

# The Analysis HEYTEA's Marketing Strategy Based on Brand Reorientation

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**Abstract:** Founded in 2012, HEYTEA is now the leader in China's New-style Tea drinking. However, with more and more competitors entering the market, the advantages that HEYTEA used to have no longer unique. Moreover, offline slump caused by the epidemic has also created many new problems for HEYTEA. In this research, we will use methods such as literature analysis and case studies to analyze the reorientation strategy of HEYTEA in the post-epidemic era. The analysis will include the current situation, consumer analysis, and strategy analysis, and then making recommendations in an attempt to shed light on the future development of HEYTEA and the industry as a whole.

## 1. Introduction

### 1.1 Research background

As an emerging beverage market, new-style Tea drinks are expanding their market size and attracting attention. According to the New-style Tea drinks industry special report, 2020 China's New-style Tea drinks market reached a size of 113.6 billion yuan, with a compound growth rate of 22% over the past 5 years [1]. However, current per capita annual consumption of New-style Tea drinks in China is only about 6-7 cups, far lower than Hong Kong, the United States and other markets, which means it has a broad development space [1].

According to the statistics from Euro monitor, in 2019, HEYTEA held 9.7% of the market share in the New-style Tea market, which ranked first among similar competing products [2]. In addition, in the 2020 China Top 10 Tea Drinking Brands list, HEYTEA ranked first [3]; in the 2020 Hurun Global Unicorn List, HEYTEA ranked 169th with a value of about \$2.16 billion [4].

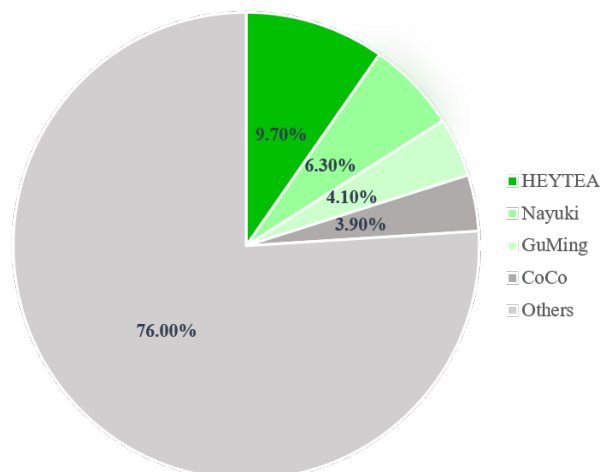


Fig 1. Overall market share of major tea beverage brand industries in 2019.

According to the financial report from HEYTEA, HEYTEA's total sales in 2018 was 2542.8 million yuan, and in 2019 it was 5850 million yuan, more than double, reflecting an extremely strong upward trend[5]. In 2020, the epidemic brought challenges to HEYTEA, the increase of HEYTEA's sales was lower, with a total of 6644 million yuan [5].

