



HEYTEA 喜茶

PIKIPEDIA

Growth Strategy for Heytea Bottle

2022 Bain Case Competition | Team Pikipedia

Executive Summary: Growing Strategy of Heytea carbonated drinks will open up the cupped carbonated beverage industry and promote the sales of bottled ones

Market Overview

- **Market Size:** The non-cola carbonated beverage market has a promising future.
- **Key Drivers:** Sugar-free trend, consumer upgrading and cost reduction.
- **Customer Analysis:** Primary target customers are young and well-paid, who focus more on health and flavor.

Company Overview

- **Competitive Landscape:** Market gap still exists for product priced above 10 with more than 10 flavors.
- **Company Comparison:**
Heytea bottled sparkling drinks only has advantages in offline stores.
The value proposition of Heytea is exquisite and up-to-date, causing different performance in different channels.

Strategy Design

- Open up the market of cupped carbonated drinks**
- **Site Selection:** Set Pop-up Stores and Vending Machines in some first-tier cities.
 - **Pop-up Stores:**
First locate in Shanghai and Beijing, after which Heytea will offer cupped carbonated drinks in offline store.
Heytea Pop-up Stores use healthy and diversified menu as well as DIY area.
 - **Vending Machines:** Use vending machines to penetrate smaller cities for Heytea sparkling series.
 - **Heytea Bottle Cap Collection Project:** Get discounts in cupped carbonated drinks

Implementation

- **Timeline & Risks:** Five-year development analysis & potential risks to be attention.
- **Financial Forecast:** Heytea is estimated to earn over 150 million RMB in five years time, indicating a promising future for expansion strategy.

Agenda

▶ Market Landscape

Market Size & Key Drivers

Primary Target Customers

Company Overview

Expansion Strategy

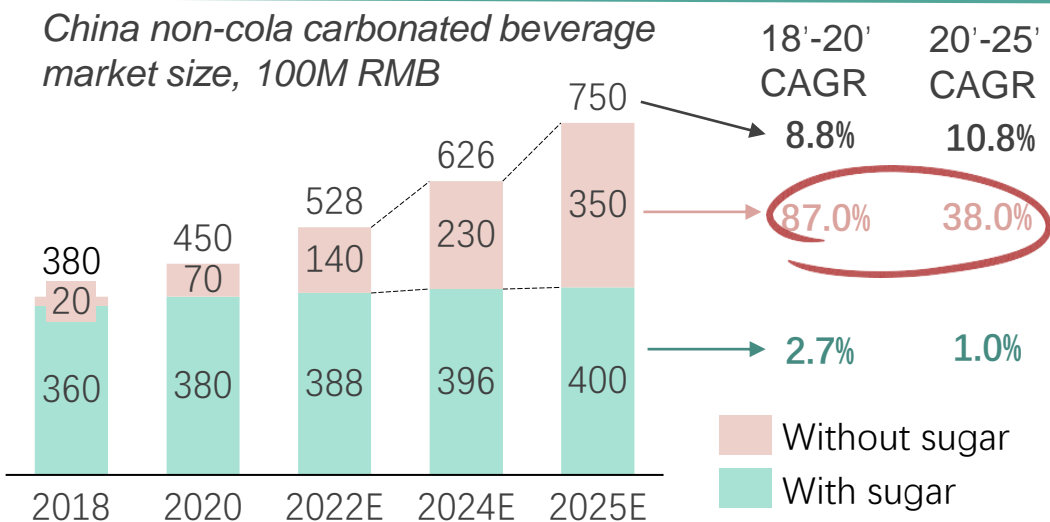
Implementation

Appendix

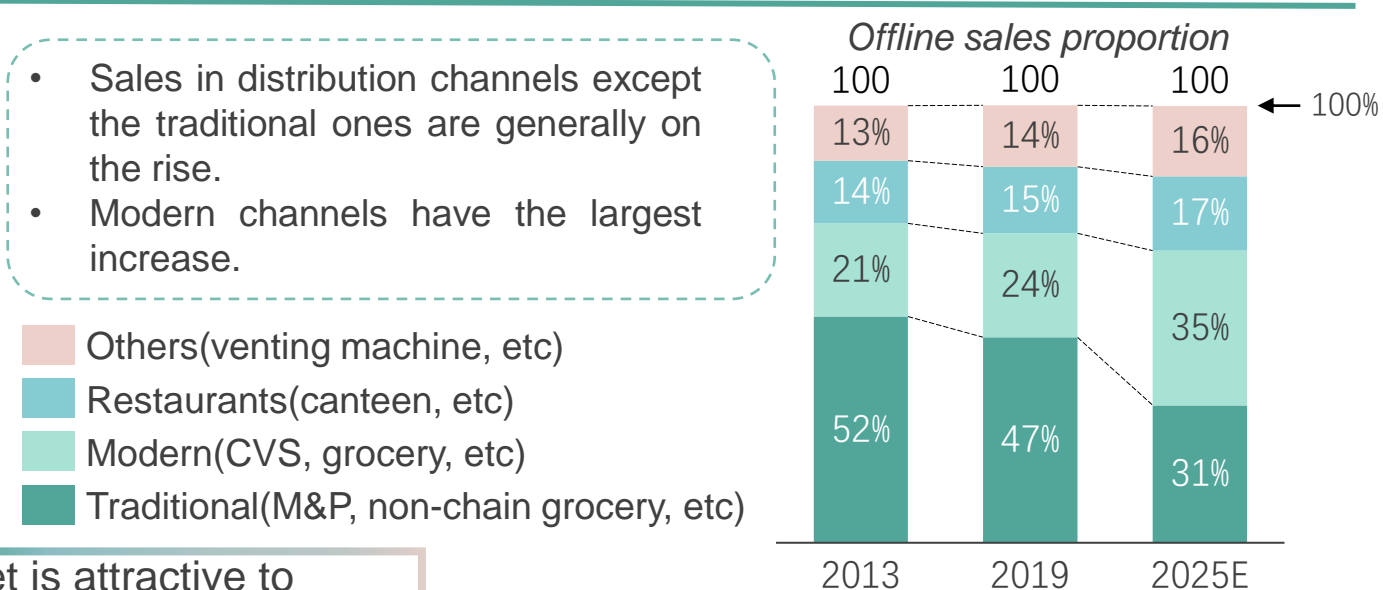


The non-cola carbonated beverage market size and investment is gradually rising, and distribution channels are changing, demonstrating huge potential

TREND 1: The non-sugar beverage perform better within the non-cola carbonated beverage market.



TREND 2: The main offline distribution channels for non-cola carbonated beverage are CVS and traditional stores, though the latter one is shrinking.



TREND 3: The whole non-cola carbonated beverage market is attractive to capital and has a promising future.



- Companies in the non-cola carbonated beverage market show positive finance situation.
- Leaders in this field like Genki Forest has a market valuation of over 15 billion dollars.

Key Drivers of the development of non-cola carbonated beverage include the sugar-free trend, consumer upgrading and cost reduction

The emergence of sugar-substitutes beverage meets consumers' pursuit of health and drink flavor

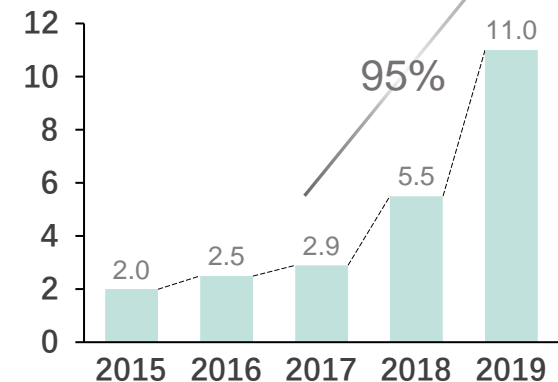
Consumption of Erythritol, the essential material of no-sugar beverage, **grew rapidly from 2017 to 2019 in China.**

Policy Support:

Healthy China Action (2019-2030) advocates food producers and operators use natural sweeteners permitted by National Food Safety Standard.

