

# ***HEYTEA: From Disruptive Market Entrant to Scalability Challenges in China's Premium Tea Beverage Sector***

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**Abstract.** In recent years, the market scale of China's new-style tea beverage sector has surged to nearly 30 billion yuan, with dividends from capital and Internet traffic undergoing superimposition. However, since 2022, the track has suddenly cooled down, and the financing events have dropped by 80%. In this study, HEYTEA is selected as a case study to examine its evolution from a regional tea beverage brand to a national industry benchmark, while further analyzing its performance in scale expansion, which has encountered a growth bottleneck in recent years. Through case analysis and second-hand data such as annual reports and industry reports, its successful experience in product innovation, pricing strategy and digital marketing is analyzed. It is found that the rapid expansion of Xicha causes systemic risks, which are manifested in the out-of-focus supply chain management, the reduction of employee training cycle, which leads to the decline of service quality, and the poor profitability and high store closure rate of franchise stores. Brands need to establish a balance mechanism between scale expansion and quality control. This study provides a theoretical framework and practical guidance for the tea industry to deal with similar challenges by analyzing the case of tea-loving.

**Keywords:** Premium tea beverages, Strategic brand positioning, Quality assurance paradox, Digital consumer engagement, Franchise operational hazards

## **1. Introduction**

China's premium tea beverage sector has expanded into a commercial landscape valued at 20 billion U.S. dollars.. Existing scholarly investigations predominantly emphasize either competitive dynamics or unilateral product innovation strategies, with insufficient systematic analysis regarding how market leaders sustain growth momentum amidst escalating product homogeneity and operational complexities. Three significant research lacunae persist: Firstly, the symbiotic interdependencies between digital enablement tools and physical network proliferation. Secondly, strategic tensions inherent in maintaining premium brand positioning while pursuing mass-market accessibility. Thirdly, supply chain vulnerability transmission mechanisms within franchise-dependent expansion models.

Over the preceding decade, Heytea has exemplified exponential growth within the premium tea segment. Documented operational metrics through 2023 include: A global retail footprint exceeding

1,600 operational units; registered membership surpassing 63 million consumers; and annual sales density averaging 48,000 yuan per square meter, substantially outperforming Starbucks China's benchmark of 29,000 yuan during the corresponding period [1]. The enterprise has further cultivated profound generational affinity among Gen Z cohorts through its "green inspiration" narrative paradigm, effectively transmuting beverages into social currency while transforming retail environments into ritualized third spaces. This market disruption phenomenon lays the theoretical groundwork for investigating the mechanisms underlying the preservation of sustainable competitive advantages.

This investigation positions Heytea as a quintessential specimen of contemporary Chinese consumer brand evolution. Through structured case analysis methodology, it deciphers: critical success catalysts during its ascendant phase; systemic vulnerabilities exposed during accelerated scaling; and the transformational pathway from regional novelty to national category architect. The research further identifies operational tensions arising from rapid expansion: Progressive industry homogenization has enabled proximate competitors including Nayuki Tea and Chayanyueshuo to compress price corridors, depressing Heytea's average transaction value and gross margin percentages for three consecutive fiscal periods. Simultaneously, scaling-induced food safety governance pressures culminated in a microbiological contamination incident that significantly eroded consumer trust [2]. Most critically, aggressive franchising diffusion into lower-tier markets has progressively attenuated brand exclusivity perception. These manifestations epitomize the fundamental antagonism between scale efficiencies and brand equity preservation, constituting this study's primary analytical nexus.

## **2. Contextual analysis: Heytea's operating environment**

### **2.1. Foundational demand catalysts**

Heytea's embryonic development phase coincided with China's consumption upgrade cycle and sustained macroeconomic advancement. The emerging middle-class demographic demonstrated escalating discretionary expenditure capacity, with beverage consumption patterns transitioning from utilitarian hydration toward experiential fulfillment and social signaling. Market analytics confirm that younger consumer cohorts increasingly utilize digital discovery channels as primary consumption navigational tools, fundamentally reshaping market entry pathways.

### **2.2. Competitive landscape structuration**

Tea's immutable cultural salience within Chinese society has catalyzed extreme market fragmentation alongside intense competitive rivalry. While market entry barriers remain operationally low, competitive intensity generates elevated market attrition rates. The industry exhibits a barbell distribution structure wherein premium and value segments demonstrate consolidation tendencies, while the mid-market experiences persistent hyper-competition. Within this context, Heytea's accelerated franchising velocity reflects strategic ambitions regarding channel dominance.

