

## Opportunities and Challenges for the Development of New-style Milk Tea Drinking Industry in China-Take Sexy Tea as an Example

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**Abstract:** This study aims to introduce the increasing popularity of new-style tea drinking industry in recent years. The main purpose is to evaluate the status of milk tea industry, analyze the potential opportunities and uncertainties for milk tea companies. By focusing on both past development as well as its customer preferences and current situation, evidence shows that impact of social media will provide opportunities for marketing activity in milk tea industry, however, there are also some potential threats in present society. In addition, taking the Sexy Tea as a case, this study illustrates the development of new-style milk tea drinking industry in China, which are beneficial to understand the unique features as well as the dilemma of this industry in the current market.

### 1. Introduction

Although the milk tea industry was developed late in Chinese market, it shows dramatic social attention and preferences from early in 2017, after which its trend has risen exponentially [1]. During past few decades, Chinese milk tea has gone through several stages, from powdered powder, canned, jam, to hand-made, and advance the way of milk tea production, forming tea and milk a combined new tea brand. Moreover, the whole scale of Chinese new tea drink market has exceeded a hundred-billion-yuan mark, becoming the third largest tea consumption mode after traditional cups of hot drinks and industrialized bottled ready-to-drink tea [2]. In recent years, with the improvement of consumption level and the upgrading of consumption concepts, as well as the pursuit of health, fashion, trendy, individuality, and revival of traditional tea culture, new tea drinking is characterized by their fun, fashion sense, and participation, experience sense, healthy and convenient, taste. Therefore, it becomes important to understand the development of changing tea drinking industry and main characteristics, which could further lead to milk tea consumption and innovation.

Compared with traditional tea drinking, the new tea has been upgraded in all aspects such as raw material control, supply chain management, production process, store operation, marketing promotion and brand building [3]. Besides, with the help of capital power, the Internet and new media tools, modern business management ideas are refined by explosive thinking as well as communication principle and internet thinking.

The purpose of this paper is to firstly, construct a theoretical model of whole concept of new tea industry, which illustrates details of main characteristics, evaluation and development of new tea. Secondly, it will introduce current situation and offline stores distribution as well as top brands of milk tea industry in China, which would in turn gives us a clearer positioning in this industry. Besides, the average disposable income and preference styles are also provided in this paper later. Thirdly, opportunities such as interacting with social media in the market and using brand loyalty would be considered to utilize as a tool to retain customers. However, many products are similar and easy to be imitate, and challenge caused by COVID-19 may be potential threats to the companies. Lastly, through continuous comparison and evaluation of other brands, the Sexy Tea analysis will be showed in the following paper as an example of new tea company in the industry.

Overall, this paper will present a preview of different studies on new tea industry and highlight the opportunities as well as challenges they might encounter based on existing references. In addition, this study also collects the relevant researches to analyze sexy tea case and company behaviors.

## 2. literature review

### 2.1 Definition and Main Features of New Tea Drinking

Generally, new tea drinking can be described as a tea beverage extracted and blended in front of customers. It is mainly made of high-quality tea and its products, supplemented by fresh milk or milk products (condensed milk, cheese etc.), fruit or juice, sugar, spicy flavor, grains, herbs, and beans [2]. According to the survey performed by Yin [2], the customer group of new tea drinking industry is mainly the young who are post 90s or post 00s and main types of tea can be divided into five groups, which are Milk Tea, Fruit Tea, Mix Tea, Tea and Matcha Tea.

### 2.2 The Development and Evolution of New Tea Drinking Industry

According to Li, the development of Chinese tea industry can be divided into three eras, which are the era of powder tea, the era of tea-based drinking and era of new tea respectively [4]. In specific, tea beverage chain industry in the mainland of China emerged from 1990s. As the development and prevalence of pearl milk tea in Taiwan, many milk tea chain stores who mainly sold pearl milk tea entered the market of the Mainland China, which started the development of tea beverage industry in Mainland China. During this phase, the milk tea is flushed by powder, neither milk nor tea are involved.

Afterwards, the industry enters into another era called the era of tea-based drinking during the period between 1990s and 2001. Many brands like Coco and Happy Lemon emerged. During this phase, ingredients in milk tea changed and upgraded a couple of time. Eventually, the tea-base, a tea ingredient made by powder of tea leaves, launched to market. What's more, real tea leaves became one of ingredients in milk tea, but the milk most people used was still powdered milk. At the same time, there was a development in terms of milk that fresh milk was added to milk tea. Furthermore, there was an innovation in the types of milk tea like tea with toppings that whiped the light cream and covered it to the top of tea to form a brand-new form and texture.

