

# ***Thriving in the Guochao Era: Strategic Insights for ChaPanda and Chagee in the Ready-to-Drink Tea Market***

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**Abstract:** The ready-to-drink tea industry in China has grown significantly due to rising incomes and the guochao trend, which promotes cultural revival with local products. This paper examines ChaPanda's strategies in product innovation, marketing, and market expansion. We offer strategic recommendations for Chagee to improve its market position, including regional customization, youth-focused marketing, reinforcing guochao elements, and exploring international opportunities. This analysis aims to help Chagee leverage cultural identity and trends for sustainable growth in a competitive market market.

**Keywords:** Guochao, ready-to-drink tea, cultural branding, regional customization, product innovation

## **1. Introduction**

The ready-to-drink tea sector in China has seen swift expansion, propelled by increasing incomes, a cultural renaissance linked to the guochao trend, and advancements in technology. This paper explores ChaPanda's effective approaches in product development, marketing, and market growth, offering practical insights for Chagee to enhance its competitive advantage. We finish with strategic suggestions designed specifically for Chagee's distinctive opportunities and difficulties.

## **2. Background Analysis**

### **2.1. Economic Shifts Driving Consumption Trends**

From 2000 to 2020, consumption shares in China gradually shifted from low-income to upper-middle income. By 2030, high-income and upper-middle-income groups are predicted to account for nearly 80% of total consumption. This indicates that more Chinese citizens are becoming wealthier over the years, contributing to a high economic growth rate. With a large population in the country, the increase in consumption can also have a greater impact on the global market. One-quarter of China's population lives in the thirty largest cities, contributing to 45% of total household consumption; however, some other cities are experiencing even higher growth. As a result, firms are eager to expand into more cities to seize opportunities from rising wages.

Soft drinks have relatively decent revenue with a low-middle growth rate within all categories. However, their global share was fairly low in 2020, which shows that the ready-to-drink tea industry is at an early stage of development and hasn't been widely propagandized to foreign countries.

## 2.2. The Rise of Local over Global

In recent years, consumers' preferences have gradually shifted from foreign imports to locally produced commodities related to domestic culture, influenced by the trend known as "guochao." With its emergence in mid-2017, searches for "guochao" reached 9,488 in December 2017 and nearly 22,000 by mid-2018. A brand named "Bawangchaji" debuted in November 2017 and quickly monopolized the ready-to-drink tea industry in a short time. (molinaibai, May 2020; starbucks, police event, Jan-May 2020)

## 3. Industry Status and Trends

Rising disposable incomes and consistent GDP growth have fueled the steady expansion of China's tea industry, particularly in the ready-to-drink tea sector. The production and growth rate of this industry has hovered around 6% from 2017 to 2022, as seen in Figure 1. When "guochao" emerged in public consciousness in 2017, the scale and growth rate of the Chinese tea industry reached 12.01% and varied around 5% until 2022, as shown in Figure 2. According to Figure 3, the tea market had a market share of 16% in 2015 but is expected to reach 42% by 2025. This indicates that "guochao" significantly influences the consumption of tea drinks, primarily among loyal consumers aged 20 to 29. In recent years, under the government's effective allocation of resources and the promotion of new technologies in the development of "tea intelligence," the ready-to-drink tea industry has also progressed from using powdered tea to fresh tea in production. Most companies in this industry derive their revenue from shops in first and second-tier cities, demonstrating how firms utilized the industry's growth in previous years to expand their popularity. However, they are now shifting their focus toward third and fourth-tier cities to achieve both high profits and expansion, a method known as stock.



Figure 1: 2013-2022 Average disposable income and growth rate of urban population in China.



Figure 2: Chinese tea market scale and growth rate.