Genki Forest creates the consumer cognition of "**Health & Tasty**" towards the whole non-cola carbonated beverage.

From 2012 to 2018, the compound annual growth rate of global sugar-free beverages was **28%**.



Erythritol Consumption in China (thousand ton)

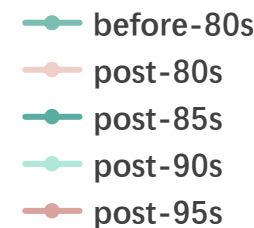
Promising reduction of production expenditure ensures higher revenue for carbonated beverage drink industry

Since 2021, the price of Erythritol is dropping continuously, from **¥ 40,000** per ton in May 2021 to **¥ 15,000** per ton in April 2022.

The Evolving Trend of Sugar Substitutes:
Aspartame → Erythritol & Stevia → Psicose

➔ **Technology progress** provides a promising future for sugar-free drinks

Growing consumption level of young population increases willingness to pay for soft drinks



Young Generation Preferences:

Post 90s have higher preference for carbonated beverage, which is **12% percent higher** than people of all age.

→ Post 90s' willingness to pay for the drinks grows rapidly.

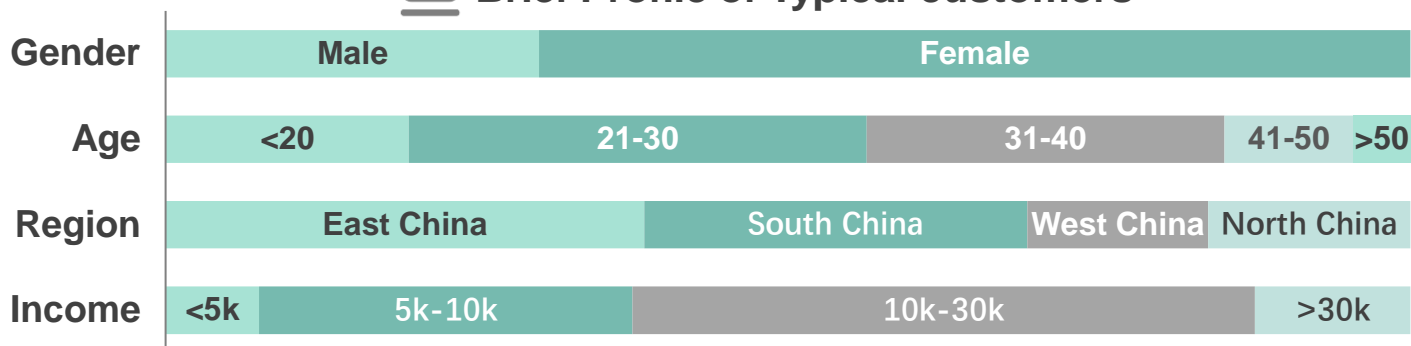
Soft drinks consumption frequency for people of different ages

Insights:

- 1 While ensuring flavor, **making drinks healthier** is the inevitable trend of carbonated beverage industry in future.
- 2 Due to low cost and fixed consumer cognition, there is an **upper limit on the market price** of bottled carbonated drinks. Therefore, the growing consumption desire of soft drinks leaves room for **developing new consumption scenario for carbonated beverage.**

Primary target customers of carbonated drinks are young and well-paid who prioritize sugar substitutes and various flavors as Key Purchasing Criteria

Brief Profile of Typical customers



Typical Customers



Female
24
Xiamen
6k/mth

Anna

“I like the new arrival. Its flavor is great, and the packing **design** is also attracting. Besides, I value the **ingredients** which increases satiety.”



Female
33
Shanghai
18k/mth

Iris

“The sugar and fat free beverage is my favorite, even though some are just sugar substitutes. I pay more attention to **health** than before.”



Male
28
Xi'an
12k/mth

Alen

“The bottled one is easy to carry. When jogging, my friends and I tend to pick the **brand** that is popular or just handy in the convenient store.”

Consumer Behavior

Spend much on tea drinks, dairy products, fruits and vegetables.

Focus on the consumption experience.

Frequently use of Internet, follow the new trend, and stay active on social media.

Consuming Preferences

Occasion: office, classroom, dining table, dormitory...

Channel: online retailers, convenient stores...

Motivation: ingredients, flavor, design, brand...

Key Purchasing Criteria (KPC)

- Sugar Free, Fat Free, Calorie Free**
 Carbonated beverage with sugar substitutes is a new trend.
- Innovation of Various Flavors**
 Compared with traditional carbonated drinks, consumers prefer sparkling water with fruity taste.
- Brand and Design**
 Evaluated by product packing style and consumer comments regarding a brand.

Agenda

Market Landscape

► **Company Overview**

Competitive Landscape

Company Comparison

Expansion Strategy

Implementation

Appendix



With homogenization being the feature of sparkling water market, market gap still exists for product priced above 10 with more than 10 flavors.

Competitive Landscape 1:

Most sparkling water are priced between ¥ 4-6, with around 5 flavor options. Sugar substitutes and nutrients are added.

							
Brand	Genki Forest	Heytea	Nongfu Spring	Minute Maid	Coca Cola	Perrier	Watsons
Price	5.5	5.5	5	6.5	4.5	10	5
Flavors	12	5	4	3	4	6	6
Sugar	Erythritol Sucralose	Erythritol Sucralose	Erythritol Sucralose	Erythritol Sucralose	Erythritol Sucralose	Zero Sugar	Zero Sugar
Nutrient s	Vitamin	Vitamin Fiber	Vitamin	Vitamin	Vitamin	Minerals	Minerals

