

Research on Pricing Strategy and Development of the Chinese Ready-Made Tea Industry

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Abstract. At present, the ready-made tea industry is in the spotlight and has achieved great success in the past few years, but the industry is facing many challenges and gradually flat rises. This research sorts out the development of the Chinese ready-made industry and takes two top brands: MIXUE Ice Cream & Tea and HeyTea as examples to expose the plight the whole industry sector is facing and gives suggestions for the entire industry. Based on the SWOT analysis model, the study research on the market situation of these two brands reveals the brand's strengths, weaknesses, opportunities, and threats. At the same time, it points out the customers' demand for their drinks and gives its advice. These results can help the corporations to evaluate the efficacy of corporations on their own. For further prospects, not only MIXUE Ice Cream & Tea and HeyTea but also other corporations can take some action to attract more potential consumers and keep the existing consumer base.

1 Introduction

In recent years, with China's rapidly growing economy, the ready-made tea industry has become a new rising power. However, with China's development in the ready-made tea market, competition among major brands is becoming increasingly fierce and this industry is facing significant homogenization as well. At the inception of this industry, the major brands could easily attract consumers because it was a brand-new concept for them. After a decade of development, customers gradually lost freshness. Especially the brands that have high-price positioning are losing more and more customers.

Tan explored MIXUE Ice Cream & Tea's (hereafter referred to as MIXUE) marketing strategy in China and analyzed the brand's strengths, opportunities, and challenges. Based on the existing problems, the author put forward some suggestions for the development of the brand. These suggestions included enhancing the quality of raw materials, cooperating with evaluation bloggers, and establishing a unified management system. Finally, it concluded that through improving the supply chain, opening large-scale stores, and vigorously promoting the brand image, MIXUE achieved success in the highly competitive milk tea market [1]. Cui investigated the social marketing strategy of MIXUE Ice Cream & Tea through case study method and literature reading method. The research found that MIXUE had adopted excellent social marketing strategies in social media operation and brand IP

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construction and promotion. However, it still suffered from the risk of over-marketing and the lack of interaction with consumers [2].

Peng researched the full-term marketing and business operations strategy of HeyTea based on the SWOT model and successfully revealed the brand's strengths, weaknesses, opportunities, and threats within the market landscape. In the end, he gave some suggestions that HeyTea could take some actions to improve brand competitiveness and increase brand influence [3]. Zhang analyzed the external environment of the industry through the PEST model and used the SWOT model to analyze the internal environment of HeyTea. Through the research of HeyTea, the author explored the development prospects of China's ready-made tea industry and proposed development suggestions. Zhang also gave his opinion about how the corporation should improve itself to better match the future of the industry [4]. Che and Zuo used a new method called the POCD framework which raised them to assess NAIXUE in four aspects, including people, opportunity, context, and deal. They analyzed NAIXUE's advantages and disadvantages in these four aspects and offered their own opinions about this corporation [5].

This research will use the SWOT analysis method to comprehensively illustrate the strengths, weaknesses, opportunities, and threats of two iconic brands that have different price positions, MIXUE Ice Cream & Tea and HeyTea. By deeply analyzing their pricing strategies and the present situation they face, the research aims to sort out the proper pricing strategies and provide new perspectives and inspirations for of ready-made tea industry shortly. Therefore, this study mainly discusses the advantages and disadvantages of different pricing strategies and compares them with two concrete examples in the ready-made tea industry. At the same time, it provides useful suggestions and strategic planning for the future development of these brands and the whole industry.

2 Appearing and developing ready-made tea brands

The ready-made tea industry originated from old tea or bubble tea, which was invented in Chinese Taiwan in the 1980s. It began the business pattern of adding different kinds of ingredients in the milk with tea. Since the 1990s, bubble tea has gradually been introduced to mainland China. After decades of development, classic bubble tea has become more varied. Fresh tea with milk or different kinds of fruits or cheese. This made it the first choice for young people when they wanted some sweets to drink and created fashion among them [6]. In 2016-2023, China's ready-made tea industry size from 29.1 billion yuan to 333.4 billion yuan (Fig. 1). The industry concentration is low. At present, there are more than 380,000 ready-made tea stores in China, with more than 3,000 chain brands, with a market share of about 15% for the top 5 brands (in terms of the number of stores) and a market share of about 20% for the top 10 brands (in terms of the number of stores) [7]. Under fierce competition, two iconic brands with different pricing strategies successfully entered the public's view: MIXUE Ice Cream & Tea and HeyTea.