### **2.3. Digital ecosystem and influencer economy integration**

Contemporary new media architectures have fundamentally reconfigured consumer information acquisition behaviors and brand engagement patterns. Audience attention concentration on dominant digital platforms has catalyzed the wanghong phenomenon, subsequently formalized as an

influencer-mediated economic subsystem. While accelerating e-commerce permeation and consumption democratization, this ecosystem simultaneously introduces cybersecurity vulnerabilities and cultural value distortions [3].

For market participants, comprehending youth consumption psychographics within influencer cultural contexts constitutes a strategic imperative. Platform-specific engagement methodologies on social ecosystems including WeChat Moments and REDnote have consequently become indispensable components within Heytea's integrated marketing architecture.

### **3. Critical success factors: Heytea's ascendancy phase**

#### **3.1. Product innovation architecture**

HEYTEA has deployed nomenclature with distinct linguistic characteristics—such as "Zhi Zhi Mei Mei" and "Duo Rou Pu Tao"—thereby constructing cognitive barriers that impede direct price comparisons. The enterprise maintained premium positioning through selective ingredient sourcing, aligning with escalating health consciousness among consumers. Its foundational product philosophy combines artisanal tea extraction techniques with seasonal fruit integrations, utilizing advanced flavor preservation technologies to maintain ingredient integrity.

The minimalist white cup design featuring rotating lids generated substantial user-generated content propagation across youth-oriented social platforms. Aesthetically congruent packaging solutions simultaneously stimulated repeat purchase behaviors through sensory satisfaction mechanisms.

#### **3.2. Strategic marketing implementation**

##### **3.2.1. Veblen effect pricing framework**

The enterprise implemented prestige pricing strategies rooted in Thorstein Veblen's 19th-century conspicuous consumption theory, which postulates that certain commodities experience demand elasticity inversely related to price movements [4]. By positioning products several multiples above conventional tea beverages while maintaining a strategic price gap beneath international coffee chains, Heytea cultivated aspirational brand perceptions among urban professionals. This psychological pricing architecture effectively established category premiumization.

##### **3.2.2. Scarcity mechanics and queuing phenomenon**

Deliberate store footprint constraints within premium commercial districts, coupled with theater-style preparation visibility, engineered systematic queuing scenarios. Illustratively, the February 2017 Shanghai Lufax Square inauguration attracted hundreds of queuing consumers, generating curiosity-driven foot traffic [5]. This orchestrated scarcity triggered informal social sharing while activating herd behavior psychology among prospective consumers.

#### **3.3. Digital consumer engagement systems**

##### **3.3.1. Proprietary ordering ecosystem and membership analytics**

Unlike conventional dependency on third-party delivery platforms, Heytea prioritized its mini-program infrastructure, circumventing 20-30% transaction commissions while capturing first-party

behavioral data [6]. By December 2020, its membership database exceeded 35 million authenticated users [7], enabling predictive analytics for preference mapping and hyper-personalized automated marketing initiatives.

### **3.3.2. Short-form video engagement strategy**

Leveraging WeChat Video Accounts's sustained traffic characteristics, the brand developed emotionally resonant narratives addressing psychosocial needs. Research indicates that consumers exhibit engagement propensity when marketing content demonstrates either functional relevance or authentic emotional congruence [8]. Heytea's implementation of affective marketing principles fostered positive brand associations through psychological resonance mechanisms.

## **4. Systemic challenges during scaling phase**

### **4.1. Scarcity marketing reversal effects**

While early-stage artificial scarcity generated curiosity, its perpetuation created experiential friction. Consumer psychology research confirms that procedural obstacles in acquisition pathways generate negative affective states, progressively eroding brand loyalty foundations [9]. As competitive alternatives proliferated, this strategy precipitated consumer attrition through reduced switching costs.

### **4.2. Brand loyalty fragility in saturated markets**

Low industry entry barriers facilitate rapid competitive encroachment, impeding sustainable brand differentiation. Contemporary consumers exhibit rationalized purchasing behaviors with elevated expectations regarding product excellence, service quality, and experiential dimensions. Within digital information-saturated environments, Generation Z demonstrates limited brand allegiance, presenting persistent retention challenges.

### **4.3. Premium positioning erosion through price competition**

Initiation of discounting strategies in late 2022, including group-buying initiatives emulating Luckin Coffee's 9.9 yuan model, temporarily attracted price-sensitive segments. However, analogous to Luckin's brand perception challenges, this strategic pivot contradicted Heytea's premium positioning, triggering core customer defection while accelerating product commoditization through perceived quality equivalence.

### **4.4. Operational risks in "10,000 stores" expansion**

#### **4.4.1. Supply chain and quality assurance breakdowns**

According to the 2023 China Ready-to-Drink Tea Industry Report, accelerated franchising increased perishable ingredient wastage during cross-regional logistics. Non-standardized materials including fresh fruits and premium tea leaves exhibited quality deterioration during extended distribution cycles.