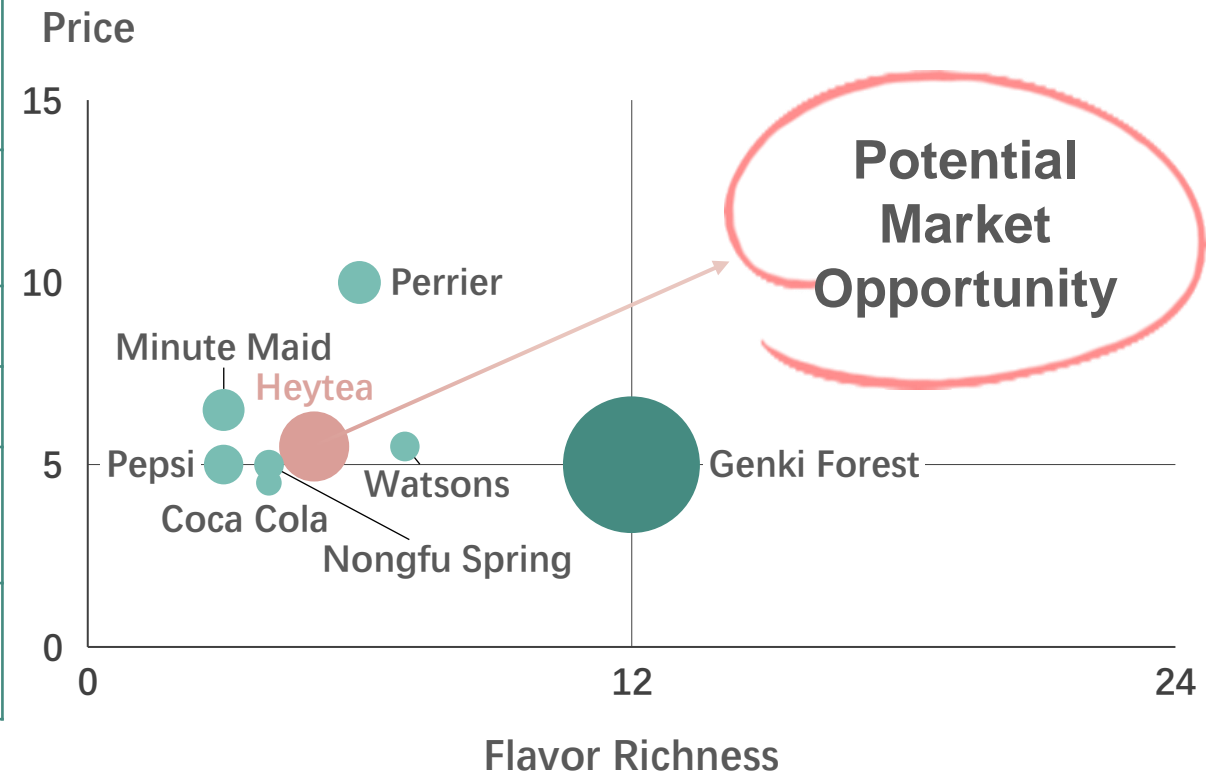
Note: Sparkling drinks are defined as non-cola sugar-free carbonated drinks.

Competitive Landscape 2:

Sparkling water takes up 20% of carbonated beverage market, with Genki Forest having the highest market share.

Competitive Landscape 3:

The market gap exists for product priced above 10 with more than 10 flavors.



Heytea bottled sparkling drinks has advantages in offline stores, but needs to improve in terms of production lines, industry maturity and brand culture

A Self-owned retail Channel: Watsons vs. Heytea



CVS for cosmetics and food

- Owning **over 4200 stores** in China, Watsons soda drinks has a strong retail network, covering over **520 cities**.
- Although giving Watsons soda a preference, its CVS sells a **variety of products**, including sparkling drinks from Genki Forest, Coca Cola, etc., weakening its advantage in retail.



Beverage shop

- Heytea owns over **700** beverage shops in China, mainly in **first-tier** cities. But inside only its own bottled sparkling beverages are sold.

D

Self-built production line: Genki Forest vs. Heytea



Self-owned production line

- Although starting with a **light-asset** operation, Genki Forest started to build its own factories at the end of **2019**. By the end of 2021, **80%** of Genki Forest products are **self-produced**.
- Self-owned factories can **reduce costs** in the long-run and **improve the efficiency of product innovation**.



OEM

- Heytea only decides the **recipe and suppliers**. Products are **OEM** produced by Shanghai Ziquan Beverage Industry Corporation.

D Bottled beverage industry: Nongfu Spring vs. Heytea



China's No.1 bottled water company

- With more than **25 years** of bottled drinks history, Nongfu Spring has established proven production process, diversified product matrix, comprehensive national sales channels
- Holding around **5% of total market share** of bottled beverages, Nongfu Spring has high customer loyalty and a solid brand image.



Freshly made drinks

- Heytea started in **2015** from freshly made tea drinks. Its first bottled drink was sparkling beverage in 3 flavors, came out in **July, 2020**.

D

Unique brand culture: Perrier vs. Heytea



High-end business person

- Initially sold in glass bottles, Perrier soda drinks are priced around **20 yuan**, targeting at **high-end business person** and promoting a **healthy lifestyle** using its slogan 'Water, air, life'. Mainly sold in imported supermarkets such as Olé.
- Drinks based on Perrier are sold in **Starbucks**.

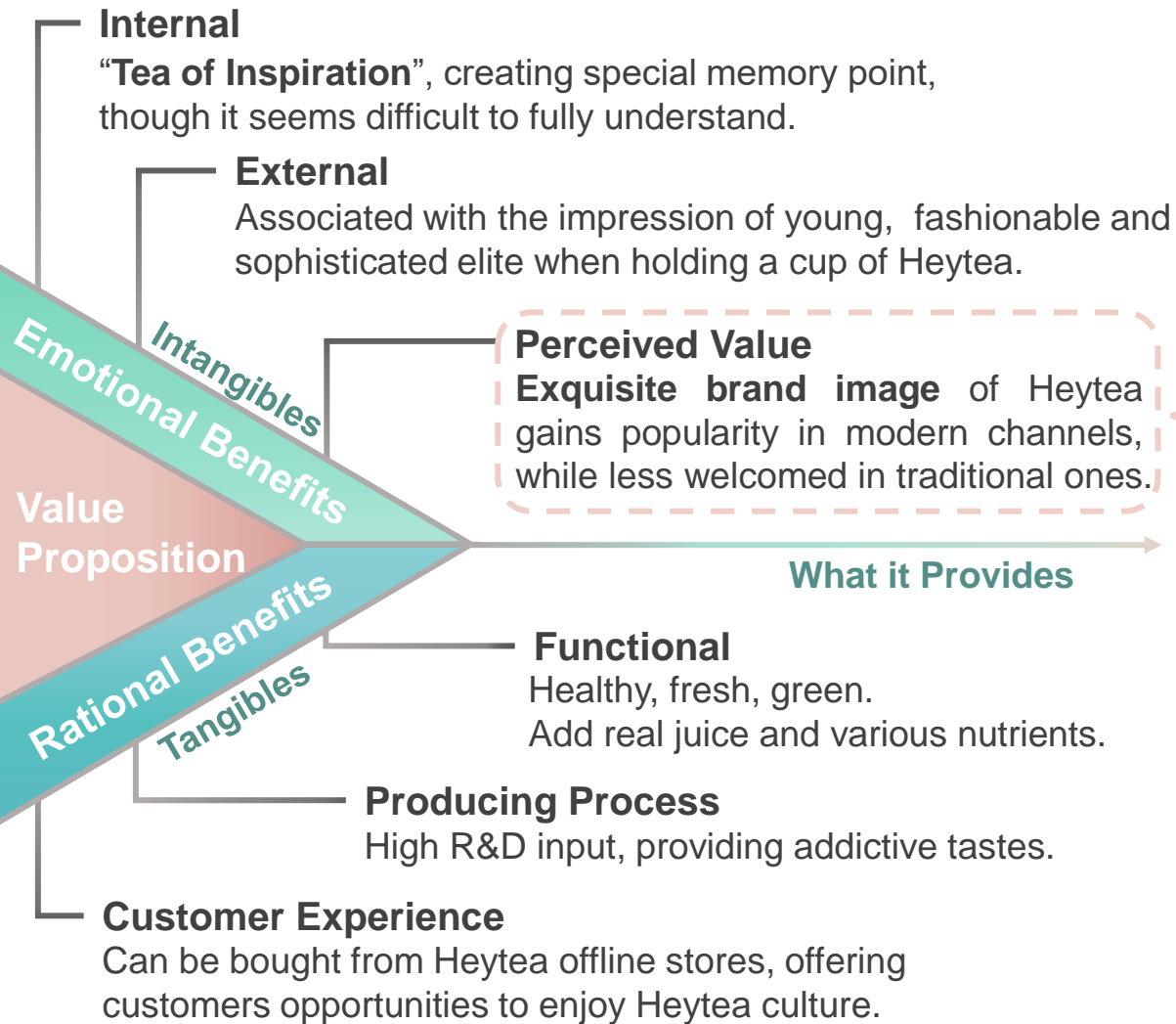


Regular customers

- Heytea sparkling drinks are around **5 yuan** while other drinks in Heytea are around **30**. Using slogan 'Heytea Freedom', it tried to win over regular customers.