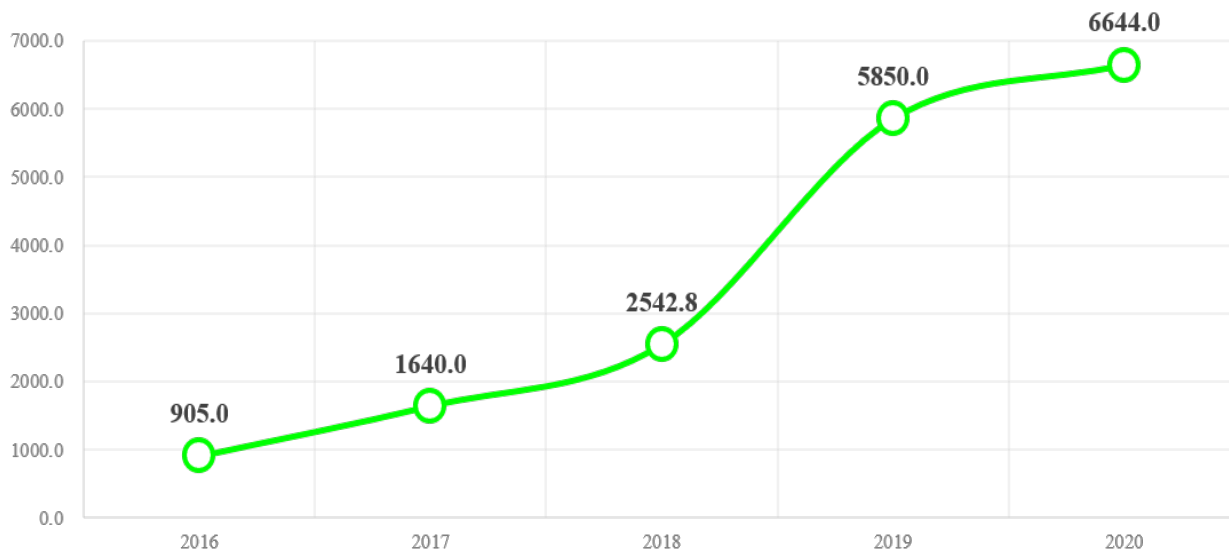


Fig 2. HEYTEA total sales 2016-2020 (million RMB).

HEYTEA, which had shown a great upward trend in a short period, is currently facing fierce competition in the post-epidemic era of New-Style tea. This research will analyze HEYTEA's marketing strategy based on the brand orientation.

## 2. Method

### 2.1 Literature analysis method

This research will use the methodology of literature analysis to provide macro-level data support and an overall overview of the industry development, which is expected to provide a more detailed and accurate narrative background and future development forecast for the HEYTEA. In this essay, almost all the data mainly come from relative industries reports, official websites and specialized journals.

### 2.2 Case study

This research will adopt the methodology of a case study to explore the brand strategy of HEYTEA based on the reorientation in the post-epidemic era. To be precise, this essay would use 4P's analysis method to explore this issue from the perspective of product marketing strategy, price marketing strategy, place marketing strategy and promotion marketing strategy, and each section will be analyzed with specific cases that are the HEYTEA's marketing activities after the epidemic happened in 2020.

## 3. Results

### 3.1 New-Style Tea Market Development Status

According to the statistics from Sullivan, before the epidemic, the market was steadily increasing in size and was expected to reach a massive RMB 38.4 billion by 2025[6].

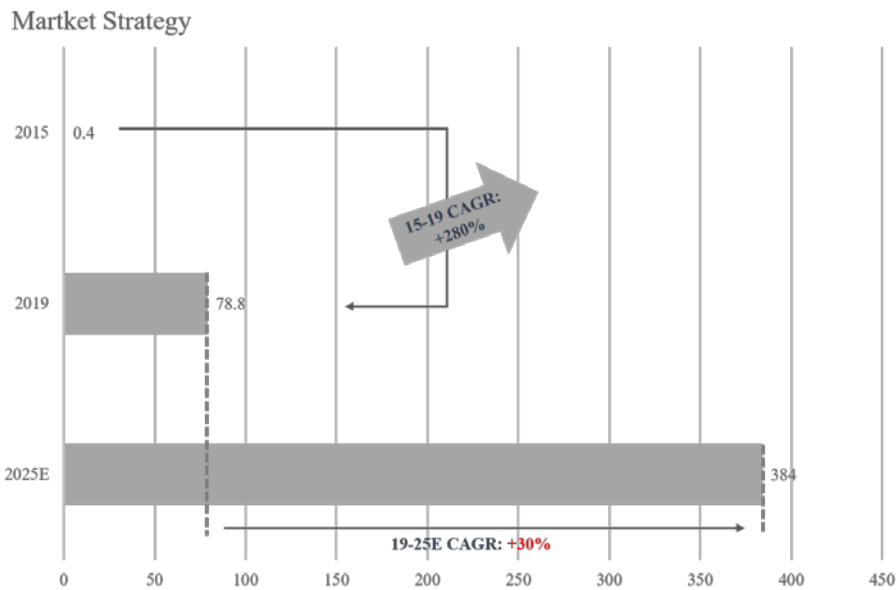


Fig 3. Market Strategy of New-Style Tea (10 billion RMB).