#### **4.4.2. Hygiene management failures**

Regulatory inspections have identified recurring non-compliance issues, which include: inadequate temperature control during food storage; cross-contamination between raw materials and finished products; non-conformant waste management practices in production premises; and unlabeled ingredient containers that lack opening date records. Notably, a June 2020 Nanjing Municipal inspection identified five non-compliant Heytea product batches, including four microbial contaminations and one ice product exceeding bacteriological standards [10].

#### **4.4.3. Franchisee viability concerns**

Compressed employee training cycles decreased from 21 days in company-operated stores to merely 7 days for franchise locations, directly impacting service standardization. New franchise outlets averaged only 350 daily transactions, approximately 50% below mature store performance. Concurrently, escalating rental expenses created operational viability challenges, extending average payback periods to 14 months versus the industry benchmark of 9 months [11]. Franchise closure rates reached 28%, indicating systemic profitability constraints.

### **5. Theoretical implications and managerial lessons**

#### **5.1. Scalability-quality assurance paradox resolution**

Heytea's initial competitive advantage originated in artisanal craftsmanship and ingredient excellence, exemplified through initiatives like its Guizhou tea plantation terroir optimization. However, rapid franchising diluted quality control protocols through supply chain fragmentation. This case demonstrates that product innovation necessitates vertically integrated supply chain coordination. Sustainable scale expansion necessitates either the minimization of franchisee autonomy via centralized ingredient distribution or the retention of company-operated outlets as benchmark entities for quality control.

#### **5.2. Brand positioning-market accessibility equilibrium**

Early premium perception construction through Veblen pricing and scarcity mechanics was reinforced through digital membership precision marketing and cultural collaborations. However, the 2022 price reduction strategy generated 20% temporary sales enhancement at the expense of brand equity erosion. This underscores the inherent incompatibility between price competition strategies and the sustainability of a premium market positioning. Enduring brand value requires irreplaceable differentiation anchors such as scientifically validated health benefits or multisensory experiential environments.

#### **5.3. Franchise system governance imperatives**

Company-operated stores maintained quality consistency through comprehensive 21-day training regimens. Under franchise acceleration, abbreviated 7-day training protocols directly correlated with operational underperformance: suboptimal transaction volumes (350 cups/day), elevated closure rates (28%), and extended capital recovery cycles (14 months). Most critically, third-tier franchise locations exhibited hygiene non-compliance rates approximately 300% higher than company-managed units, revealing systemic governance deficiencies.

#### 5.4. Trust-centric brand sustainability model

Social responsibility constitutes not merely an ethical consideration but an operational imperative requiring structural integration. The survival paradigm for contemporary consumer brands encompasses four pillars: product excellence as foundational root system; brand narrative as growth accelerator; supply chain resilience as circulatory network; and ethical governance as corporate consciousness. When transient digital traffic advantages dissipate, only brands demonstrating authentic value creation through product superiority, cultural relevance, and transparent operations achieve market persistence amidst industry consolidation [12].

#### 6. Conclusion

This investigation establishes that between 2016-2020, Heytea's strategic integration of distinctive nomenclature, premium ingredients, minimalist retail aesthetics, and digital membership ecosystems successfully transformed beverages into social capital, enabling significant brand premiumization. However, post-2021 accelerated expansion precipitated systemic vulnerabilities: abbreviated training protocols compromised operational consistency; supply chain strains manifested in quality fluctuations; and escalating closure rates revealed fundamental tensions between scale objectives and quality imperatives. Although temporary price reductions generated short-term transaction volume increases, they simultaneously diluted brand positioning and undermined competitive differentiation.

The core theoretical contribution identifies organizational imbalance between expansion velocity, operational capacity, and brand covenant fulfillment as the primary growth constraint. The principal managerial implication indicates that sustainable scaling requires quality assurance mechanisms embedded within expansion architecture rather than post-implementation remediation. New consumer brands must institutionalize quality governance throughout organizational DNA to consistently deliver upon brand promises during growth phases.

This study acknowledges methodological constraints arising from limited access to proprietary operational data and absence of primary stakeholder interviews. In the future, stratified multi-city surveys ought to be conducted, encompassing first- to fourth-tier cities, and supplemented by ethnographic in-store observations, so as to capture the on-the-ground realities of frontline operations. Furthermore, comparative multi-case analysis incorporating competitors such as Nayuki, Chayanyueshuo, and Shanghai Auntie would enhance theoretical generalizability. Longitudinal panel data tracking franchise performance metrics combined with event history analysis could subsequently generate predictive scaling sustainability models for industry-wide application.

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