Finally, it turned to the era of new tea, which happened from 2012 till now. The beginning of new tea originated from the innovation of "cheese topping and tea base" product. It was first made by HeyTea in May 2012 and then received great compliment by customers. Afterwards, many brands followed and brought new flavor as well as making process constantly, symbolizing the zenith of new tea industry. Nowadays, the upgraded of extraction process and the quality of ingredients gives new tea industry an opportunity to become a new consumer windfall that capital is competing for.

### 2.3 Current Situation of New Tea Drinking

Research by CBNDData pointed out that in 2020, the number of Chinese new tea stores had already reached 5 million, and the scale of the market of new tea industry had already surpassed 100 billion yuan [5]. In addition, annual consumption of tea leaves had surpassed 2 million tons. Up till now, top brands in new tea industry mainly focus on the first and second-tier cities and there are still less stores in third-tier cities [2]. Figures 1 to 4 present the current situation of the tea industry.

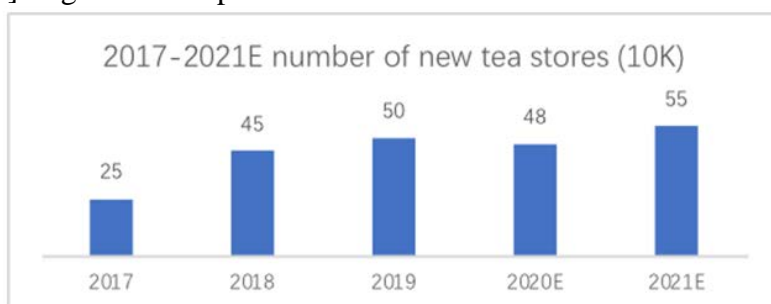


Figure 1. 2017-2021 E number of new tea stores (10k).



Figure 2. 2017-2021E scale of new tea industry (10m).

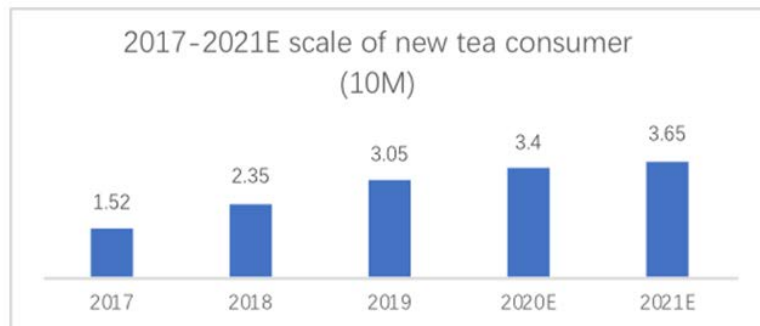


Figure 3. 2017-2021E scale of new tea customer (10m).

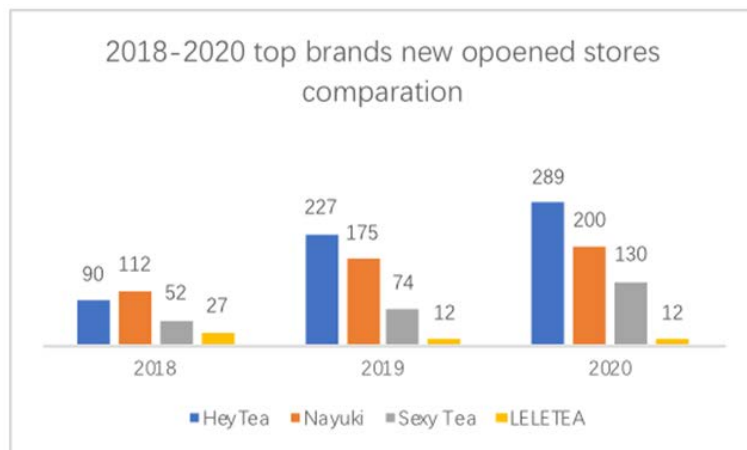


Figure 4. 2018-2020 top brands new opened stores comparison.

As indicated in Figure 4, top brands in new tea industry mainly focus on the first and second-tier cities and there are still less stores in third-tier cities.