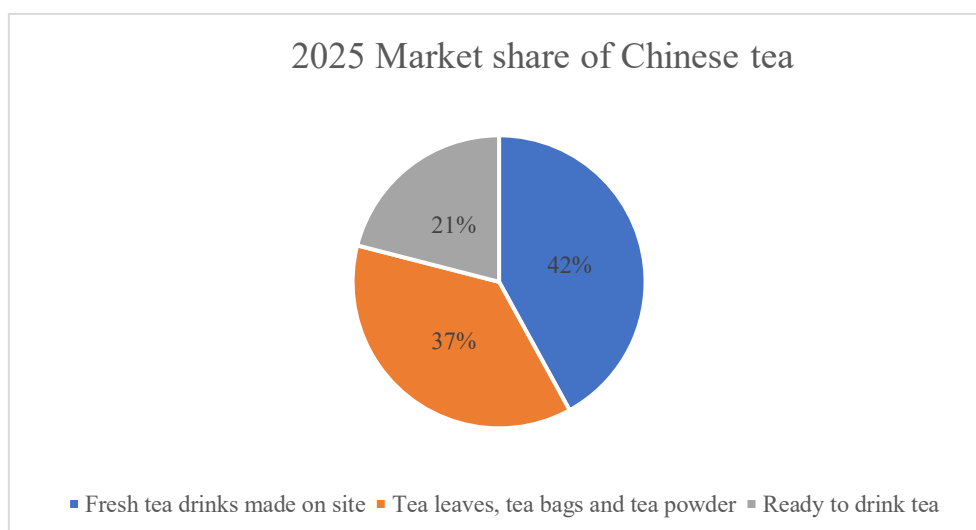
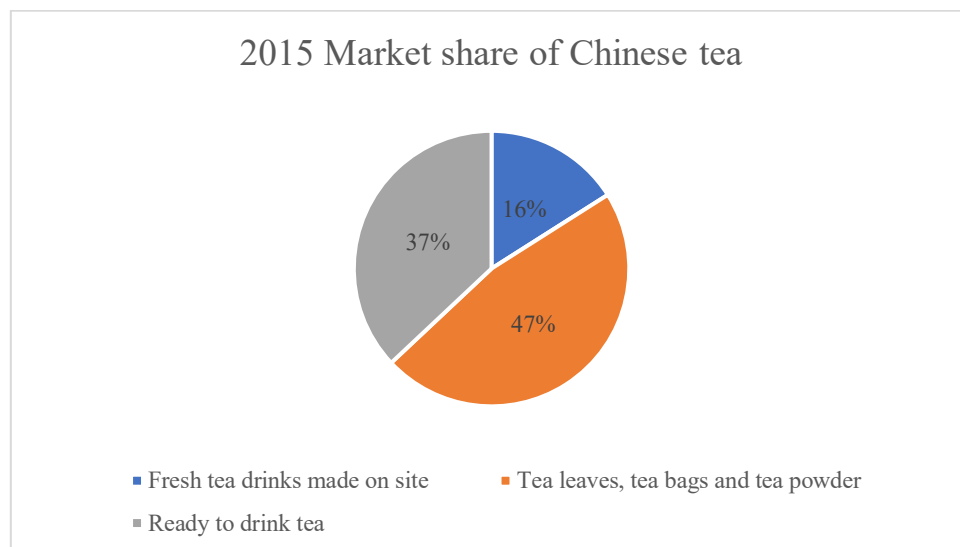


Figure 3: Chinese tea market.

This growth presents opportunities for companies to distinguish themselves through innovative product design and intellectual property (IP) creation. As the ready-to-drink tea industry is a competitive market with many rival firms, each company may need to develop unique IP that is attractive and recognizable to the public, while also creating significant social influence to foster stronger brand loyalty. Collaborations with popular cartoon characters, films, and celebrities can attract fans from different industries to purchase the product. While this strategy may be effective in the short term, it must be supported by marketing, product development, and trending relevant topics online to make consumer demand more inelastic. With “guochao” emerging as the new trend, incorporating Chinese elements into products may enhance brand diversification.

However, reliance on the ‘guochao’ trend alone raises concerns about sustainability amid economic inflation, rising labor costs, and changing consumer preferences. In recent years, the economy has faced high inflation rates, and as income levels rise, increasing labor costs could lead to a further increase in price levels. Determining how many franchised stores to allocate in first, second, third, and fourth-tier cities can be challenging. Since consumers have different tastes, stores selling the same brand may need to adapt their products and flavors to suit local customs in various cities, which can also pose challenges for innovation. Trends like “the first cup of milk tea in autumn” may encourage consumers to explore the ready-to-drink tea industry, but this effect may be short-lived, with only firms holding the highest market share likely benefiting from the trend. While incorporating Chinese elements into shop designs in this industry may attract attention, these designs must evolve over time to keep up with shifting public tastes. In contrast, coffee shops maintain customer loyalty as their environment meets people’s work needs. Additionally, coffee shops may play loud music to enhance customer turnover, potentially boosting revenue further.

In summary, the growth of the ready-to-drink tea industry is fueled by increasing incomes and the guochao trend, but maintaining this momentum will demand strategic innovation and adaptability.

#### 4. Case Studies of ChaPanda

ChaPanda, another major player in this industry, is a direct competitor of Chagee. The following section analyzes key strategies employed by ChaPanda in product innovation, marketing, delivery platforms, and market expansion. By understanding ChaPanda’s successes and challenges, we aim to derive actionable insights for shaping Chagee’s growth strategy.