Note: A stands for Advantage, D stands for disadvantage

The value proposition of Heytea is exquisite and up-to-date, having advantages in modern channels, while it performs weak in traditional ones



1 Restaurant/ Canteen/ Some traditional Channels



- Heytea carbonated drinks are **hardly seen** in these channels, however, for its competitors, it is usually not the case.
- Reasons: lower sales; lower scene compatibility.



Ms. Liu
 50
 Owner of a
 M&P store

“We only purchase **best-selling** beverages, so we prefer Genki Forest than Heytea.”

2 Modern Channels(CVS/ chain grocery/ etc.)



Alex
 28
 manager of a CVS
 chain

“We are glad to put Heytea carbonated drinks at **prime location**. Many of our main customers are targeting at them.”



- In areas where young people have higher purchasing power, the advantages of Heytea carbonated drinks are not obvious.
- Generally, Heytea carbonated drinks perform **similarly** to its competitors.

3 Heytea Offline Stores

- Carbonated beverages of Heytea is **the only brand** there.
- Yet, customers there seldom spend on bottle drinks.
- Reasons: not fashion, customers would spend more on freshly-made beverages

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Market Landscape

Company Overview

► Expansion Strategy

Site Selection

Pop-up Store

Vending Machine

Implementation

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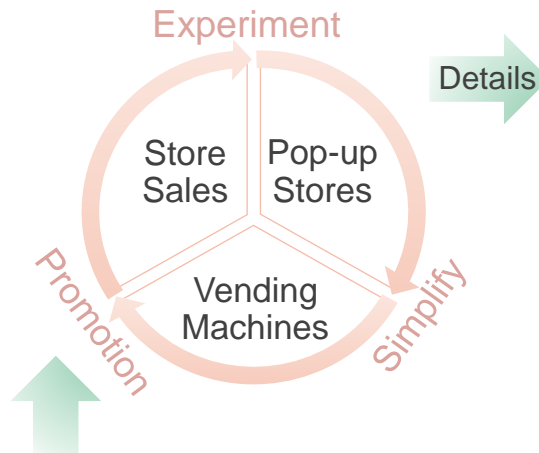


Strategy Overview: Introduce cupped carbonated beverages named “Heytea Sparkling series” through pop-up stores and vending machines

Current Situation

The whole market for non-cola & non-sugar carbonated beverage is still expanding.

However, Heytea performs slightly **weak** in this market.



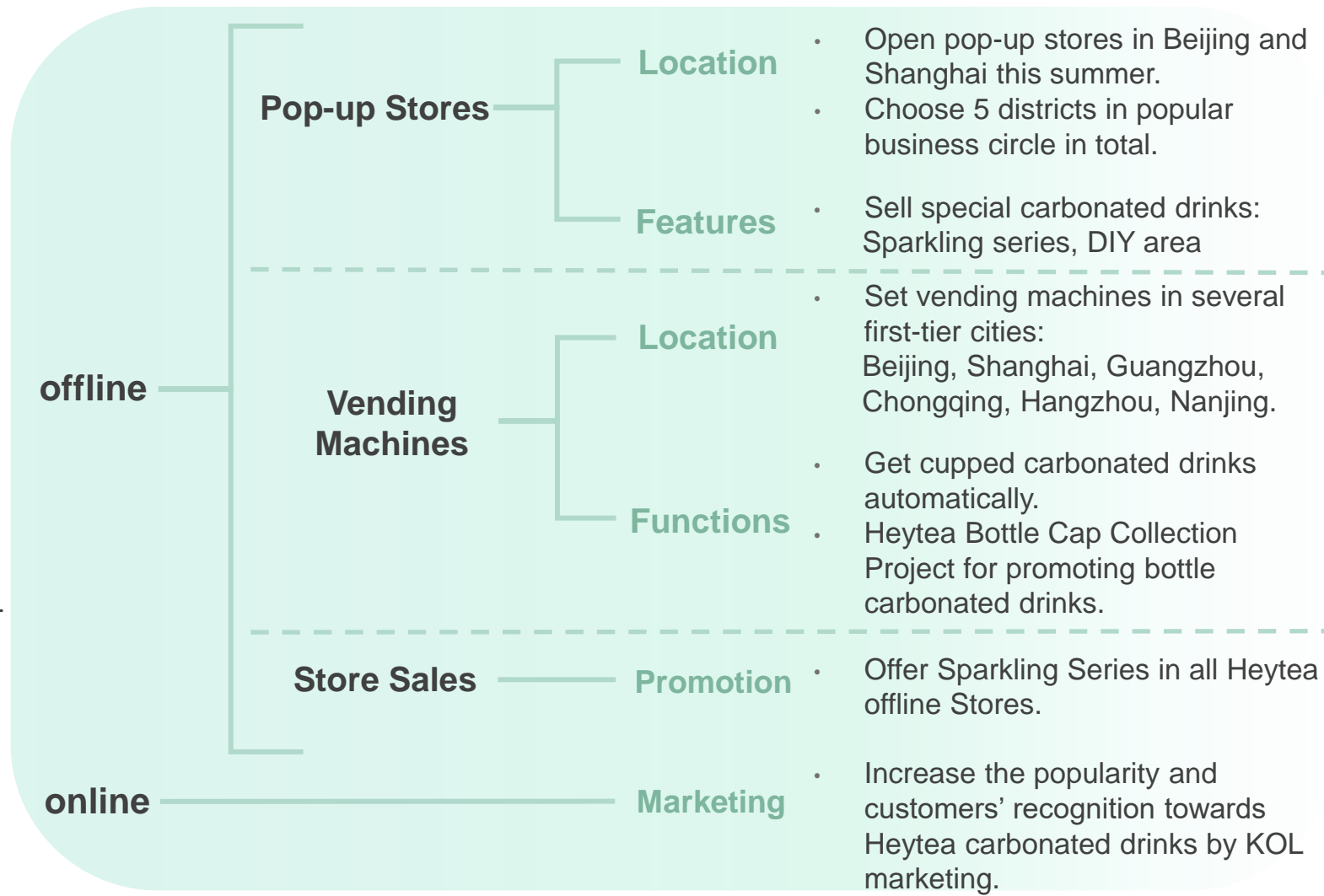
Heytea Sparkling Series

Originated from Heytea bottle carbonated drinks, the Sparkling Series is a **new type of beverage** which combines non-sugar carbonated drinks in bottle and high-quality fruits or sauces (similar to Heytea’s other products).

Sparkling Series would **open cup market** for Heytea’s non-sugar carbonated drink, taking the advantage of Heytea brand and its offline stores.

