

The Impact of Business Model Innovation on Firm Performance in the New Tea Beverage Industry - A Case Study of Heytea

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Abstract: This paper takes Heytea as an example to deeply explore the far-reaching impact of business model innovation on enterprise performance. In the context of the whole industry, the business innovation model of the tea industry is endless, but the core is mostly focused on the overall change of consumer demand and preference. Heytea has precisely targeted its target customer group - young female white-collar workers, and has carefully planned a series of detailed marketing strategies for this purpose. In order to comprehensively and deeply analyze the actual impact brought by this business model innovation, this paper compares Heytea with other competitors in the industry in multiple dimensions and levels. At the same time, the real feedback and evaluation of Heytea from customers on the network platform were extensively collected. The research results show that Heytea's business model innovation not only directly promotes the shaping of the positive brand image, but also indirectly promotes the substantial growth of corporate profits. Of course, this study also has some limitations, such as the lack of long-term and continuous data support to further verify the stability and universality of the conclusions. On this basis, future studies can further broaden the scope and duration of data collection to obtain more accurate and comprehensive analysis results.

Keywords: Heytea, business model innovation, firm performance.

1. Introduction

The new tea beverage industry is a product of the innovation and development of the Chinese milk tea industry, which is based on traditional tea drinks. Nowadays, consumer preferences are gradually changing; for example, young people are the main consumer groups of milk tea, who are more in pursuit of health, quality, creativity, and convenience. At the same time, technological advances have also brought new shopping experiences like mobile payment, online shopping platforms, and online booking for in-store pickup. In addition, the competitive market structures have changed dramatically. As a result, the milk tea industry has developed new tea beverages to cope with these changes.

According to the data, the number of ready-made tea drink stores in China reached 410,000 in 2018, a growth of 74% in one year, and is estimated to reach 450,000 by the end of the year. In terms of sales, the market size of ready-made tea drinks exceeded 40 billion yuan in 2018, with a compound growth rate of nearly 30%. These data show the dramatic growth of the new tea beverage industry

over the past few years. When capturing the Chinese market, the new tea beverage industry also opened franchises abroad [1].

Business model innovation refers to a proactive market-oriented approach based on customer needs and involves product or service innovation, profitability calculation, market positioning, supply chain management, and other modules to carry out one-stop innovations. It is the process of realizing the growth of customer value, creating new markets or reconfiguring industrial boundaries, and enabling enterprises to obtain excessive profits and self-growth. Business model innovation determines whether an enterprise can retain its existing customer base and attract new ones in a rapidly changing market. At the same time, it can also help enterprises develop new markets and reorganize their industrial structures. Eventually, the enterprise can obtain large profits and develop positively. In detail, a wise business model innovation can improve the company's market competitiveness, clarify the company's development direction, enhance customer adhesion, constantly innovate production technology, optimize the allocation of enterprise resources, improve the quality of employees, and establish a good corporate image.

Heytea is one of the pioneers of the new tea beverage industry. Heytea has also had remarkable achievements in business model innovation, which is an important revelation for other companies in the industry and even the entire consumer market. Aimed at young workers and students with some spending power, Heytea prioritizes high quality. At the same time, it adopts a business model of cross-field co-branding, multi-lines within their companies' cooperation, and the distinct features of each store. In the new tea beverage industry, Heytea occupies a large market share and realizes significant growth year by year.

In summary, this article uses Heytea as an example to explore the impact of business model innovation on firm performance in new-style tea drinks.

2. Business Model Innovation Analysis of the New Tea Beverage Industry

2.1. New Tea Beverage Industry Business Model Innovation

The new tea beverage has two main components. The extraction of the original juice from the tea leaves and adding various dairy products, desserts, wine, or fruits [1]. Based on these two parts, the overall industry has also made numerous innovations. For example, Milk cap tea is made with a milk foam on top of the tea. The fruit tea is a mixture of tea and juice concentrates with seasonal fruit-cutting pieces. Also, there is innovation in the favor of tea itself. In addition to the familiar black tea, white tea, and oolong tea. Supplier will mix rose, peppermint, and other plants with tea to extract together. The last one is the combination of wine and tea; the suppliers will add tea concentrate to liquors like Whiskey, gin, and tequila.

New tea beverages are making various attempts at service along with product innovation. For example, the supplier skillfully incorporates special textures, poems, and holiday features into the packaging [2]. These designs can establish the brand image and give consumers a sense of belonging to the brand. The supplier also tries to match desserts with their tea drinks; for example, sweet products will be matched with savoriesavory buns. For example, there are also many subtle ideas in related products. For example, suppliers will design a cartoon character or animal based on the brand image. Based on this character, they design cups, bags, pendants, and so on.

There have been numerous marketing strategies for new tea beverages in recent years. Some products are closely related to Chinese culture and tea history. These vendors will use historical events or poems as names for their products. Some products are co-branded with various fields like cartoons and customs. Upcoming movies or famous games are their top choices. Some products also emphasize and advertise the cleanliness and freshness of their raw materials. Their advertisements will focus on the selection of raw materials and processing of their products. At the same time, the

newer tea beverage industry has incorporated store distribution into its marketing strategy. Suppliers will choose store locations based on the geographic location of their brand's consumer group [3]. For example, newer tea beverages with lower pricing will choose to open more stores in non-central cities. Specifically, these merchants will choose a strategy of opening stores in remote cities to central cities.