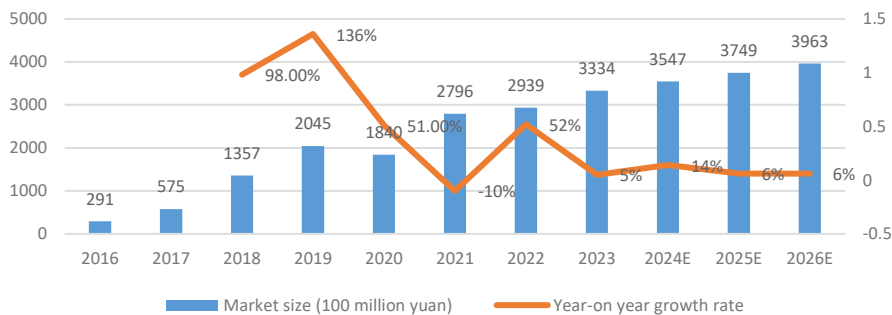


Fig. 1. The market size and forecast of ready-made tea drink in China

MIXUE Ice Cream & Tea (hereinafter referred to as "MIXUE"), was founded in 1997 and has grown rapidly over the past twenty years. Its products include bubble tea, fruit tea, and ice cream, but made of cheaper material. In the new period of the ready-made tea industry, MIXUE sticks to its low-pricing strategy. The average price of it is 8 yuan and there are almost no competitors in this price range. MIXUE's standardized drinks (under 10 yuan) are deeply loved by consumers in low-tier cities and unbeatable in the low-tier market. This makes MIXUE take the lead in entering the ear of 10,000 stores and accounting for about 32.7% of the low-tier market share and 20% of the whole market share [7].

HeyTea was established in Guangdong, in 2012, formerly known as ROYAL TEA. It is the creator of cheese tea and also produces fruit tea for its customers. HeyTea claims it uses pure tea slushies with real fruit juice and pulp or real milk. It targets to high-tier of the market with an average price of about 25 yuan. In addition, HeyTea has a stricter management method. Instead of the much easier way of opening new stores by allowing franchises like MIXUE, it chose the direct-sale patterns until 2023. For this reason, HeyTea has much less stores, more than 3400 stores globally. With its high-priced positioning, fewer stores, and fashionable marketing communications, HeyTea quickly became a fashion symbol among young people and a beloved brand. When it debuted branches in Beijing and Shanghai, young people were willing to wait for more than 3 hours to get their tea. It has also been criticized for being suspected of deliberately using hunger marketing tactics.

Although there are many brands of ready-made tea, the differences among their products have already formatted a steady pattern. Every cup of new tea is the combination and permutation of fresh fruits, tea, milk, and many kinds of ingredients. None of these brands' new products jump off this big box. In this case, if one new product goes viral on the internet, other companies can make a similar one easily. There is not enough profit from creation, and the input-output ratio of developing new products will be very low. As a result, the corporations have to introduce their new products consequently to maintain their brand image in the customers' memory and try to keep up with competitors, otherwise it will be forgotten and left in the dust of the era.

However, this long-term competition was fruitless, plus the influence of COVID-19, and the growth rate of the whole industry began to show a flat or even declining trend. Since 2021, even the top corporations such as HeyTea began to shut off some of the physical stores and downsize. As for now, only two corporations successfully went public, but the prices of their stock are not healthy. In 2024, there are other two corporations, including MIXUE gave their IPO to HKEX and got a negative response [8]. at the beginning of 2022, the first wave of lower prices came. HeyTea, the brand that always is seen as the representative of high prices, gradually introduced new products below 10 yuan [9]. The future of the new tea industry seems unpredictable.