Solution

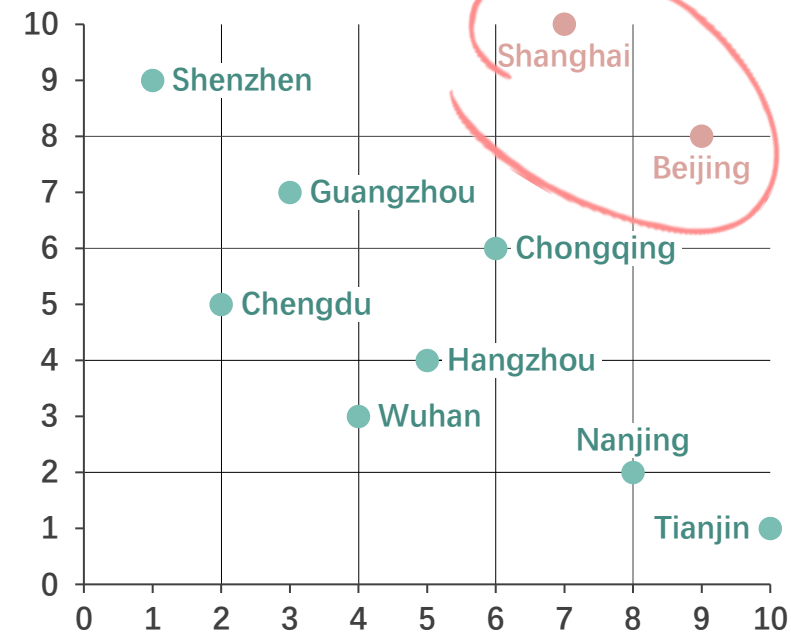
Heytea should leverage its offline strength to find some new methods to **create product differentiation**.



Set Pop-up Stores and Vending Machines in first-tier cities where Heytea, high consumption and health concept are popular

Pop-up Store Site Selection

Consumption Index

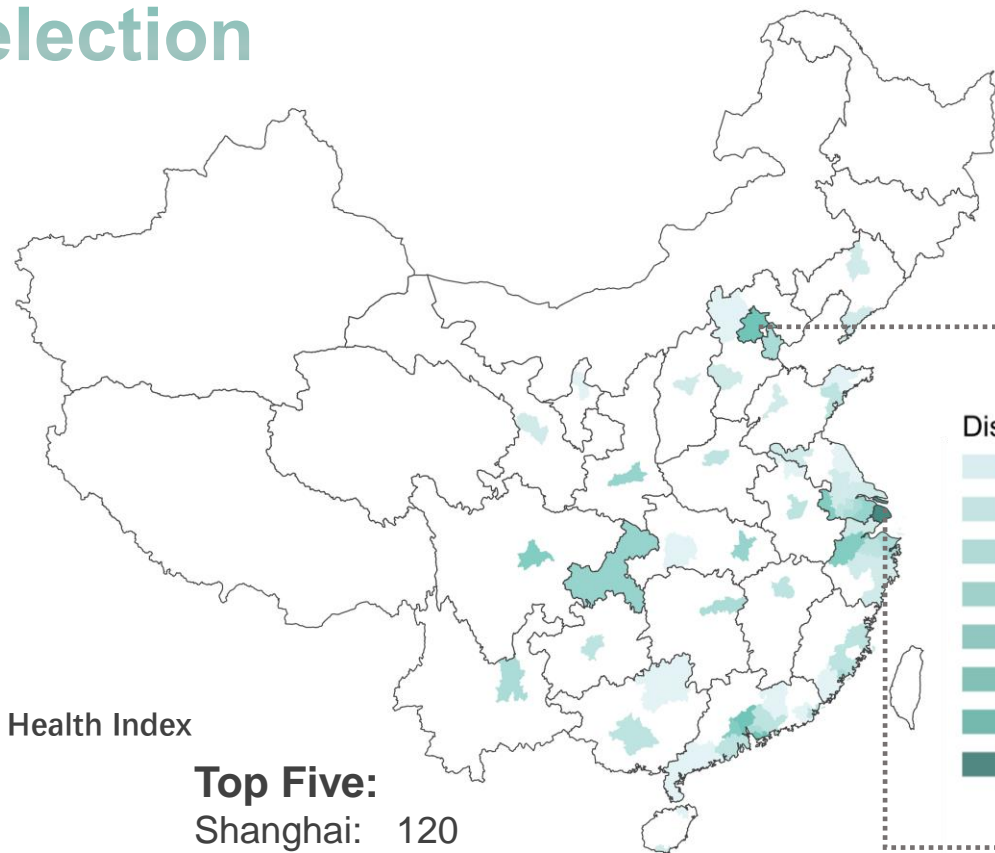


Definition

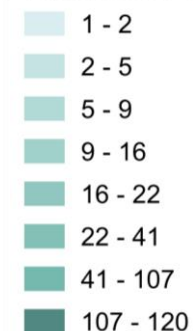
- Consumption Index: Calculated using the amount of consumption of index goods (e.g., cigarettes, sport activities, etc.)
- Health Index: Represented by GDP of 2021

Top Five:

Shanghai:	120
Shenzhen:	107
Guangzhou:	74
Beijing:	71
Hangzhou:	41



Distribution of stores



- Existing Heytea Beverage Shops
- Metro
- ★ Pop-up Store Site Selection
- Road



Five Pop-up Stores should first locate in Shanghai and Beijing to open the market, after which Heytea can sell cupped carbonated drinks in offline store

Basic Information of Pop-up Store:

Last: 6-8 weeks

Opening Time: Summer (June-August)

Target: Seize seasonal consumers, create brand effect and broaden the market of sparkling water packed in cups

Site Selection Criteria:

- 1 High density of the young generation (aged under 30)
- 2 High traffic flow (business centers)
- 3 Business Intensity: Number of Malls
- 4 More manicure stores in 500m area
- 5 Availability of pop-up stores (past openings)

City	Shanghai			Beijing	
Site					
Youth Index	★★★★☆	★★★★★	★★★★☆	★★★★☆	★★★★☆
Population Density	★★★★☆	★★★★★	★★★★☆	★★★★★	★★★★★
Shopping Malls	5	4	6	5	8
Manicure Stores	45	47	32	52	26
Availability	☑	☑	☑	☑	☑

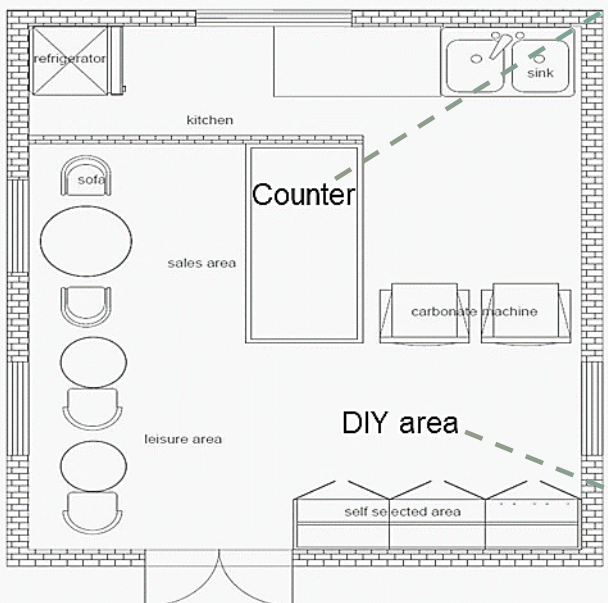
The target consumers of manicure stores and Heytea Pop-up store are similar:
Women who have high consumption level, pursuing beauty and slimness and willing to step into pop-up stores.

After the pop-up stores has introduced cupped carbonated beverage into the market, **Heytea can sell cupped beverage in existing stores.**

Heytea Pop-up Stores use healthy and diversified products as well as DIY area to attract target consumers

Pop-up Store Format

Ideal Heytea Pop-up Store layout



Featured Beverage

Heytea Sparkling Series



Heytea peach sparkling drink

- = Peach flavor carbonate (bottle carbonate)
- + peach juice & peach sauce
- + diced fresh peach

The same is true of other flavors like grapes, kiwi etc.