However, the epidemic brought several challenges and trends for the New-Style Tea industry as follows:

- (1) During the epidemic, the flow of customers to offline stores plummeted, posing a huge challenge to the profitability of stores in large commercial areas.
- (2) The resilience of small-sized tea beverage stores mainly engaged in take-out orders during the epidemic was significantly higher than that of large tea beverage stores in the shopping district.
- (3) The importance of online digital operation (app, website order, etc.) is becoming more prominent.
- (4) The development of brand IP products (brand peripherals, packaged tea drinks, etc.) and online retail layout can help strengthen the brand culture and, to a certain extent, offset the negative impact of the decline in dine-in customer flow in the context of the epidemic.

On the other hand, according to Sullivan's forecast, China's restaurant industry is expected to recover to full pre-epidemic levels in Q4, as month-on-month revenue turns positive from October 2020 pre-epidemic levels[6]. This also brings a favorable turn for the future development of the New-Style Tea industry.

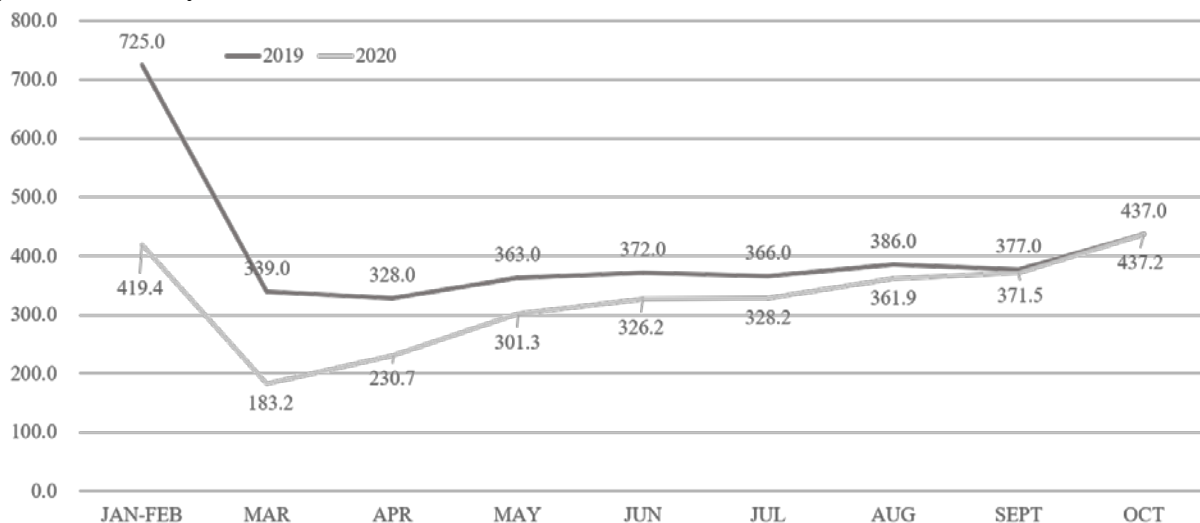


Fig 4. The restaurant industry recovering from the epidemic: Monthly data on China's restaurant business revenue [6].

## 3.2 Consumer analysis

### 3.2.1 Analysis of the behavioral characteristics of consumers in the New-Style Tea Industry

According to the data from the 2020 China New-Style Tea Industry Development White Paper, currently, young people and females are mainstream consumers of the new-style tea Industry, among them, post-90s account for over 50% of new-style tea consumers, together with the post-00s, the total share of young consumers is close to 70%. What's more, the proportion of female consumers and male consumers is nearly 7:3. Thus, it shows that female consumers are more prefer purchasing the new-style tea beverage. In addition, most of them are well-educated, white-collar workers, and students contribute over 70% of the total, with more than 80% of consumers earning over 5000¥ per month[6].

