

MarketLine Case Study

Heytea

Innovative products and brand
development drives growth

Reference Code: ML00030-022

Publication Date: April 2019

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OVERVIEW

Catalyst

Heytea is the most popular tea brand in China and towards the end of 2018 the company embarked on its first overseas venture, launching in Singapore. The company predicated its business model on providing high standard of product thanks to quality raw ingredients, placing the product ahead of rivals unable to compete so well in providing the same quality for the price charged by Heytea. Not only has the social media strategy been successful but the brand has captured the increasingly lucrative millennial part of the consumer market. Consequently, the company has led the growth of tea consumption in China.

Summary

A unique and innovative tea that became a social media sensation

- A Chinese cheese tea brand, Heytea, became a huge sensation in 2017, with youngsters queuing up for several hours in front of stores and posting their pictures on social media, inspiring peers to join in. • The company registered 100% annual growth in revenues in 2017, reaching CNY600m (\$87.2m)¹, and expanded its geographic reach to international markets in 2018.

Differentiated formulation and unique marketing strategies helped Heytea to revolutionize the tea market in China

- By adding a unique ingredient (cheese) and offering it in a to-go format, Heytea effectively rejuvenated the tea tradition among young Chinese consumers. • Rather than spend money on conventional marketing strategies, it focused on social media and cross-industry marketing, potentially saving marketing expenses while targeting the right audience.

Understanding and addressing the target audience's desires is imperative

- It is imperative that brands understand the needs of their target demographic. By using fresh cheese, "natural" ingredients, and convenient packaging, Heytea effectively positioned its products as a "cool" drink among young Chinese consumers. • The brand also effectively leveraged technology to enhance the customer experience through its "Go" mini-program*.

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HEYTEA FUELED THE RECENT CHEESE TEA CRAZE IN CHINA

A cheese tea brand, RoyalTea, was founded by Nie Yunchen in 2012 in the southern Guangdong province in China. In 2016, RoyalTea was rebranded to Heytea, and was relatively unknown until 2017 when it expanded to Shanghai and Beijing and became the latest craze. As of December 2018, it became available through 120 stores across 15 cities in China. Now the company is leading the growth of tea consumption in China, modernizing what for many Chinese people is an ancient drink of cultural importance.

A unique formulation reinvigorated the millennia-old tea culture among young Chinese consumers

The tea is a blend of salty cheese with a "natural" fruit tea base and is offered under two sub-brands: Hi Tea and Hi Tea Hot Mai. This handcrafted tea topped with freshly made cheese is specifically targeted at Millennials, who seek innovative, premium, and on-the-go products that align with their lifestyles. The popularity of Heytea can be observed from the fact that consumers have been known to queue up for several hours in front of stores just to purchase its products.

Figure 1: Heytea



SOURCE: DanielFoodDiary

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Heytea has become a major hit not only in the Chinese market but in other Asian countries as well. The company registered revenues of CNY600m (\$87.2m) in 2017, a 100% increase since 2016, according to China Daily. Following this phenomenal growth, Heytea launched its first overseas outlet in Singapore in November 2018, followed by another outlet in Hong Kong in December 2018. The company has announced plans to open 100 additional stores in China, with further plans to expand in the US and European countries in the near future.

To better accommodate consumer demand, Heytea initiated a mini-program on WeChat and also started online delivery services in collaboration with Meituan Dianping in May 2018. Both of these efforts are expected to help reduce in-store traffic and increase sales for Heytea.

Heytea designed its product to align with millennial behavior, preferences, and needs

Though tea is a preferred beverage among older Chinese consumers, Millennials with growing middle incomes are swapping tea for coffee, driven by rising urbanization and changing consumption trends. Busy young consumers prefer a to-go style drink rather than sipping hot tea from a ceramic cup, possibly while in an old-fashioned tea house. This evolving consumer behavior of young Chinese consumers has led to the emergence of creative fusion tea drinks such as cheese tea, which is not only fashionable but also convenient for consumption on the go.