DIY your own Heytea carbonate

Free to Choose

- Get an empty cup at a **fixed price**(¥19).
- Just like buffet, customers are free to put **anything** intriguing their interests into the cup. So that they are able to create **their own special flavor!**

1 Healthy and tasty

- All natural & fresh ingredients;
- Low calorie & low sugar;

2 Recipe from Heytea

- Originated from Heytea's popular beverages
- Use upgraded sauce designed for carbonated drinks
- Various favors changing with season

3 Fashion and refreshing

- Perfect subject to share on social media
- Help us to cool down faster than any other beverages in scorching summer!

Enjoy the Process

- Provide an opportunity to experience in person

Get Direct Feedback

- Make adjustments according to customers' own preferences
- Find out the most popular flavor

Key point:

All the sparkling drinks are made based on corresponding **Heytea bottle carbonated drinks.**

Use vending machines to penetrate smaller cities for Heytea sparkling series, provide personal choice and promote bottled Heytea carbonated beverages



Front Panel

Customers may have the following choices ↓

- ◆ **Flavor:** grapefruit / orange / peach etc.
- ◆ **Fruit pieces:** banana / strawberry / mango etc.
- ◆ **Sugar content:** whole / less / non-sugar real sugar / sugar substitutes
- ◆ **Gassy level:** less / more
- ◆ **Temperature:** Ice / Room temp.

Cleaning personnel will **replace raw materials on a daily basis**, and service engineer will perform **regular maintenance of equipment**.

Heytea Bottle Cap Collection Project



Inspiration Word Creation:
Bottle Cap with Heytea Font

Side Panel

This panel board act as a display window of Heytea products. It is set to understand consumer preferences and convey the brand culture through interactions.

Joy & Inspiration

The **QR code** is printed on the inside of the bottle cap, customers can scan it to enter Wechat mini-program for member points.

Customers are welcomed to use the gathered points / bottle caps as they purchase the Heytea Sparkling Series. Customers will have:

- 10% off** for 1 bottle caps,
- 40% off** for 3,
- Free drinks** (appointed one) for 6.

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Expansion Strategy

► **Implementation**

Timeline & Risk

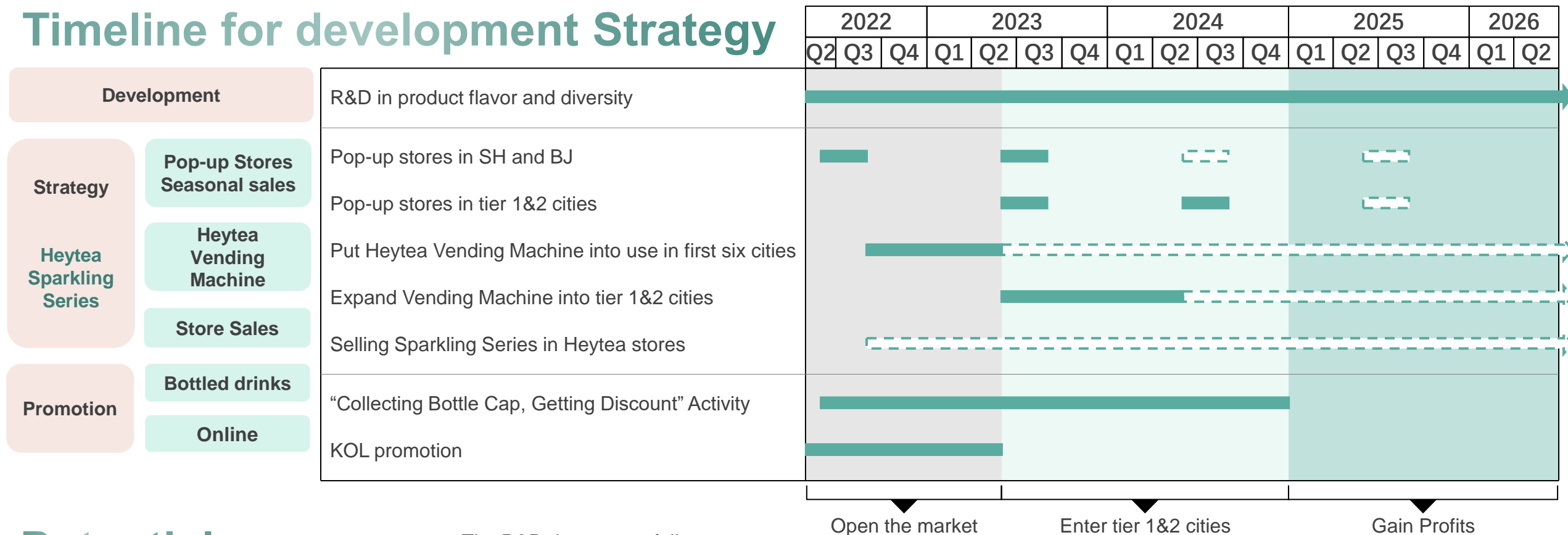
Financial Forecast

Appendix



Five-year development strategy helps Heytea Sparkling Series enter into cuped-carbonated drinks market, with potential risks to be attention

Timeline for development Strategy



Potential Risks

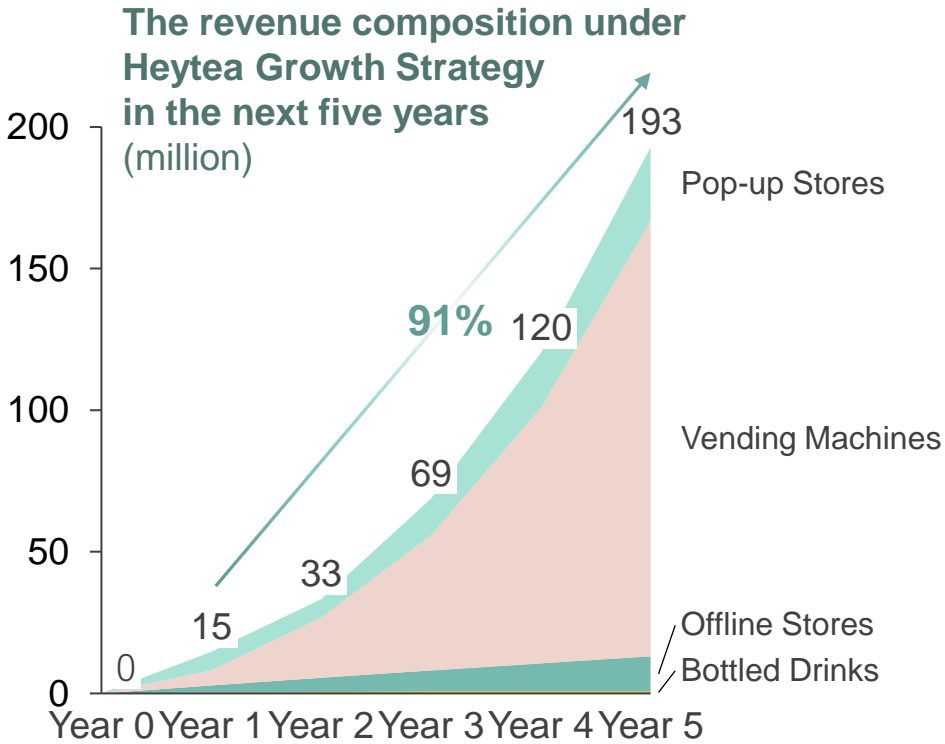
Internal

- The R&D department fails to develop popular products and diverse tastes
- Sales may be affected by seasonal reasons

External

- Suffer from slow ramp up rate problem when entering the new market.
- Other big players enter this market.

