

A SWOT Analysis of HeyTea

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Abstract: This study explores the marketing strategies and competitive dynamics of HeyTea, a leader in the new tea industry that originated in China. Besides rising costs and shifting consumer preferences, the research evaluates HeyTea's strengths, weaknesses, opportunities, and threats (SWOT) to identify its strategic positioning. This study will use SWOT analysis to conduct deep research on HeyTea and its industry, and it also utilizes other academic sources to synthesize the crucial points. Strengths include HeyTea's strong brand reputation, product innovation capabilities (e.g., low-sugar offerings), and vertically integrated supply chain. However, some disadvantages, like high operating costs and relatively exclusive pricing strategies, will prevent people from purchasing. Opportunities are identified in the growing demand for health-conscious products and overseas market expansion, while threats include raw material price volatility and market saturation. The study concludes that HeyTea must balance cost control with brand differentiation, enhance supply chain efficiency, and adopt flexible pricing strategies for lower-tier markets to sustain growth.

Keywords: Swot, Marketing, New-tea industry, HeyTea

1. Introduction

With the ever-accelerating development of the new tea industry, increasing numbers of tea companies, such as Mixue, Sexytea, and chaPanda, have appeared in the Chinese market. One of the most well-known companies is HeyTea, which was created in southern China, Guangdong province. Its original name was Royal Tea, but the company changed its brand name to HeyTea in 2016. Today, HeyTea is a relatively huge business in the field of tea making, with its headquarters located at ShenzhenMeixi Catering Management Co., Ltd. and over 4300 retail stores worldwide. [1]. HeyTea is the leader of the new Chinese tea industry. All knows that HeyTea is credited with its highly innovative ability. By now, HeyTea's product types are very rich, involving fruit tea, sparkling water, light milk tea, etc., among which the popular products include its self-developed succulent grapes, cheese milk cover tea series. These teas have attracted the attention of Chinese consumers because of their refreshing tastes and unique level of innovation. Right now, there are a number of papers focusing on the strategies that HeyTea has applied to expand its market. Ways including co-branding, advanced store designs, and social media spread achieve success in the current market to some extent. This research paper aims to explore the effectiveness of the marketing strategies of HeyTea by using SWOT analysis. This essay will use research methods such as source evaluation, which is imperative in any field of study. By reading this paper, people will get a deeper understanding of the marketing strategies used by HeyTea today and its potential problems that can be solved in the future.

2. Strength

2.1. High ability to innovate new products

It is known to all that HeyTea's ability to innovate new kinds of products is really strong. With a focus on innovation and taste, HeyTea is one of the most outstanding and popular new tea drink brands in China since it can always capture the demand of young consumers, which is its main target market.[2] For example, nowadays, young citizens are inclined to pay more attention to their body regulation. They are very concerned about their body shape and the amounts of carbohydrates in one couple of drinks, which is the main reason for gaining weight.[3] Accordingly, HeyTea has launched a fruit-flavored tea drink with low sugar, low calorie, and 0 fat. This product uses a low-calorie formula which is used to keep calorie intake to a minimum. In this way, it can perfectly satisfy the needs of consumers since they can still appreciate delicious tea drinks without concern about their health conditions.

2.2. Good reputation

The founder of HeyTea, Nie Yunchen, has spent years making the brand well-known and prestigious, just like Starbucks. With the efforts of over twelve years, HeyTea has successfully built a brand image of premium and stylish since its high pricing strategy and refreshing design of tea drinks[3]. In the beginning, HeyTea's positioning was young and high-end, which was more in line with the majority of consumers' pursuit of fashionable tea drinks, so it was also more popular among young people and even middle-aged people. Secondly, HeyTea's marketing strategy has also laid a good foundation for its reputation. First of all, it attracts the attention of consumers by co-branding with some internationally renowned brands and IPs, such as Clot or Smiley. In addition, use social media platforms, such as Xiaohongshu, Douyin, etc., to promote the store and further expand its market influence. For instance, HeyTea always holds sweepstakes on Weibo, which attracts people unfamiliar with this brand to pay attention as well.