In terms of consumption structure, post-90s and post-00s are the main consumers group of new tea, which consist of nearly 70% of all customers. And nearly 30% of post-90s and post-00s consumers spend more than 400 yuan per month on purchasing new tea [4]. Female consumers dominate in all age groups, which takes up to 60%~70%. 80% of the consumers have high loyalty of brands and they are more likely to choose top brands and high-quality products. “Safety and quality” have surpassed “flavor and texture” and become the top criterions which consumers will consider. According to statistics, 54% of consumers choose online channels to buy new tea beverages in 2020 [4]. Therefore, new tea drinking stays popular mostly in first and second-tier cities.

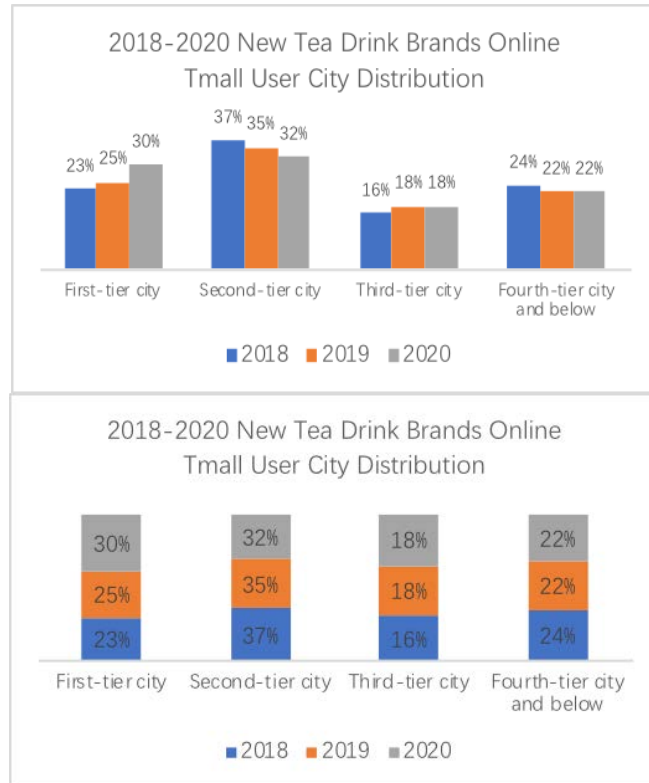


Figure 5. 2018-2020 new tea drink brands online Tmall user city distribution.

Figure 5 presents the distribution of online customers of new tea brands on Tmall user in different cities from 2018 to 2020. It shows that from 2018 to 2020, second-tier city has the largest percentage of online customers, around 36%, 35% and 32% respectively.

The findings show that more than half of the new tea consumers come from first- and second-tier cities. It indicates that most potential consumers of new tea are living in first- and second-tier cities.

Figure 6 and Table I visualize the business profile of the respondents in terms of average month income. People earned less than 5,000-yuan monthly forms the majority group of new tea customers, representing 29% of total consumers. It is followed by those earned 5,000-7,999 yuan (22%), and then 17% and 14% of income of customers earn 8,000-10,999 yuan per month and 11,000-13,000 yuan per month respectively. Lastly, disposable income of consumers who earn over 20000 yuan takes the least part of total consumers.

The above findings indicate that the common average monthly income of the milk tea business ranges from zero to seven thousand nine hundred and ninety-nine yuan (0-7,999 yuan). It suggests the fact that most potential consumers are among white-collar group. In addition, the consumers of new-style tea drinks are mostly students and young generation who have received higher education.



Figure 6. Business Profile According to Average Monthly Income.

Table I Business Profile According to Average Monthly Income.

| PROFILE VARIABLE      | RANK | %   |
|-----------------------|------|-----|
| 5,000 yuan and below  | 1    | 29% |
| 5,000 -7,999 yuan     | 2    | 22% |
| 8,000-10,999 yuan     | 3    | 17% |
| 11,000-13,999 yuan    | 4    | 14% |
| 14,000-19,999 yuan    | 5    | 10% |
| 20,000 yuan and above | 6    | 8%  |