2.2. Heytea's Business Model Innovation Practice

Heytea designs its products to emphasize four main features: individuality, green, high quality, and scarcity. To realize the above three characteristics. Heytea has made the following efforts. Firstly, it enhances the personalization of the product. Xi Cha has made efforts in Internet marketing and co-branding. For example, on May 1, 2024, Heytea co-branded with Smiley. In 2024, Heytea co-branded with Yayoi Kusama [4]. Heytea's co-branding is not limited to the milk tea industry like its competitors but cross-border co-branding artists' galleries, movies, games, and clothing [5]. Heytea has also noticed the attention that internet celebrities bring. Each time, they are invited to take photos and post them on social media to further expand the impact of the co-branding. In addition to co-branding, Heytea is also responding to consumer demand for green and sustainable products [6]. Heytea has launched an activity that offers discounts for customers who bring their cups to order their products. Heytea has also introduced eco-friendly paper straws and straw-less caps in its stores nationwide. Meanwhile, the company pays close attention to the selection of raw materials. For example, it uses fresh grapes for its grape products and combines fresh grape juice with tea. Lastly, Heytea will also offer specific drinks in different stores; for example, stores near Disney will offer kid's-style products. These limited offerings use a hunger marketing strategy to make every tourist try its special offerings.

3. The Impact of Heytea's Business Model Innovation on Firm Performance

3.1. Analysis of Financial Indicators

The above business model innovation has directly impacted Heytea's corporate performance. On January 2, 2023, Heytea released its annual business report. According to the report, by the end of 2023, Heytea's stores had exceeded 3,200, including over 2,300 business partnership stores. Its store size grew 280% yearly, making it the fastest-growing brand in the industry in terms of size. The report also shows that in 2023, Heytea's store sales performance was excellent. Heytea's directly managed stores achieved significant year-on-year monthly sales growth for 12 consecutive months, with the highest monthly growth reaching 80%. At the same time, several of the directly-managed stores and business partner stores have a monthly sales volume of more than 1 million RMB [7].

Table 1: New Tea Beverages Stores' Size Growth in 2023 [8]

	NUMBER OF STORES AT THE END OF 2022	NUMBER OF STORES AT THE END OF 2023	TOTAL NUMBER OF STORES	NUMBER OF STORES' GROWTH RATE
HEYTEA	793	2687	3480	338.84%
CHAGEE	1035	2340	3375	226.09%
NAIXUE	962	582	1544	60.50%
COCO	3359	1080	4439	32.16%
CHAPANDA	6618	1424	8042	21.52%
MIXUE ICE CREAM & TEA	23564	6138	29702	26.05%

In selecting the data, this paper primarily chose six stores with positive net total stores' number growth ratios as shown in table 1. Two of these had net growth rates in the triple digits, leaving four in the double digits. One of our research targets, Hi-Tea, has the highest net store' number growth rate. The number of stores reflects the extent to which franchisees recognize Heytea. In the beginning, Franchisees entering the new tea beverage market must thoroughly evaluate all the companies. Ultimately, they believe that Heytea's business model is reasonable and profitable. In terms of store number growth, Heytea opened only 51 stores in the year 2022 but ended 2023 with 2,687 new stores. In conclusion, there is a positive relationship between Heytea's business model innovation and its stores' growth rate.

However, extrapolating from store growth figures alone is not enough to fully illustrate the conclusion. More data needs to be provided for further research. In order to draw stronger conclusions, sales, and costs can be analyzed from these perspectives.

3.2. Analysis of Non-financial Indicators

This paper will analyze the indirect positive impact of business model innovation on firm performance in three dimensions. Firstly, on February 15, 2024, Heytea was the number one milk tea brand among the top ten stores in 2024 based on the World Index Impact-based metrics [9]. Meanwhile, Heytea has opened stores in the UK, Australia, Canada, and the US while gaining domestic customers [7]. Heytea's popularity is not only limited to China, it has also opened several stores in developed countries.

Secondly, customers tend to sign up for memberships only for brands they are willing to spend money on in the long run. This repetitive buying behavior is a sign of customer loyalty to a particular brand [10]. The total number of Heytea memberships exceeded 100 million, making it the first new tea beverage brand to break the 100 million private user scale. The number of members reflects how well the target customer group is responding to the business strategy and indirectly reflects the company's profit.

Lastly, Heytea's brand influence is not only limited to its derivative products but also reflected in its brand logo, which has become a symbol of fashion. According to social media feedback, Heytea's innovations in cups and bags can give customers a sense of novelty. Meanwhile, the cups and bags with the Xi Cha logo have become a fashion element that exists independently of the new tea beverage itself.

4. Conclusion

In this paper, in order to analyze the impact of business model innovation on firm performance in the new tea beverage industry, an in-depth analysis is carried out from two perspectives. This paper first focus on the industry transformation and how Heytea responds to its changes. It also analyzes how Heytea's business model innovation affects corporate performance from both direct and indirect perspectives.

To sum up, Haicha has achieved remarkable success in the 2022-2023 period with its business model. This success is mainly due to innovation at the product, service and strategic levels. However, there is still room for optimization, especially in terms of supply chain management, for example, choosing more cost-effective producers based on the seasonal growth of tea leaves. In addition, sea tea can also meet the cultural identity of consumers by deepening product culture innovation, such as opening theme stores featuring urban culture, in order to attract the consumption of citizens and tourists.

At the same time, the conclusion of this study also has some limitations. While available data has shown a positive impact on business performance, more data needs to be collected in order to draw

more precise conclusions. In addition, the observation period of this study is limited to short-term changes, and a longer period of data tracking and financial statement analysis is needed to fully evaluate the long-term rationality of the sea tea business model.

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