3 Analysis of the Current Situation of MIXUE and HeyTea Based on SWOT Model

3.1 SWOT analysis of MIXUE Ice Cream & Tea

3.1.1 Strength

MIXUE has successfully taken the lead in the low-tier market with its low-price strategy for the last decade. This strategy lets MIXUE get stable consumers and over 30,000 physical stores near or on campus, big malls and transportation hubs which can easily cover its customers group. To put itself in the leading position, MIXUE managed to open stores in the countries and small cities that other ready-made tea brands usually don't care about. In addition, MIXUE had systematically built its own sophisticated supply chain which can control the cost of its products and help it keep its low-price strategy efficiently. With these established advantages, MIXUE can solidify its position.

3.1.2 Weakness

To keep its low-price strategy, MIXUE has to make some sacrifices to make a profit. MIXUE chose to lower the quality of the materials and open to the franchise. For a long period of time, it was suspected of food health issues, such as using a creamer instead of fresh milk. From 2021, there are many negative news about MIXUE and influencing customers' opinions about it. Besides the material issue, MIXUE also suffers from the negative press towards its hygiene. It is always hard for a corporation to keep its good name when it allows franchises, and so is MIXUE. In June 2024, a video about a staff member washing his feet next to the iconic logo of MIXUE went viral on the internet and made many people consider again the hygiene issue MIXUE has.

3.1.3 Opportunities

According to the forecast of the ready-made tea industry, in the coming years, the market size will continue to grow. In addition, MIXUE's international market is a huge potential opportunity. In June 2023, its overseas physical store had over 3000. This shows that customers from other countries accept and are willing to pay for ready-made tea. In other words, ready-made tea is still a brand-new concept for people in other countries and it are blue ocean market for ready-made tea corporations.

3.1.4 Threaten

In 2022, ready-made tea began to bid farewell to the track of more than 30 yuan per cup, the price dropped to more than 10 yuan or even less. Top brands' action of cutting prices is a significant threat to MIXUE. Without the absolute advantage of low prices, it will not be the first choice for low-tier customers. In 2024, it launched a new product: a big-sized cup of ice for only 1 yuan. It shows that MIXUE is trying to keep its advantage. However, the response was not quite good.

3.2 SWOT analysis of HeyTea

3.2.1 Strength

Since HeyTea was established, its founder was tempted to create a brand just like Starbucks (Starbucks's products in China are expensive and are considered a fashion symbol of high-quality life). After twelve years, HeyTea has successfully built a brand image of premium and stylish. This can attract young people and the crowd who chase the trends. They are the stable consumers for HeyTea. To make sure its products can be appealing to high-class people, it sticks to using better materials such as fresh fruits and real tea and introduces this concept to the customers effectively. This helped the corporation differentiate itself from other competitors and gain a loyal customer base.

3.2.2 Weakness

In order to keep its brand image healthy and high-class, HeyTea needs to pay more cost of materials and management. Although HeyTea also built up a sophisticated supply chain, everyday fresh milk and fruits cannot be counted as a small amount. What's more, HeyTea located its store in prime business areas of first and second-tier cities, which is significantly high costs. There is no need to mention the salary and training fee for employment. Since 2023, HeyTea has opened the rights of franchising to expand itself quickly. It's almost inevitable that this can lead to varying levels of staff quality. Keeping its excellent brand image will be a big risk for HeyTea.

3.2.3 Opportunities

According to research titled Why Don't You Drink Ready-made Tea Anymore, about 49.4% of respondents have chosen they think it's unhealthy (Fig. 2) [10]. HeyTea's brand image just matches with the hope that consumers think ready-made tea should be. From its fresh tea-based drinks to new low-sugar products, HeyTea can attract new customers in these aspects. On the other hand, HeyTea also has a wide international distribution network. It has already opened stores on Broadway and Beverly Hills and internationalization will be the solution to deal with the sluggishness of the domestic market [11].