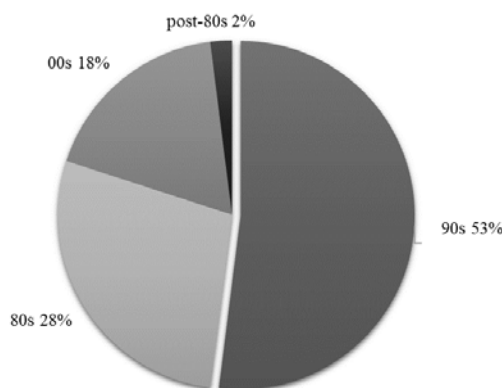


Fig 5. Age distribution of New-Style Tea consumer.

The frequency of new-style tea beverage consumption is high as well. According to the data, over 53% of consumers would purchase this kind of drink once a month at least. Besides, the price point for new-style tea beverages is primarily in the range of 16¥ to 35¥ [6], although the price is constantly increasing, the annual cost spent on the new-style tea beverage consumption shows an upward trend.

From the perspective of consumption scenarios, afternoon tea, shopping and happy encounters are the three main scenarios for new-style tea beverage consumption. Although in-store consumption is still dominant, consumers have gradually become accustomed to online. Although in-store consumption is still dominant, new tea drink consumers have gradually become accustomed to the pattern of online order-to-pick-up.

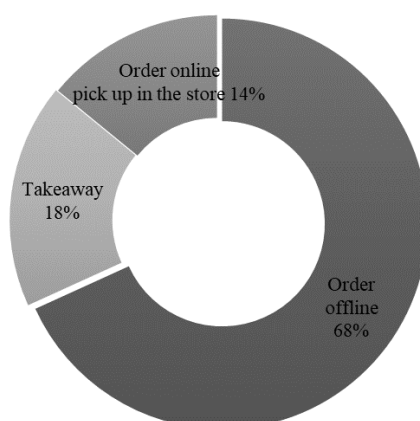


Fig 6. New-style tea beverage's the consumption approach.

From the perspective of consumer preference, taste, safety and quality, and brand choice, are the three main elements that consumers are most concerned about, of which taste is still the most important element to consumers. What's more, young consumers are more likely to be sharing consumers, with nearly 60% of the post-90s saying that they consume more new tea beverages to share with others. In terms of the main channels, social media such as Wechat and short videos like Tiktok have become the core channels for information acquisition, with the proportion of both exceeding 60% [6].

New-style tea brands dominate consumers' minds and open up a gap with other brands, with the popularity advantage of HEYTEA among new-style tea brands being very obvious (accounting for over 41.5% of the domestic market) [6].

### 3.2.2 Analysis of the behavioral characteristics of HEYTEA's consumers

Generation Z is the consumer mainstay of HEYTEA who has a certain requirement for life's quality, convenience and value of products. Besides having a high level of acceptance of new things and strong social needs are their unique characteristics. Female White-collar workers and female college students who lived in first-tier and second-tier cities are core users who have consumption abilities and personal incomes. Young consumers are sharing-oriented consumers who have a willingness to spontaneously promote the brand. Social media and short video platforms have become the most important channels for information acquisition and dissemination.

Having a cup of HEYTEA at afternoon tea time is the more usual choice of people to keep themselves inspired and taking time out of their busy schedule. The average peak time for orders throughout the day is 14:00-16:00, with the most ordered products being succulent grapes during this time [5]. Besides, the post-epidemic mentality of just-in-time consumption spurs compensatory consumption scenarios. In this context, consumers often feel a sense of relief that they have survived and will pay more to satisfy their psychological needs. As one of the products representing taste bud satisfaction, quality of life, and spiritual pleasure, drinks of HEYTEA can stimulate the consumer psychology of having fun in time and seeking emotional pleasure.

The epidemic reinforces the online consumption habits of customers. Considering to reduce the exposure, customers prefer to order online with contactless distribution, which has been a trend. According to the data of HEYTEA Annual Report 2020, nearly 81% of total customers chose to order the drinks of HEYTEA online, and 75.2% of them would pick up in offline store instead of delivery [5]. What's more, customers are interested in the activities on the mini-app such as the promotion of new product and the discount. With the "HEYTEA GO "app as the vehicle, HEYTEA has gathered a large user base. As of 31 December 2020, the app had over 35 million members, with 13 million members added throughout the year [5].