Cheese tea became a Chinese social media craze in 2017. Unlike traditional tea, which is slightly bitter in taste, cheese tea offers a sweet taste with a savory finish, a taste that is well accepted by Millennials. Another element that popularized Heytea among Chinese Millennials is its transparent packaging, through which consumers can see two different layers (the base tea and a cheese topping), which enhances the visual appeal that inspires consumers to share their consumption experience on social media.

The recent innovative tea boom in China has significantly changed young Chinese consumers' perceptions about a product that was traditionally consumed by the older generation. According to data from China Tea Marketing Association, most new tea consumers in 2017 were young people, highlighting a potential target demographic believed to be leaning towards coffee culture. Capitalizing on this potential growth prospect and with recent funding of CNY400m (\$63m) in April 2018, Heytea plans to double its numbers of outlets in China. It therefore aims to make Heytea a national brand and reinvigorate tea as a trendy everyday drink among young Chinese people.

Innovative marketing strategies helped to increase brand visibility

With a large netizen population (57.7% of the total population using internet as of first half of 2018), Chinese consumers are well-connected and are strongly influenced by online content, including what products/brands their friends and peers prefer. Understanding this consumer behavior, Heytea opted not to use traditional channels to market its product, and instead leveraged the popularity of social media apps in China to connect with its target consumer segment: Millennials. In 2017, Heytea collaborated with many social media influencers to raise brand awareness and to create a buzz on popular social media apps.

Heytea also leveraged cross-industry promotions to gain wider visibility and traction among its target audience. During 2018, Heytea collaborated with beauty brands L'Oréal and Pechoin, both of which target young female consumers. Through these partnerships, Heytea-inspired beauty products such as Heytea L'Oréal lipstick and gift sets such as Heytea x Pechoin were launched, with an aim to draw in new consumers for Heytea, especially young women. Additionally, as part of a promotion, Heytea exhibited a bus in Shanghai that was filled with retro props from the 1930s (when Pechoin was launched) such as old suitcases, vinyl records, and gramophones, with free cheese tea served at the site to attract young people.

These marketing efforts enabled Heytea to reinvigorate the tea tradition among young Chinese consumers, positioning tea as a "cool" drink, with each of its stores selling between 2,000 and 3,000 cups of cheese tea per day.

Natural and "free from" positioning added premiumization – an important consideration for Chinese Millennials

Heytea is targeted at Millennials, who seek out products that are exclusive, trendy, and good value for money. Brands using high-quality, fresh, natural, and imported ingredients in food and drinks are becoming an apparent preference for these consumers. According to a GlobalData survey, for 56% of Chinese respondents "good value for money" means "high-quality products/ingredients" when buying food and drinks. Furthermore, 55% consider "high quality" to mean "fresh ingredients/freshly made" while 40% consider it to mean "natural/chemical free."

Success if Heytea can further be attributed to the high-quality image of the ingredients it uses. In contrast with most tea-makers, which use powdered cheese mixes, Heytea uses imported New Zealand Anchor cheese to make fresh foam, which makes it exclusive and premium. It also sources oolong tea leaves from Taiwan. Furthermore, clean labeling claims, such as "100% natural fruit juices," "natural rock sugar," and "free from artificial flavors and fruit syrups," add a premium aspect to the tea. These features enhance the consumption experience and justify the price of Heytea, which at CNY10–29 per cup is higher than other bubble tea brands but lower than international chains such as Starbucks. Heytea is positioned as a good value and trendy tea drink that can be consumed every day. To further add a touch of premiumization, Heytea operates from premium locations in the high-end malls of Chinese cities. Most recently, it opened its first international outlet in a premium mall: Ion Orchard in Singapore.