##### 4.1. Products & Storefront

ChaPanda not only provides classic drinks but also offers seasonal and regional options. In 2023, classic drinks accounted for 40% of the total stock-keeping units [1], indicating that most revenue came from these core offerings. Unlike Chagee, ChaPanda focuses on fresh fruits. ChaPanda presents various types of milk tea, fruit tea, and pure tea to fully cater to public preferences. The diverse tea options and innovations in fruit drinks further expand the consumer base. However, excessive innovation in tea drinks may not generate the desired growth in revenue and profits, as consumers might lose interest in purchasing them. The number of customers may gradually decline. Adding different condiments to drinks can alter the original intent of tea beverages. Consequently, these drinks may become unhealthy and less effective in reducing blood pressure and aiding digestion, potentially leading to various health issues. While the physical storefronts of ChaPanda might become smaller, they still provide a space for customers to work. I often notice ChaPanda locations opening near schools, where many students come to buy a drink and study after classes. This space can promote customer reliance.

Chagee is the brand that incorporates Chinese elements into the design of its products, anime garage kits, and receipts. The uniform archaic style on the cups of each classic product displays its

signature, while the unique designs on the cups of newly launched products highlight their individuality. The brand emphasizes innovating tea flavors and the raw materials used to create the drinks, rather than focusing on the toppings. However, Chagee's storefront is relatively small and provides only a limited seating area for customers waiting for their drinks. The absence of dedicated workspace for customers may hinder customer retention and result in the loss of certain customer groups.

## 4.2. Marketing & IP

ChaPanda features the panda "ChaCha" as its intellectual property, symbolizing China's national treasure. The IP appears quite straightforward as a cartoon character, lacking innovation in the design variations of "ChaCha." However, it gained popularity after a panda named "ChaCha" was born in May 2023, prompting ChaPanda to rebrand itself as "ChaPanda." While pandas have long been regarded as a national treasure, their relocation to other countries for collaborative research on conservation genetics, breeding, rearing, and disease treatment not only helps protect pandas but also fosters international friendships between China and other nations. [2] Consequently, the topic of "pandas" suddenly surged in popularity on social media, boosting tourism in cities like Chengdu and Changzhou, which further enhances ChaPanda's recognition. In contrast, Chagee utilizes azure as the primary color for its classic drink cups. This hue is commonly found in various blue and white porcelain, a traditional Chinese craft. Furthermore, with a style reminiscent of antique artwork, Chagee's cup design possesses a more creative appearance, setting the trend of "guochao."

ChaPanda utilizes various apps (TikTok, XHS, Weibo, Bilibili, Kuaishou, and WeChat) for digital marketing. Notably, on TikTok, the ChaPanda official account, which boasts 112.4 million followers, hosts live sessions to detail their products and offers coupons and discounts for group purchases. The average number of attendees during these live sessions often reaches up to 110 million. (Tiktok, 2024) In May 2023, ChaPanda achieved over 100 million RMB in GMV through live sessions on TikTok, with a daily increase in followers around 230 thousand. Relevant topics such as "what is recommended in ChaPanda" and "ChaPanda co-branded" garnered approximately 64 million and 80 million reviews, respectively.

## 4.3. Delivery Platform Collaborations and Market Expansion

The financial statement bar chart for ChaPanda illustrates the online and offline market shares. The online market's share is expected to jump from 36.9% in 2018 to 75.2% by 2028. While the annual compound growth rate for online delivery was 36.2% from 2018 to 2024, it will slow to 21.8% from 2024 to 2028. This decline indicates a saturated online market, suggesting the company may need to explore new revenue avenues. Currently, the online delivery market holds a 60.6% share, signaling its significance to ChaPanda's revenue. Enhancing the online delivery experience, including features like Mini Programs on WeChat and increased product discounts, is crucial.

Ready-to-drink companies' Mini Programs feature takeout and delivery options. They resemble the MeiTuan interface and track other apps to gather customer preferences, suggesting suitable products on the homepage. This marketing strategy can attract more brand loyalty to the mini programs.

In 2021, franchise stores numbered 5,070, rising to 6,352 in 2022 and 7,795 in 2023, indicating rapid growth. The growth rates were 25.29% from 2021 to 2022 and 22.7% from 2022 to 2023, suggesting a nearing saturation point. Commodity revenue occupancy held at 95% in 2022 and 2023, while disclosure fees dropped from 4.4% in 2021 to 4.0% in 2022, slightly rising to 4.1% in 2023. The company should expand franchises to increase market reach, especially as the make-to-go drinks market in lower-tier cities, which makes up over 70% of the total, is expected to double by 2028. This

presents a significant opportunity for ChaPanda to tap into lower-tier cities for greater revenue. Offering discounts on franchise fees and operation training could incentivize more shops. As a franchise opens additional stores, the application process for new locations will become simpler and more efficient.

Table 1: ChaPanda's financial statement.