The growth strategy for Heytea to earn profits mainly comes from four channels, among them, the vending machines account for 75% of the profits



- Heytea expanding strategy earns revenue through pop-up stores, vending machines, Heytea offline stores and the growth of bottled drinks sales.

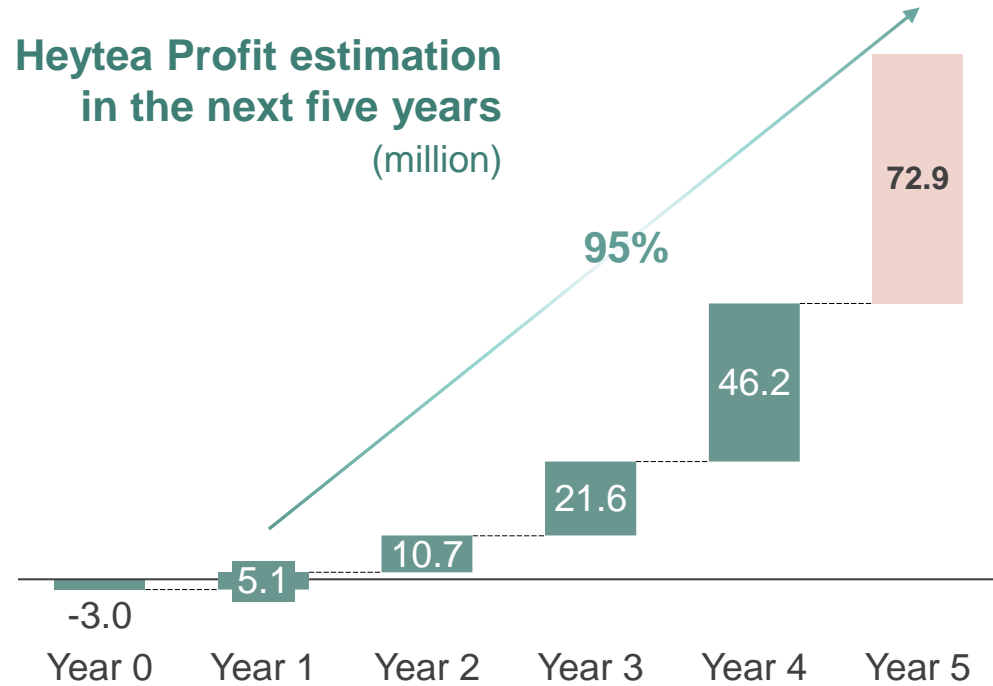
Main Strategies and Key Assumptions:

	Numbers	Year 1	Year 2	Year 3	Year 4	Year 5
Strategies	Pop-up Stores	5	5	10	15	20
	Vending Machines (Newly Added)	10	30	50	80	120
	R&D	2 M	0.5 M	0.5 M	0.5 M	0.5 M
	KOL Promotion	1 M	0.5 M	-	-	-
Assumptions	Profit growth of all offline stores	0.1%	0.2%	0.3%	0.4%	0.5%
	bottled beverage sales growth	2%	3%	4%	4%	4%
	GPM of Heytea Sparkling Series	70%				
	GPM of Pop-up stores DIY	60%				
	GPM of Vending Machine	35%	35%	35%	50%	50%

GPM: gross profit margin

Heytea is estimated to earn over 150 million RMB in five-years' time, indicating a promising future for expansion strategy

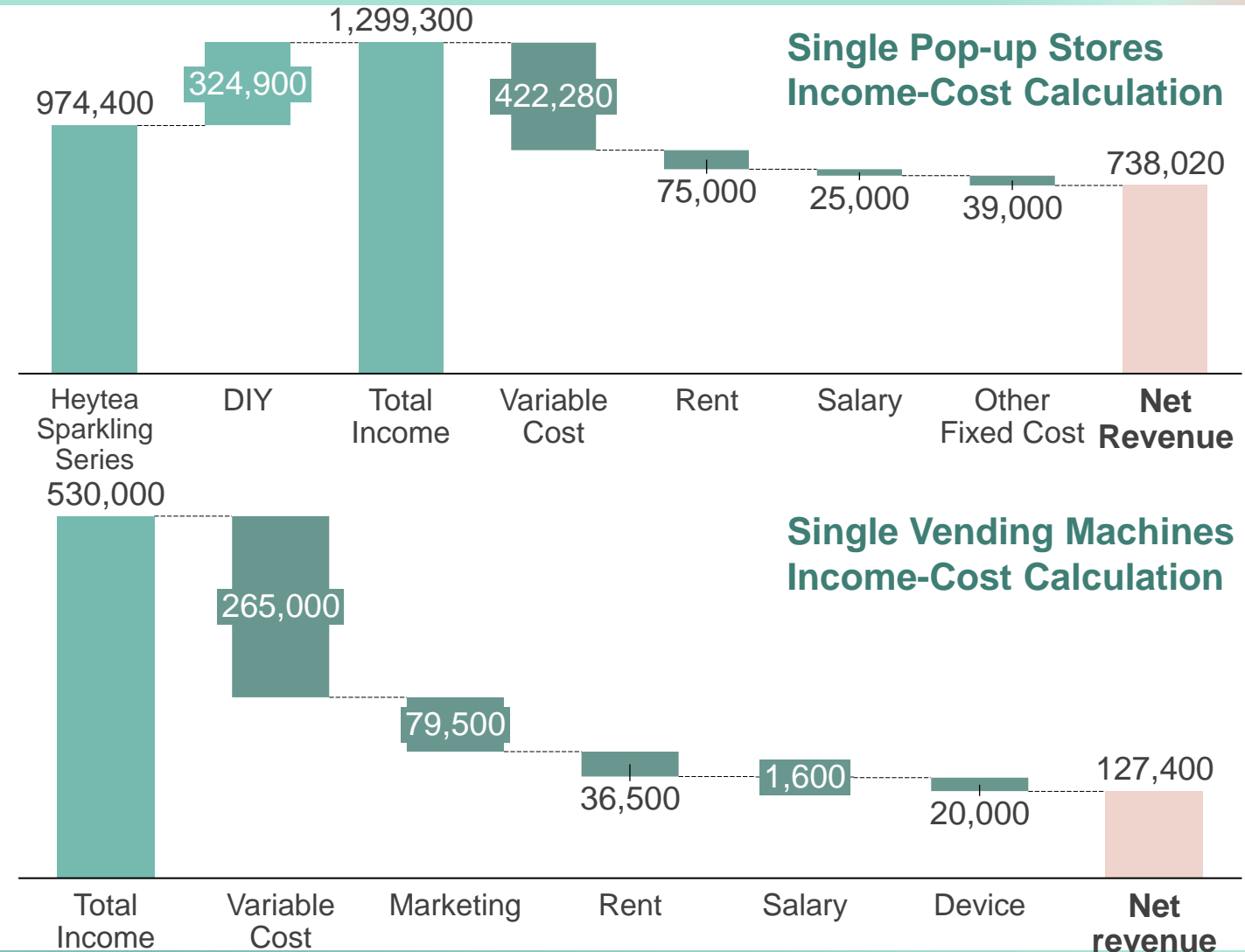
Heytea Profit estimation in the next five years (million)



Under current expanding strategy, Heytea is estimated to approximately 30 million every year in the next five years.

As for a single pop-up store, the net profit for two months is expected to be **738020** RMB.

As for a single vending machine, the annual net profit for is expected to be **127400** RMB.