There is a significant increase in healthier preferences such as less sugar and zero-calorie sugar in the post-epidemic era. In 2018, HEYTEA was the first in the new tea industry to use zerocalorie sugar, and In 2020, the percentage of zero-calorie orders will reach 6.3%, an increase of 2.2 pct year-on-year compared to the data in 2018[5]. As the trend towards healthier consumers continues to grow, HEYTEA is also iterating on its products to improve consumer satisfaction.

### 3.3 Existing problems and analysis of causes

HEYTEA is currently facing fierce competition in the post-epidemic era of New-Style tea, thus urgently needing brand repositioning and a new marketing strategy.

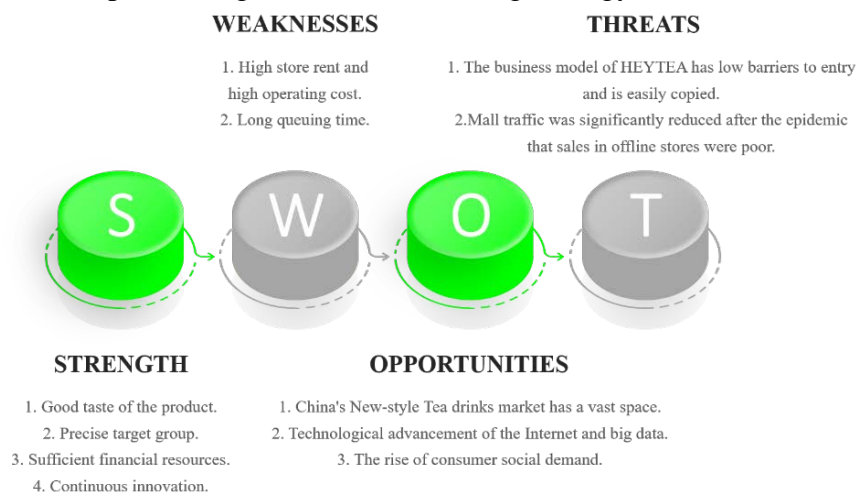


Fig 7. SWOT analysis.

### **3.3.1 Internal strengths**

HEYTEA has always maintained the quality of its products and positioned itself precisely in the young market. According to the data of the Western Securities Research and Development Center, HEYTEA has received several rounds of financing [7]. The latest round of financing for HEYTEA is led by high tide capital, the valuation of which may be as high as 16 billion yuan.

### **3.3.2 Internal weaknesses**

95% of HEYTEA's stores are concentrated in high-tier cities, and its stores are mostly in the core business districts of large cities with high rents [5]. At the same time, the number of employees in HEYTEA stores is not enough, and the long queuing time will lead to the high purchase cost of customers.

### **3.3.3 External opportunities**

According to the New-style Tea drinks industry special report, 2020 China's New-style Tea drinks market reached a size of 113.6 billion yuan, with a compound growth rate of 22% over the past 5 years [1]. The current per capita annual consumption of New-style Tea drinks in China is only about 6-7 cups, far lower than Hong Kong, the United States, and other markets, which means it has a broad development space.

Technological advances have also contributed to the development of HEYTEA. The epidemic has further consolidated consumers' online consumption habits, with about 81% of consumers choosing to place orders online [5]. According to the HEYTEA 2020 annual report, there are more than 35 million members in its app currently [5]. In addition, the New-style Tea drinks have strong social attributes, HEYTEA has become a social currency for urban youth.

### **3.3.4 External threats**

Tea stores attract new entrants to this industry due to their uncomplicated production techniques, quick entry, and large profit margins. At the same time, according to the report of the new consumption theme of the tea series, the brand loyalty of young consumers is low, and the majority of young people have consumed in more than one New-Style Tea drinks brand [8]. On the other hand, after the post-epidemic era, the traffic in shopping malls has significantly decreased, and the offline queuing hunger marketing that was once famous for HEYTEA has lost its effect. Offline store sales have tended to plateau.