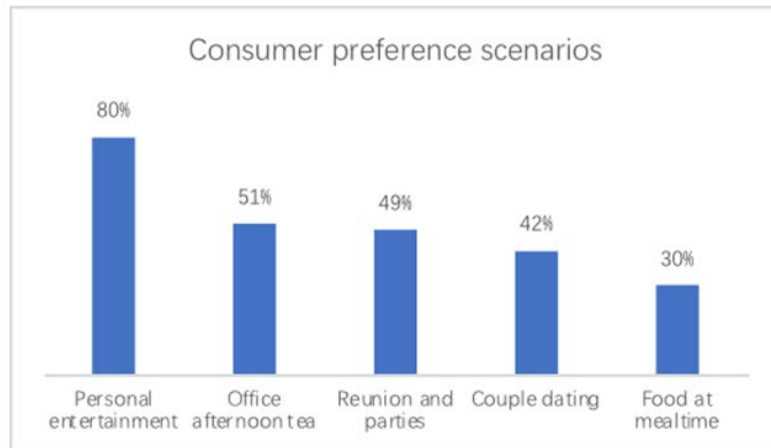


Figure 7. Consumer preference scenarios.

Table II Consumer preference scenarios.

| PROFILE VARIABLE       | RANK | %   |
|------------------------|------|-----|
| Personal entertainment | 1    | 80% |
| Office afternoon tea   | 2    | 51% |
| Reunion and parties    | 3    | 49% |
| Couple dating          | 4    | 42% |
| Food at mealtime       | 5    | 30% |

As can be seen in figure 7 and Table II above, consumer preference scenarios in terms of percentage. It shows that most consumers prefer to drink milk tea as personal entertainment. Besides, choosing milk tea as office afternoon tea compromises the next highest percentage of 51%. It is also interesting to note that 49% and 42% of customers choose milk tea as reunion and parties and couple dating respectively, this indicates the previous two ways are also popular. While only 30% customers would choose tea drinks as food during the mealtime, occupying the least percentage. Hence, consumers are more likely to choose personal entertainment that satisfy their cravings.

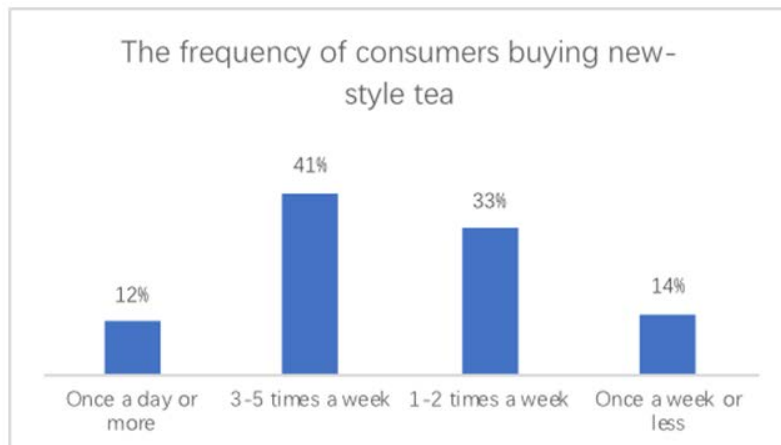


Figure 8. The frequency of consumers buying new-style tea.

Table III The frequency of consumers buying new-style tea.

| PROFILE VARIABLE    | RANK | %   |
|---------------------|------|-----|
| Once a day or more  | 4    | 12% |
| 3-5 times a week    | 1    | 41% |
| 1-2 times a week    | 2    | 33% |
| Once a week or less | 3    | 14% |

Table III and Figure 8 present the frequency of consumers purchasing new-style tea with once a day or more 12%, three to five times a week 41%, one to two times a week 33% and less than twice a week 14%.

The above findings prove that the majority of milk tea consumers would prefer to consume three to five times a week and during the interview, the respondent's milk tea trend is quite popular, and they have to follow the trend of fashion.

As indicated in figure 8, around 54% of customers choose to order online, and the reasons of consumers prefer online ordering are examined, which are presented below.