	Up to December 31st					
	2021		2022		2023	
	USD	%	USD	%	USD	%
	(in thousands of dollars)					
Selling goods and equipment .....	470,307	94.6	548,443	95.0	739,529	95.0
Franchise fee and franchise fee income...	21,658	4.4	23,419	4.0	31,599	4.1
Others.....	5,268	1.0	5,527	1.0	7,195	0.9
Total.....	<u>497,234</u>	<u>100.0</u>	<u>577,390</u>	<u>100.0</u>	<u>778,324</u>	<u>100.0</u>

Delivery platforms enhance ChaPanda's profitability and efficiency. Thanks to these platforms, store coverage grew from 91.8% in January 2021 to 95.9% in December 2023. As the beverage sector faces new market challenges, companies are adapting by modifying product offerings and delivery methods. [3] ChaPanda is now focusing on expanding in second-, third-, and fourth-tier cities, where consumers are more price-sensitive. The shops adjust drink prices based on regional factors and competitors, akin to 'price discrimination', responding to varying consumption and income levels across different cities.

ChaPanda has successfully positioned itself for ongoing growth in both saturated and emerging markets by incorporating strong delivery systems, tailored pricing, and franchise incentives. Chagee should consider implementing these strategies to seize regional opportunities and enhance its competitive advantage.

#### 4.4. Membership System

Memberships are common in the ready-to-drink tea industry for offline activities and exclusive discounts. Shops typically offer free membership, allowing customers to earn points with each drink purchase to achieve higher membership levels. These points can be redeemed for free drinks, enhancing the VIP experience while driving consumption and sales. To encourage more purchases, it's advisable to create unique symbols for different membership levels. Collaborating with ChaPanda on games can develop appealing symbols that attract game fans, ultimately boosting sales revenue.

ChaPanda innovates through collaborations with games, cartoons, and series like Genshin and Unsure Notes, creating membership signs. Unsure Notes, a popular game, drives fans to purchase drinks from ChaPanda. They offered garage kits with bags, stickers, and more for customers who bought four drinks. Surprisingly, the game's publicity drew many fans, selling out kits on the first day, even without staff recalling each character. In cities without ChaPanda, fans resell kits online at high prices, benefiting others. Many call the shop, and staff quickly recognize inquiries for garage kits. [4] Additionally, ChaPanda uses secret passwords and interactive marketing, like dances and puzzles, to unveil cryptic menus, attracting curious customers and boosting social media engagement and sales.

Chagee can enhance its membership system by introducing exclusive tiered rewards inspired by Chinese cultural elements, such as traditional crafts or regional specialties.

## **5. Strategic Recommendation for Chagee**

### **5.1. Expand regional presence**

Chagee may expand its regional presence by using local ingredients to create drinks that symbolize exclusive regional products. Fruits and various types of tea can represent different cities, and the packaging of the cups can be designed with animals or flowers that are unique to the area. The storefront can also be delicately crafted to attract customers; for instance, the store in Hong Kong can emulate the obsolete yet classic style of the 1900s.

### **5.2. Strength engagement with the younger generation**

The youth population, aged 0-14, occupies 9.8% and 12.1% in Shanghai and Beijing, respectively. However, the percentage of youths in second-tier cities is higher, at 16.33% in Chongqing. [5] Therefore, to maximize the engagement of the younger generation, Chagee may expand its market to second-tier or even third-tier cities to attract more customers.

### **5.3. Strengthen the urban market with more innovative guochao design**

As Chagee focuses on health and fitness, its customer base mainly consists of younger generations. Therefore, it could design its IP in line with current fashion trends, and “guochao” is a perfect fit. It can collaborate with “guochao”-related products, like Gugong cultural items, to create more co-branded anime figures. By following the trends on platforms like Xiaohongshu and TikTok, Chagee might partner with brands such as preserved flowers and Lululemon clothing, similar to its recent product launch, Jellygee.

### **5.4. International opportunities**

Since xhs is open to all foreigners, many people from various countries, including celebrities, register accounts on xhs. Chagee can target its marketing on xhs and TikTok to broaden the international market by holding live videos and promoting new products. After garnering a sufficient number of foreign fans, Chagee could also open stores in other countries, not only to achieve higher revenue but also to spread the concept of healthiness and “guochao” to enhance the influence of Chinese culture worldwide. [6]

## **6. Conclusion**

In summary, the success of ChaPanda highlights the critical importance of regional customization, innovative marketing, and leveraging cultural identity in driving success in the ready-to-drink tea market. For Chagee, adopting these strategies offers immense potential to expand its presence in both domestic and international markets. By catering to regional preferences, engaging younger consumers through modern platforms, and enhancing its guochao identity, Chagee can position itself as a leader in the competitive tea industry. Future research could explore how evolving global trends and sustainability efforts further impact this dynamic sector.

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