## **4. Discussion**

### **4.1 HEYTEA's marketing strategy based on the brand reorientation**

With the upgrading of consumption and the outbreak of a large-scale epidemic at the end of 2019, HEYTEA adjusted its marketing strategy based on the reorientation of the beverage market. The following will adopt the 4P analysis method to explore the transformation of HEYTEA.

#### **4.1.1 Product marketing strategies analysis**

Selection of pure natural fresh raw materials and advanced technology for deployment. After the epidemic, the brand finds that consumers are more pay attention to health. Therefore, the research and development of new products adopt healthy ingredients so that customers can get the ultimate taste buds experience while keeping in good health. In addition, it has carried out business format innovation, online channel extension and launched retail products, such as tea and peripheral products. And during the epidemic period, the service of self-service pickup or home delivery has been launched. HEYTEA's online retail satisfies consumers' consumption needs in different scenarios and brings different shopping experiences [9].

#### **4.1.2 Price marketing strategies analysis**

The price range of HEYTEA is about 16-36 yuan, with an average price of 29.47 yuan. Compared with ordinary milk tea, its price is relatively high, but it is within the acceptable range of the public compared with high-end coffee. Therefore, under the general environment of a brand price increase during the epidemic period, the small price increase of Some Products of HEYTEA did not arouse consumers' aversion. In 2020, the company launched a sub-brand whose product price is the same as that of ordinary bottled drinks, positioning itself in the middle market and using its brand influence to further expand into the sinking market. At the same time, to stimulate consumption, HEYTEA has increased product discounts and launched group meal delivery to increase sales to get rid of the plight of the epidemic market [10].

#### **4.1.3 Place marketing strategies analysis**

HEYTEA layout of the supply chain, support brand scale. To build competitive barriers in the supply chain, HEYTEA mainly took two measures: to cooperate with high-quality upstream manufacturers to collect customer preference data and realize reverse customization of tea varieties and tea-making processes; the other is to integrate upstream downstream with the help of digital tools. In April 2017, HEYTEA officially launched the digital layout of its supply chain and launched the ERP system, realizing the digital management of store inventory, rational procurement, timely replenishment, minimizing the inventory pressure and improving the efficiency of the logistics supply chain. HEYTEA also uses digital tools to accurately extract user feedback data and promote product iteration. So far, HEYTEA has truly completed the comprehensive layout from short supply to product end, which has played a strong supporting role in the large-scale development of the brand [11].

#### **4.1.4 Promotion marketing strategies analysis**

HEYTEA expanded its sales channels in the digital era by developing "HEYTEA Go", a small program and developing brand-related products to enter the small flagship store. Social media promotions and endorsements can also help brands attract customers. For example, HEYTEA invites Internet celebrities to promote the event with the help of the most popular short video videos and live streaming. And with the help of Maipo, Wechat, Redbook and other social platforms, they expand their own customer groups and fan circles. The interaction between social media and fans maintains the fan groups and grasps the changing new needs of fans and becomes one of the biggest winners in the new media era. HEYTEA also put a lot of advertorials to promote the brand and embedded high-quality plug-in links so that consumers can not consciously understand the brand, which brings HEYTEA a lot of customer groups and popularity. And HEYTEA is good at using festival effects and driving effects to achieve cross-border marketing through joint brand names. Not only in drinks but also with food, entertainment, washing and other brands to launch joint products. Such as, dove jointly launched the "Zhizhi Peach Bubble Bath", and QQ Music jointly produced various peripheral products. HEYTEA also cooperated with DIGIWAY, a Chinese painter in the fashion circle. It is good at exploring brands and partners consistent with the brand concept. I prefer to use all trendy and cool elements. These novel cross-border joint names attract many young people, play a very good brand linkage effect, and upgrade the consumer experience [9].