Table IV Main reasons for consumers prefer online ordering.

| PROFILE VARIABLE                                       | RANK | %   |
|--|------|-----|
| Shorten queuing time                                   | 1    | 67% |
| No contact is safer                                    | 2    | 42% |
| Location is not suitable, delivery service is required | 3    | 38% |
| Convenient for multiple people to put together orders  | 4    | 27% |

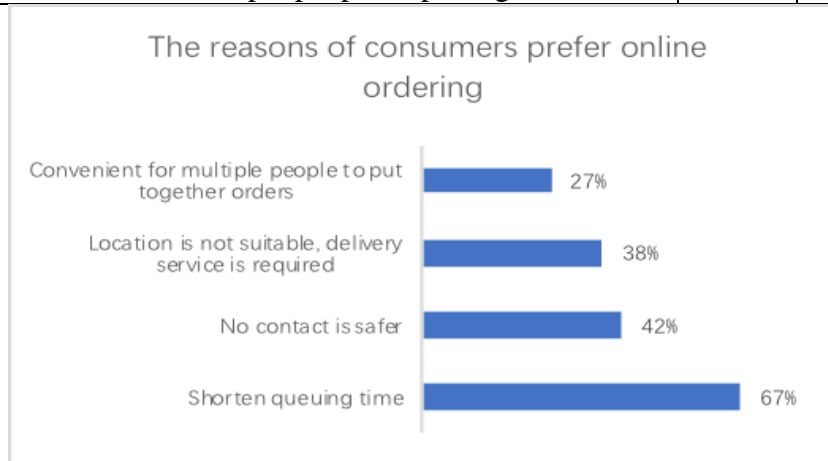


Figure 9. Main reasons for consumers prefer online ordering.

Figure 9 and table IV show the reason for consumers who prefer online ordering. The researcher finds that shorten queuing time is the major reason for customers ordering online. Besides, required delivery, none contact, and ordering together for lower cost are also factors that could influence the decision.

The finding suggests that milk tea consumers would highly consider shorten queuing time as important factor of deciding whether they need to order offline or online. Therefore, time is better satisfied by consumers that they would think is valuable nowadays.

### 3. opportunity

The new type of tea was produced under the pressure of new consumption demands in the new era. With the development of economy and society as well as the continuous change and improvement of consumer satisfaction, new-style tea drinks, as a new way of tea consumption, will be constantly innovated and changed.

The rapid development of the e-commerce industry has brought new development opportunities to the tea industry. Tea companies should focus on diverting traffic from e-commerce to offline channels,

making use of consumer's preferences and tea cultural connotation needs, as well as e-commerce branding. The market characteristics of brand e-commerce promote the effective integration of online sales and offline sales in the tea market, thus driving the rapid development of the tea industry.

### **3.1 New Media Helps to Change Marketing Methods**

Marketing methods have changed these years as the development of the Internet, which is beneficial to new tea industry. Many brands selling new tea use the new media like Weibo or invite Internet celebrities to advertise their products and make their brand more well-known [4]. Comparing to traditional way of marketing, new media marketing can influence people more broadly and reach to more people.

Research undertaken in this field has shown some interesting results, social media can be utilized as a customization tool to improve the uniqueness and preferences as well as loyalty of the brand. Interesting research has found that offline advertising revenues experienced a decreased growth in recent years because increasing teenagers are resistant to traditional marketing style. However, the survey performed by Duffett finds that interactive social media has an influential impact on product communication between marketers and young consumers in the marketplace [6]. Moreover, it is supported by Aji et al. that when consumers make decisions in buying product, they are strongly influenced by heavy use of social media [7]. Furthermore, new tea brands need to further improve their brand reputation through product innovation and using new media platforms as well as various marketing and communication methods, especially cross-border cooperation and digital marketing. Hence, companies' marketing strategy should be accompanied by social media to promote their brands and engage more with young customers.

### **3.2 Many Capitals Have Been Invested in New Tea Industry**

Since 2015, many venture-capital companies have noticed the booming of new tea industry. As suggested by Li that any of brands like HeyTea, Nayuki and LELETEA have received billions of yuan from well-known venture capital companies, which will help them to expand the scale of the company [4]. Thus, it can provide better service to customers and make products have higher quality, thus accelerates the development of the whole new tea industry.

### **3.3 Creating Brand Loyalty**

Product innovation and brand loyalty are the key to the success of new tea brands. It is stated by Kim et al. that uniqueness plays a significant role of brand identification and its personality will not be easily established but last long [3]. In turn, five dimensions could be considered, which are sincerity, excitement, competence, sophistication, and ruggedness [8]. Long-term relationships between customers and companies could be established through brand personalities.

Moreover, new retail models to enhance brand awareness and reputation, thereby enhancing brand influence and competitive advantage. Hence, new tea companies need to further strengthen the systemic protection of intellectual property rights, including trademark protection, technology protection, design protection, software copyright protection, etc., to prevent problems such as squatting and infringement.