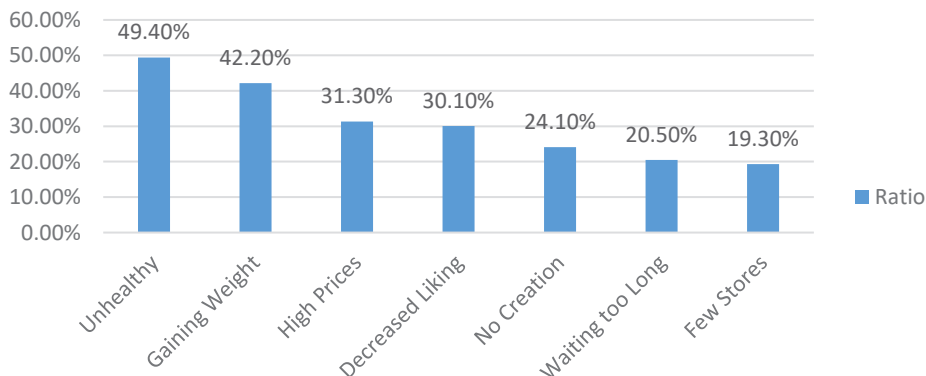


Fig. 2. Why Don't You Drink Ready-made Tea Anymore

3.2.4 Threaten

Since 2023, according to the forecast, the growth rate of the market size of the ready-made tea industry has begun to decline year by year. Shrinking of the market and customers who are more and more rational both means that they will no longer be willing to pay for the high-price cheese tea. How to keep a consumer base will be a big problem for HeyTea.

4 Suggestions for the Future Development

As mentioned above, the new tea beverage company has demonstrated different advantages, and the entire industry is facing challenges. There are several points worth considering. First of all, corporations should make their products healthier to decrease customers' concerns. They can launch healthy sugar-free drinks and sugar-free options, or just mark out calories for each cup, in case some customers need to lower their weight. With the special version of drinks, the customers will be more willing to pay for drinks even when they need to go on a diet. In addition, many brands were exposed to hygiene issues, and this is the most important problem that needs to be addressed immediately. The qualification review and supervision of franchisees should be strengthened, and employee training should be more rigorous. Only in this way and keep to it can the impression of customers be better.

Secondly, the corporations should deep into the low-tier market. Currently, 44.8% share of the market is mid-price, while only 29.8% are low-price (Fig. 3). It's undoubtedly that the high-price strategy will not work due to the downturn of the economy. At present, the coverage of ready-made tea stores in third-tier cities and below is limited, and the density of the stores in these cities is only 247 stores per million people, which is much lower than the 460 stores per million in first-tier cities [10]. The demand for ready-made tea among lower-tier consumers is not fully met.

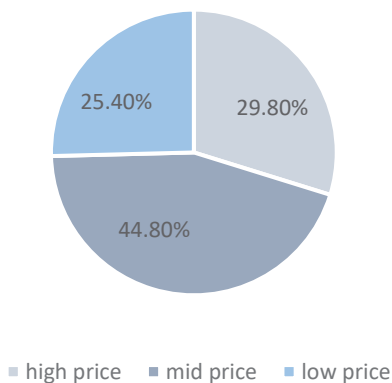


Fig. 3. Share of the ready-made tea market

Thirdly, the corporations should look overseas. Taking Southeast Asia as an example, in 2022, the consumption of ready-made drinks in Southeast Asia accounted for only 1% of total drinking water intake, which is significantly lower than the average of more than 17% in developed markets such as the United States, the United Kingdom and Japan. The Southeast Asia ready-made beverage market is expected to grow from US\$16.3 billion in 2022 to US\$49.4 billion by 2028 at a CAGR of 20.3% [10], which is the fastest growing among major global markets. In addition to the tea culture and food culture shared by the East Asian cultural circle, Turkey, Ireland, the United Kingdom, Russia and other countries

are all major tea consumers. Turkey and 17 other countries have more per capita annual tea consumption than China. These countries may be opportunities for ready-made tea corporations to expand their size.

5 Conclusion

This research draws a developing map of the Chinese ready-made tea industry tries to predict the future of the industry and gives some suggestions to the corporations. Two top brands, MIXUE and HeyTea, are taken as examples to show the history and trends of the whole industry. They have different price strategies and consumer bases and both of them are successful. Currently, the development ratio of the industry has flattened, and the corporations need to make some changes. However, including MIXUE and HeyTea, the Chinese ready-made tea industry is facing a predicament the loss of consumers. With the SWOT analysis of MIXUE and HeyTea, the study gives three suggestions including improving the products to meet customer's new demand, diving into the low-tier market with low prices, and opening new stores in other countries to search for opportunities.

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