2.3. Efficient supply

HeyTea owns an effective and efficient supply chain. First of all, HeyTea is very good at managing the supply chain. It has its own tea plantation, starting from the quality control of raw materials to ensure product quality. The requirements for other product suppliers are also extremely stringent, reducing the risk of inferior product use. Some top brands with perfect supply chain systems have high efficiency and can thus increase the competitiveness of these companies.[4] In addition, HeyTea has a mature digital management system. HeyTea constructed a mature supply chain system at a relatively early time and has realized digitalization from suppliers, warehouses, transportation, and distribution to production, which optimizes the efficiency of the supply chain[4]. HeyTea's own ERP system lays out the digital supply chain, from raw material quality control to procurement, inventory, and distribution management, and the whole process is standard to ensure the visualization and sharing of inventory, sales, quality control, and formula of each directly-operated store, which greatly improves the efficiency of supply chain management and provides the greatest support for tea innovation.

3. Weakness

3.1. High price leads to loss of market

Because of its high-quality ingredients, the cost of making one cup of tea for HeyTea is relatively high. As a result, HeyTea's tea is expensive in this industry, ranging from 16 yuan to 25 yuan. If the

tea drinks are too expensive, most local people may be unable to afford them.[5] Consumers, especially students or people who have low income, will not purchase its products. If the tea drinks are too expensive, most local people may not be able to afford them.[5] Additionally, there are a lot of substitutes in the market that employ a low pricing strategy. There are even brands like Mixue Ice Cream & Tea, which can be priced at less than ¥10, so HeyTea's product pricing is much higher than the average price in the market.[2] In this way, HeyTea will definitely lose parts of the market. In lower-tier cities or counties, per capita consumption levels are lower, and consumers are more price-sensitive. The high price of HeyTea may make it difficult to replicate its success in first-tier cities, and it will need to rely on price reductions or sub-brands to expand the market. However, it may dilute the value of the leading brand and thus restrict HeyTea's ability to grow to a larger scale.

3.2. High operating cost

HeyTea's operating cost is quite large due to its style positioning. Most of the stores are located in the core business districts of big cities, where the rent of the shops is high and the operating costs are high. Also, rent and labor costs are huge, resulting in high pressure on the profitability of a single store. Secondly, HeyTea emphasizes the use of high-quality raw materials such as fresh fruits and raw leaf tea, but fruit price fluctuations and supply chain stability issues (such as seasonal shortages) may affect product availability and costs. The raw materials of the new tea drinks are required to be fresh, which adds up to the production cost.[5] Overall, long-term cost pressure will squeeze HeyTea's profit margins, which will affect further development in the future.

4. Opportunity

4.1. Increasing demand for healthy and green products

As the average income of consumers increases, people are inclined to focus on other aspects of the product they consume rather than the price. Clean and fresh ingredients and low-calories will likely attract citizens. This trend has also appeared in the new tea market, and companies want to seize this opportunity. For example, HeyTea officially announced that it invited Pamela Reif, the world's top fitness blogger, to serve as HeyTea's 2024 "Health Recommendation Officer", and the two sides launched 11 light burden series of healthy tea products exclusively recommended by Pamela around the theme of "Light Burden, True Health". According to the 2020 annual report of HeyTea, more than half of consumers choose to reduce the sweetness when ordering, and HeyTea is the first milk tea brand to add zero-calorie sugar to its drinks.[1] Since the price of green food is 10 to 50% higher than normal food, middle and high-income consumers are likely to afford to buy it.[6] Those purchases made by middle or high-income people are the major income of HeyTea. In the future, HeyTea could concentrate on the innovation of healthy and green products to cater to consumers' tastes and earn more profits.