## **4. Challenge**

In recent years, the new tea market has developed rapidly, the scale of the industry has surged, and the market has become mature and gradually saturated. The market competition is fierce, and the brand competition pattern is initially taking shape. Hence, it enters an era which has many potential threats and challenges.

### **4.1 Products Are Similar and Easy to Be Imitate, Comparative Advantage is required**

The new tea industry barriers to entry is quite low. The cost to rent a retail space is low and new tea products are easy to make. Many brands in this industry constantly imitate each other. Hence, it is

common to experience a serious homogenization between modern tea related products. As increasing companies flood into the new tea market, competition becomes more intense. What's more, many stores of different brands even have similar decoration style of their stores and package of their products. Although it can reduce operating risk in this market, it also makes the brand lose opportunities to attract more customers and even lower the expectations of existing customers [9]. Thus, creating differentiation of the products could be potential challenge in this industry.

#### **4.2 Food Safety Problems Are Serious**

Cases of unqualified new tea quality has become increasing common that not only threatens the health of consumers, but also triggers a crisis of consumer trust, reduces their willingness to purchase, and is not conducive to the development of the new tea industry. Since new tea industry has entered a new era shortly before, many brands still struggle to stay profitable, thus they need to decrease their cost. What's more, there are many ingredients and food additives in a cup of new tea, which makes small amount of bad quality ingredients hard to find, thus increase the possibility of food safety problem and also makes it difficult to eliminate [9].

#### **4.3 Challenge Caused by COVID-19**

Due to COVID-19 epidemic, many stores in new tea industry were closed and many small brands may exit. According to Survey on the Survival of Tea Drinking Outlets during the Epidemic Period, during 25<sup>th</sup> January to 9<sup>th</sup> February in 2020, 66% of stores earned almost nothing, 19% of stores' profit decreased by 50% to 80%, 8% of stores' profit decreased by 20% to 50%, and 4% of stores' profit decreased less than 20%. And only 2% of stores' profit increased. What's more, data in TianYanCha shows that, up to 30<sup>th</sup> November 2020. Over 130,000 companies in new tea industry that closed, liquidated, suspended, or canceled, which is 43% of the total market.

#### **4.4 The New Tea Industry Has A Long Supply Chain with Many Suppliers and Processors**

Nowadays, major head brands have already utilized direct source procurement in the supply chain with a complete supply chain management system [10]. The more participants in an industry, the more uncertainty will be in making and managing process, thus increase the risk of food safety. Additionally, new tea stores use more fresh milk and fruit that are hard to preserve as their ingredients. Variety of making ingredient, complexity of making process and low level of automation can also increase the food safety problem [11]. As a result, ensuring the efficiency of system construction is fairly important and low efficient supply chain management could cause losing competitiveness in the market thus fail to build strong brand value?

#### **4.5 Many Well-Known Brands in the New Tea Industry Have Attracted Many Potential Entrants Pursuing High Profits and Reputation, Resulting in Large-Scale Copycats**

They imitate top brands' name and even the categories and names of their products. HeyTea, one of the top brands in new tea industry, used to name Huang Tea but had to create another brand called Heytea as a result of a pre-emptive trademark registration. Serious situations of copycats not only cause customers' confusion, but also make new tea industry more competitive for both genuine and fake brands [9].

#### **4.6 Customer Loyalty of New Tea Industry Is Low and Easy to Lose Customers**

Interesting findings point out that loyal customers help business to grow, hence brand loyalty is extremely important [12]. According to White paper of new tea industry in 2020, 67% customers are more likely to buy products from their favorite brand but will try products of new brands [5]. 13% customers often try products of new brands and 4% customers even don't have a favorite brand. Only 16% customers only buy products from their favorite brand. Currently in China, there are lots of brands in new tea industry, so customers have a wide range of choices. On one hand, many customers tend to change their choice of brands since many products of different brands are similar. On the other hand, customer services in stores selling new tea are bad, which hurts the image of the brand [9].



#### **4.7 The Sales Methods of the New Tea Industry Are Limited and Can Easily Be Copied.**

Many marketing models of new tea industry keep offering discounts or promotions, like “full sell giveaway” and “buy one get one free” etc. These marketing models cannot attract customers for a long time and is harmful for brands to have a stable group of customers. After new tea prevailed, “queue for purchase” is becoming a marketing model since customer often choose the store who have the longest line. However, many customers are not able to buy the beverages they want after lining up for hours, so they have a high possibility to quit. What makes it worse, many scalpers buy popular products and resell them to customers with a higher price to earn money, which is harmful for long-term development for new tea brands [9].