HEYTEA UNDERSTANDS MODERN MEANS OF ATTRACTING AUDIENCES

Heytea has been successful in attracting the attentions of young consumers through the use of social media. In using modern means of advertising and in being effective in building a following, the brand appears to be on a sharply upward trajectory. Not only has the company used social media very well but has pin pointed precisely what aspect of online behavior works best with the brand. Positive customer experience of the product has been beneficial in creating a brand image attractive to younger consumers. Exclusivity is proving a potent unique selling point, helping the company to expand.

Heytea leveraged social media and the selfie culture among Millennials

China has a large internet-connected population, with 98% of internet users accessing the internet through mobile phones. Many of these internet users spend a significant amount of time on WeChat discovering trendy products and uploading pictures of products to attract attention. To engage this customer segment, Heytea has collaborated with many influencers to create brand awareness and credibility. Limited store expansion further led the brand to go viral in 2017. Long queues and waiting times for the tea created a buzz among young consumers, who used WeChat to discuss the cheese tea and long queues and post pictures. A GlobalData survey shows how common this sort of behavior is in the country, with 31% of Chinese consumers sharing a picture of the food or drink they consume several times per week on social media. Furthermore, it can be said that the popularity of Heytea is not a fad, as customers still queue up in front of some of the stores, even after a year of online fame and after the company has opened more than 100 outlets in the major cities.

Figure 2: Heytea store



SOURCE: Beijing Review

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Product exclusivity and uniqueness is key to appeal to young consumers

The growing middle-income population, dominated by young Millennials, is an important target market for food and drinks in China. Brands need to understand the changing consumption behavior of the target market and position their products to better suit their tastes and preferences.

Chinese Millennials, who had earlier been influenced by Western trends, are now more confident about their choices and take pride in opting for local products as by doing so they feel more attached to their culture. At the same time, product exclusivity is very important for young Chinese consumers. Heytea identified these emerging consumer trends and worked on designing a product that caters to this millennial consumption behavior. Tea is a traditional drink of China, which Heytea rejuvenated by adding fresh cheese and "natural" ingredients, and positioning it as an exclusive tea for the younger generation. The product became very popular not only within China but also in other Asian countries such as Japan, Malaysia, and South Korea. In fact, influenced by the popularity of cheese tea, Starbucks introduced something similar in November 2018 – Snowy Cheese Latte – an espresso blended with cheese and topped with whipped cream sold in China for a limited time.

Leveraging social media platforms to improve the customer experience

In China, an online presence is very important for brands, as well-connected consumers often do research before trying a new product. Therefore, new brands entering the market should leverage social media as an important marketing tool to reach out to their target audience. Apart from promotional activities, brands should also focus on maximizing the value of these apps to understand the needs and tastes of their target audience so as to enhance consumer experience. For example, having seen consumers queue for several hours in front of Heytea stores, the company launched its "Go" mini-program in 2018 to cut down waiting times. The mini-program enables consumers to place orders online by scanning a QR code and pick up their order upon receiving a phone alert, thus helping to reduce in-store traffic. The consumer data collected through this program can be used later to offer discounts based on consumers' purchasing behavior. Since its launch in 2017, many brands including Pizza Hut, Zhouheiya, and Wedome have initiated mini-programs on WeChat to cut down on waiting and billing time, leading to improved customer experience and, consequently, sales growth.

CONCLUSIONS

The Heytea brand in China has proven highly effective thanks in large part to clever use of social media and the building of a brand following among millennial consumers, an increasingly lucrative consumer group. Consequently, the millennia-old tea culture has been reinvigorated, generating many new consumers of the product. Not only has the company been clever in its use of social media, prospering in a way many companies seek to replicate, but has positioned the brand name at the forefront of the minds of many younger consumers.

APPENDIX

Sources

Beijing Review

http://www.bjreview.com/Business/201801/t20180106_800113780.html

DanielFoodDiary

<http://danielfooddiary.com/2018/11/07/heyteasg/>

Further Reading

China food service - Industry Profile published by MarketLine

Ask the analyst

We hope that the data and analysis in this brief will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

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