4.2. Growing market size

At present, it seems that the new tea drink market will continue to expand. Although facing problems such as market saturation and merchant involution, according to a report by iiMedia Consulting, the area of China's new tea beverage market will exceed 374.93 billion yuan in 2025. The market size of the new-style tea industry will show a growing trend in the next few years, indicating the great potential of the new-style tea industry in the future.[1] In addition, HeyTea's main business is currently concentrated in the Asian region, especially in China. HeyTea has already begun to capture market share overseas, targeting several countries, including Japan, Singapore, Thailand, Vietnam, and Malaysia.[1] Additionally, due to the high positioning of his brand and the quality of healthy and

green tea, it may win a certain share in foreign markets, such as Europe and the United States. Because compared with the domestic market, the competitive pressure in the external market will be much less. Through investigation, it can be seen that HeyTea is very adept at using co-branding to spread social topics and gain new fans and amplified effects through interactions with other brands.[1] Since HeyTea is particularly good at co-branding to launch new products to attract customers, it can cooperate with some world-renowned brands and expand its market share in the foreign market.

5. Threat

5.1. Increasing competition

After the rapid growth of the tea industry, the overall market is gradually shifting from increment to stock, and major brands are rapidly expanding through the franchise model to compete for market share in the scale war and price war. For example, Mixue Ice Cream & Tea is deeply favored by the majority of consumers in China because of its low price, which also squeezes the market share of HeyTea to a certain extent. People are reluctant to pay a high price for a cup of milk tea due to the economic downturn that has led to a decline in people's income levels. At the same time, other tea brands such as Chapanda and Nayuki Holdings Limited have begun to constantly update their products to meet the taste needs of consumers. Because of the emergence of various new tea drink innovations, HeyTea is still facing a big challenge in cultivating stable customer brand loyalty.[7] If HeyTea does not pay much attention to the design of new products, it may lose its present customers. In the long run, this will bore and disappoint the customers, impairing customer loyalty.[8] In this way, HeyTea also has to invest a lot of money in the research and development of tea every year. However, due to its strict inclusion of quality, production costs are inevitably raised. As a result, HeyTea should improve product quality and innovation, invest more in research and design (R&D), and discover a new supply chain of ingredients that can lower production costs while also improving taste.[9] It takes a long time for HeyTea to find the best solution.

5.2. Cost of supply

The first is the rising price of raw materials. In recent years, global commodity price fluctuations (such as palm oil, fruits, dairy products, etc.) have directly affected the raw material procurement cost of HeyTea. For example, in 2020, due to the rising cost of raw materials, the price of some products of HeyTea increased by 2 yuan. However, in order to meet the needs of the market, it had to reduce prices, and profit margins were further compressed. Second, HeyTea optimizes quality and cost by building its tea gardens and orchards and deeply participating in upstream planting. Although this method ensures the high quality of HeyTea products, this kind of asset-heavy model has a large initial investment and requires long-term maintenance, which puts pressure on cash flow.

6. Conclusion

HeyTea has formed competitive barriers through differentiated products, healthy upgrading, and global layouts. In response to the management pressure and surging costs, it is necessary to continuously optimize the efficiency of the supply chain, strengthen franchise control, and explore differentiated pricing strategies in the sinking market, including building a "smart hub" system to optimize the supply chain and a cold chain logistics system with SF, increasing the turnover efficiency of raw materials by 40%. HeyTea needs to strengthen its franchise management and control, and it is important to establish a full-link management system from site selection evaluation to food safety traceability. It can apply a pyramid pricing strategy, which means maintaining the current products' price and announcing some drinks that range from 15 to 20 yuan. This could help

HeyTea address the problem of loss of customers in the market. In the future, HeyTea should continue to build its economic moat, from product experience to cultural identity. It can further enrich its brand depth by making some commercial alliances with some famous cultural or natural landscapes, such as the Forbidden City. Also, further deepening the concept of "rejuvenation of tea culture", combined with digital labels and cross-border art, may consolidate its status as a "benchmark for new tea drinks".

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