### **5. Analysis of Sexy Tea**

#### **5.1 Introduction**

##### **5.1.1. Brand name:**

Sexy Tea’s Chinese name 茶颜悦色, which is adapted from a Chinese idiom 和颜悦色, which means that a person is very happy.

##### **5.1.2. Brand logo:**

Sexy Tea’s logo is an image of an ancient Chinese lady holding a fan. It is reported that the founder Lv Liang majored in advertising and marketing. After many entrepreneurship experiences, he decided to establish a direct-operated milk tea shop. Lv Liang uses his wife as a prototype, drew an ancient lady’s head as the brand logo.

#### **5.2 Innovation and Advantages**

##### **5.2.1. Taking Advantage of Chinese Style:**

At the Sexy Tea was established, Chinese style hasn’t been the mainstream, but the cultural creations of Forbidden City have already cast a light on the trend [13]. Sexy Tea’s Chinese style name and package captured many attentions in the early stage and gained more popularity after Chinese style prevailed.

##### **5.2.2. Open Stores Closely:**

Open stores closely not only improve management efficiency, but also decrease the pressure on supply chain side. Thus, it ensures Sexy Tea to maintain the quality of ingredient and low price of products at the same time [13].

##### **5.2.3. Great Service:**

The service of Sexy Tea, such as LiRong umbrella, YongFu cup, and “Forever right to claim compensation of a cup of tea” can impress customers. LiRong umbrellas prepared in each Sexy Tea store are used to lend to customers when it’s rainy. Furthermore, FuYong cup is a cup of cream used to sedate some customers’ children. In addition, “Forever right to claim compensation of a cup of tea” means that if customer feels buying an unsatisfied drinking, shop assistant offers help to remake one for them at any time or any store [13]. However, it may only happen if customers can show the product photos or shopping vouchers.

#### **5.3 Dilemma and Challenge**

##### **5.3.1. The Reasons Why Sexy Tea Can’t or Can Hardly Expand Outside of Changsha:**

Under the limitation of where the raw material is supplied, Sexy Tea can’t expand to other cities easily, or it will face the quality check of its raw material as well as higher transportation cost [14].

### 5.3.2. Challenges Sexy Tea Is Facing

a) Unsuccessful in Making New Products: After many years, popular products of Sexy Tea are still the same as when they just started the business. Hence, it makes founder of Sexy Tea very worried [13].

b) Decrease of Revenue: Sexy Tea has low revenue which can hardly reach few percent. Depending on its scale, Sexy Tea can still remain profit. But it's an uncertainty for Sexy Tea to remain on this price when price raises [13]. And if Sexy Tea increase its price, it may lose the competitive advantage it has now.

c) How Many Stores Can Changsha Have? : Currently, Sexy Tea only have stores in Changsha province and a few in Wuhan province [13]. Besides, it will not expand to other cities in the near future. While Changsha have already hundreds of stores which almost reaches the limit. Moreover, if Sexy Tea expand to other cities in the future, it has to face the strong competitors and uncertainty, which may lose the geographical advantage.

## 6. Conclusion

This paper discusses the definition of modern tea drinking and shows the development as well as current situation of new tea industry from many aspects. In addition, it studies the opportunities and potential threats. This paper also compares and analyzes problems Sexy Tea Company might meet. Moreover, because of innovative and creative products, it presents that new tea industry is still on the rise and have large scale of consumers, which can be further exploited.

To better illustrate our idea, Sexy Tea as an example would be chosen and analyze both its advantages and challenges. We find that Sexy Tea has its own unique feature which helps it to have current success. However, it also faces many challenges which is common in new tea industry. Whether Sexy Tea can achieve a greater success or be defeated by other brands in the fierce competition depends on its ability to address problems mentioned above.

For further study of new tea industry and better development of new tea brands, further suggestions are mentioned below. Firstly, comparing more brands together and focusing on the differences between each brand, trying to find the characteristic which makes the brand successful. Secondly, finding ways to better exploit the third tier and forth-tier markets. Thirdly, trying to make some unique new tea products or try to figure out some special marketing ways which can't be imitated by others. Fourthly, finding ways to shorten the supply chain or decrease the participants during the process. Finally, banning pirated brands from the market and figure out a better way to address the food safety problem.

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