher and higher, and they are more and more appreciative of the traditional national culture, this

move of HEYTEA is to tell consumers that there is genuinely healthy tea in my products. For people who go to work every day, delicious "tea" is their best choice. Since the products of HEYTEA and the design of the store are very beautiful, even if HEYTEA is not officially marketing, there will be a large number of bloggers posting selfies with HEYTEA and photos in the HEYTEA store on social media. When people browse social platforms such as "RED" and "Weibo", they will naturally urge to buy HEYTEA, especially women. When HEYTEA became popular at the beginning, a large number of women would publish the HEYTEA they drank and the photos they took. Therefore, HEYTEA stores once became a popular "net celebrity photo spot" [9].

5. Solutions

After our group has an analysis of HEYTEA, we have several suggestions for HEYTEA to help expand its market and brand awareness. As the competition in the tea market is too fierce. When HEYTEA launches new products, other tea brands will quickly launch similar products at lower prices. This may be the greatest difficulty that HEYTEA currently encounters. In our opinion, the best solution is to apply for patents for each tea drink and exclusive formula, to effectively expand the market of HEYTEA. Once HEYTEA's formula is patented, other plagiarized brands will be suspected of infringing intellectual property [10]. Also, HEYTEA can launch a monopolistic product such as "cheese tea" because the market for milk tea is huge now, people generally regard it as a very profitable product, so they flood the market crazily. Moreover, there are not many milk tea brands with superior and independent innovation capabilities, so when HEYTEA launches a product, there will be a large number of milk tea brands imitating, plagiarizing, and attracting consumers with lower prices. Then, consumers will naturally choose other cheaper brands instead of HEYTEA. However, HEYTEA is one of the minorities of Chinese tea brands which has modern technology and enough financial support to innovate brand-new products. Thus, trying to be a pathfinder of a particular kind of drinks can effectively expand the market and attract loyal consumers [11].

Second, HEYTEA should emphasize brand positioning and characteristics through different touchpoints. Our team hopes that HEYTEA can continue maintaining its unique design style and concept because it can make a perfect brand positioning. The simple decoration style of HEYTEA reflects that HEYTEA is very advanced and can attract customers very effectively. At the same time, HEYTEA was very active on social media initially. Still, as the popularity of HEYTEA decreases and it can no longer bring customers a sense of freshness, we think this is a grim situation for HEYTEA. Hence, in our opinion, while HEYTEA is constantly launching new products, promotion and marketing on social media play a vital role in deciding the sales [12].

The third point is that we believe that HEYTEA needs to keep developing the online app "HEYTEA GO" because this can improve the sales efficiency of the store, and then reduce the time customers spend waiting for the tea to be made. As queuing will bring a horrible experience to customers, this online program allows customers to place an order on their mobile phones early. Then, after the tea is made, there will be a reminder on the mobile phone to tell customers that they can come to pick up the tea. This will not delay the time for customers to have fun, but also enable customers to drink beverages, to improve consumers' impression of the brand and increase the repurchase rate. HEYTEA also provides consumers with more healthy sugar options, in terms of sweetness, and became the first brand in the tea industry to use sugar with zero calories. This helps HEYTEA expand its market to people who pay much attention to keeping fit.

6. Conclusion

Through our understanding and investigation of the brand of HEYTEA, we found that there are several qualities that are the strengths of the brand of HEYTEA. The tastes of HEYTEA's products are very good as well as their quality is maintained at a high level, which indicates that HEYTEA insists on using the freshest ingredients, and it is one of the few tea brands with top product research

and development capabilities as well as the precision in positioning the target customers. These are the main reasons why HEYTEA can become a top tea brand in China and why its products are so salable. However, we have also discovered a most serious problem HEYTEA is facing and tried to figure out the best solution for HEYTEA to succeed in the fierce competition. In our opinion, the most recommended solution is to apply for a patent for HEYTEA's formulas for each unique drink. The positive effect that the solution brings is that it effectively avoids plagiarism from other tea brands and unfair competition. However, because there are too many brands of different sizes in the tea industry, even if some of them constitute infringement, it is difficult for HEYTEA to sue them one by one to safeguard their rights and interests.

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