### **4.2 Recommendation**

New consumption habits and trends are emerging in the new consumption market, and clearing the supply side by the 2020 epidemic has brought heavy blows and new challenges. In this context, it is worth discussing how HEYTEA can continue to be innovative and iterate and maintain the brand's healthy development. There are several recommendations for fueling the HEYTEA's development:

#### **4.2.1 Insight into changes of the consumer market and effective brand awareness building**

Due to economic pressure, users are currently more concerned about the actual value of goods and services, and brand premiums are gradually declining. It can be seen that a low gross profit trend has been formed in the consumer market. Therefore, the frequency of brand promotions should be

increased appropriately. Based on this trend, creating a strong value point of goods perceived by users is one of the important elements of brand building to leverage [12].

Private desire traffic is an important digital asset for the brand that can reach consumers quickly. As a result, HEYTEA needs to improve the brand building for both core and mass users and conduct refined and tiered operations to better retain users and consistently repurchase. In addition, e-commerce is an important digital operation for a brand, which fully bonds users and the consumption of supply and demand. Based on the online ecology of e-commerce, the brand's e-commerce model should be built around user experience. What's more, how to improve pricing, packaging, delivery forms, and experience scenarios is an important direction for breaking the game.

#### **4.2.2 Creating a brand matrix and expanding the boundaries of innovative retailing**

In the long term, creating a diversified brand matrix is the focal point to promote HEYTEA rapid development, especially in the post-epidemic era. By setting up sub-brands, HEYTEA can develop new products across borders while vigorously developing its retail business, exploring new profit growth points outside the original industry boundaries. It is significant to expand and explore the sinking market as well. For example, sub-brands such as HEYTEA & HOT WHEAT, mini HEYTEA, and snacks developed around the head brand are all helping to develop the HEYTEA sinking market and expand its service radius. However, it should be noted that sub-brands need to form a misalignment of product prices and positioning with the main brand.

### **5. Conclusion**

#### **5.1 Summary key findings**

After the above analysis, we can summarize the following findings and recommendations.

HEYTEA can consider improving the brand building, building a complete e-commerce service, refining the operation. As HEYTEA's current target group has a high consumption level, it can consider using sub-brands to further expand the sinking market, launch sub-products to expand the service radius, and launch discount activities to attract new users at the right time. Moreover, the current young people are more inclined to become sharing consumers. Therefore, social media has become the main way to promote HEYTEA. HEYTEA can use the current popular social methods such as short videos and interactive behavior to expand cooperation and attract young people. In addition, HEYTEA's customers are very concerned about the drinking experience and health, and HEYTEA should continue to maintain a healthy selection of ingredients, offer products, and use information disclosure as an invisible promotion.

#### **5.2 Research significance**

This research analyzes the current situation and repositioning strategy of HEYTEA from several aspects, which is an important reference for HEYTEA's own future development and can help HEYTEA to actually implement its strategy and consolidate its dominant position. At the same time, the article's analysis and predictions for the new tea industry are also of general value to the entire industry players, helping them to better understand their customers and future trends and create higher business value.

#### **5.3 Limitations**

However, some limitations should be noted. First of all, our data acquisition channels for the analysis of consumer behavior characteristics are too single. We mainly search the official website and database of the brand and lack field research. Therefore, there are insufficient samples, and there may be some deviations in the real consumer behavior. Secondly, due to the recent arrival of the epidemic era and the lack of relevant literature, this paper has repeatedly referred to the marketing strategies of HEYTEA before and after the epidemic and the changes in the overall marketing methods of the catering industry in the post-epidemic era. So the case study is not comprehensive enough. Finally, for the recommendations on brand development, we refer to the current development trend of the overall



catering industry and relevant literature without in-depth study. There may be some loopholes, so the audience should reference it according to the real situation.

Based on the above limitations. First, in the future, more on-the-spot data can be obtained through online and offline interviews and questionnaire surveys to broaden access channels and make consumer research data more comprehensive and accurate. Second, we will pay real-time attention to brand dynamics and update relevant cases to fill the research gaps in the future. Third, we will investigate the offline stores of the brand, study the difficulties and opportunities faced by the development of HEYTEA in different regions, and give specific recommendations based on the actual situation. At the same time, we will refer to the suggestions of brand managers and fans and make an integration.

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