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Appendix 1: Income and Cost breakdown for a single Pop-up Store

Income Estimation

Income

$$\text{Customer Volume} \times \text{Transaction Days} \times \text{Per Consumer Transaction}$$

Heytea Sparkling Series

800 (Workday)	42 (Workday)	14 RMB
2000 (Holiday)	18 (Holiday)	

DIY Your Sparkling Water

150 (Workday)	42 (Workday)	19 RMB
600 (Holiday)	18 (Holiday)	

Total Income for a single pop-up store is expected to reach 1299300 RMB

Cost Estimation

Cost

Fixed Cost

Occupancy

Rent × Area × Term

- 25 RMB per m per day
- 50 m²
- 60 days

Payroll

Staff × Average Salary

- 5 staff
- 5000 RMB / Month

Other fixed cost

Cost of Equipment, Construction

- 3 devices, 3000 RMB / Device
- 30000 RMB for construction

Variable Cost

Gross Margin

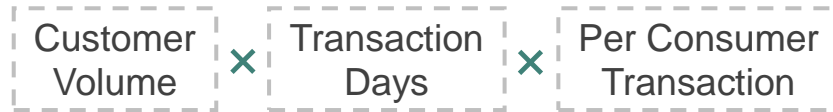
Heytea Sparkling Series: 70%
DIY Sparkling Water: 60%

Net Revenue for a single pop-up store is expected to reach 738020 RMB

Appendix 1: Income and Cost breakdown for a single Heytea Vending Machine every year

Income Estimation

Income



Heytea Sparkling Series

120 (Workday)	250 (Workday)	10 RMB
200 (Holiday)	115 (Holiday)	

Other Assumptions:

The “Collecting Bottle Cap, Getting Discount” Promotion will cause the gross margin of Heytea Sparkling Series to have a 15% reduction in average, which cause net revenue of a single Heytea Vending Machine to be **127400 RMB**.

Cost Estimation

Cost

Fixed Cost

Occupancy

- Rent × Area × Term
- 100 RMB per day
- 365 days

Payroll

- Staff × Average Salary
- 2 staff responsible for 10 devices
- 8000 RMB / Month

Other fixed cost

- Cost of Equipment
- 20000 RMB / Device

Variable Cost

Gross Margin

- Heytea Sparkling Series: 50%
- With Bottled Promotion: 35%

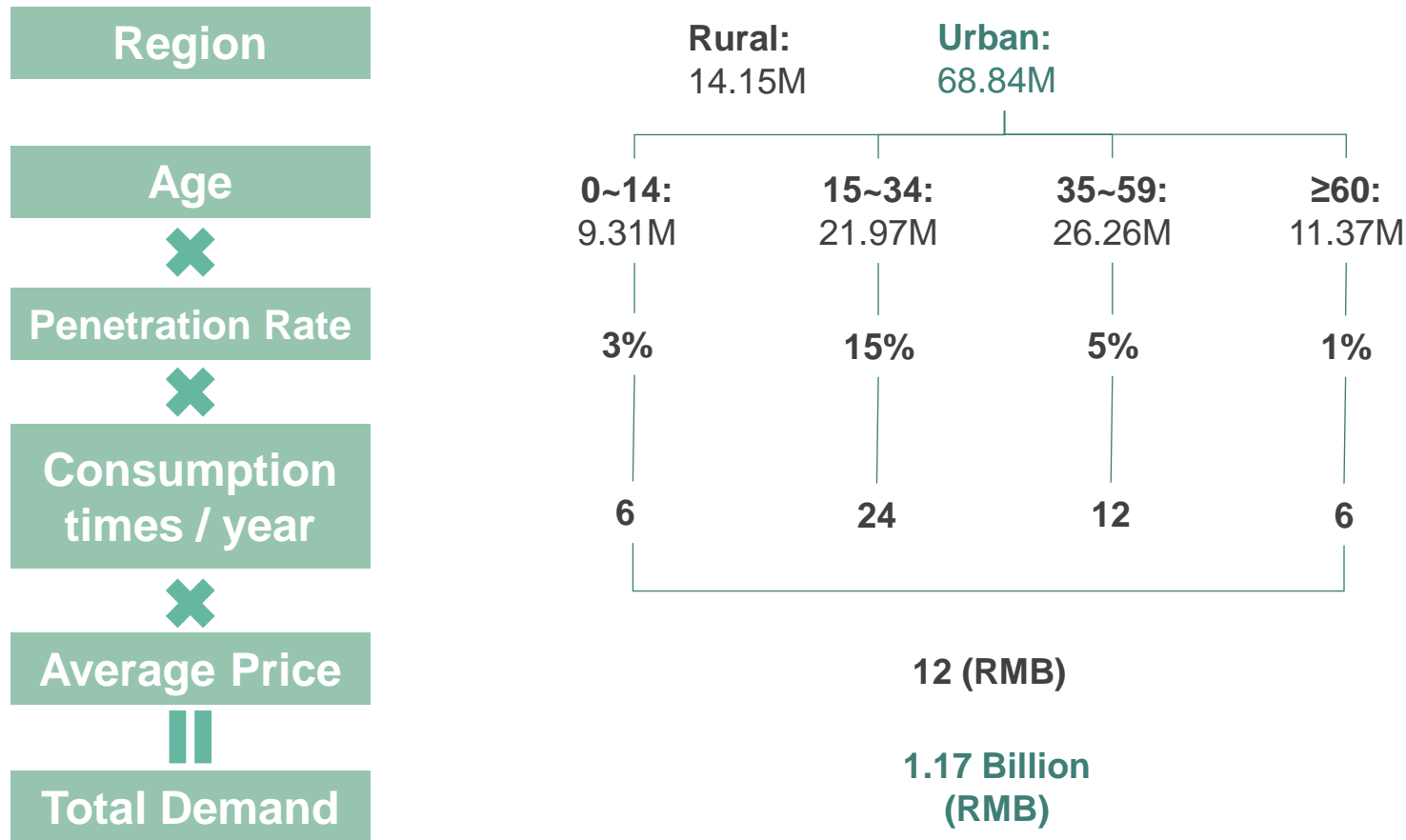
Net Revenue for a single vending machine is expected to reach 206900 RMB

Appendix 2: Revenue and Cost forecast on a five-year basis

Million RMB	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Total Income	0	14.6	33.15	68.8	120.19	192.79
Pop-up stores	-	6.5	6.5	13.0	19.5	26.0
Vending Machines	-	5.3	21.2	47.7	90.1	153.7
Offline Stores	-	2.5	5.0	7.5	10.0	12.5
Bottled drinks	-	0.3	0.45	0.6	0.6	0.6
Total Cost	3	7.84	18.83	39.97	58.61	95.55
Variable Cost	-	4.76	12.71	28.01	51.38	85.3
Fixed Cost						
R&D	2	0.5	0.5	0.5	0.5	0.5
Marketing	1	1.3	3.18	7.16	-	-
Rent, Payroll & Others	-	1.28	2.44	4.3	6.73	9.75
EBIT	-3	6.76	14.32	28.83	61.58	97.24
Tax (25%)	-	1.69	3.58	7.21	15.4	24.31
Profit	-3	5.07	10.74	21.62	46.18	72.93

Appendix 3: Estimated market size of cuped carbonated drink market expected to be 1.46 Billion every year.

Population in tier 1 cities: 82.99 Million



● The sizing in tier 2 cities is relatively same with tier 1 cities.
 ● Assuming that market of tier 2 cities accounts for 25% of market of tier 1 cities.

Total Demand in tier 1&2 cities is **1.46 Billion RMB**