CHAGEE’s Brand Development and Business Strategies

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Abstract. Milk tea, a popular beverage in numerous regions worldwide, constitutes a dynamic and fast-growing segment of the global beverage industry, with a strong presence in Asia, especially in China. Consuming milk tea has now become a new form of social interaction for young people, and the milk tea industry has evolved from the 1.0 era to the 3.0 era. With a more competitive market environment, most milk tea businesses struggle to survive. However, CHAGEE is one of the few brands that stand out and is growing against trends. CHAGEE is a brand originating from Yunnan, that took the essence of Chinese tea culture, and its goal is to become the oriental Starbucks. With that being said, CHAGEE is expanding aggressively, and it has now opened more than 2300 stores worldwide. This paper analyzes how CHAGEE became a ‘Dark Horse’ within the competitive industry through the introduction of the milk tea era evolution, generation Z's consuming behaviours, CHAGEE’s business strategies such as ‘flagship product’ strategy, and social media marketing, the milk tea industry in the global market and finally a SWOT analysis of CHAGEE.

Keywords: CHAGEE, milk tea industry, milk tea market.

1. Introduction

The milk tea industry, a rapidly evolving segment within the global beverage market, has undergone substantial changes in recent years and has become popular worldwide. In 2022, the worldwide market for freshly prepared milk tea eclipsed the $100 billion mark, with projections indicating a further surge beyond $130 billion in 2023; The Asia-Pacific region commands a significant market share of 43.12%, solidifying its position as the preeminent global hub for milk tea consumption. [1]. From the data, it can be observed that as of August 31, 2023, the total number of stores is approximately 515,000, marking an increase of 378,000 compared to the end of 2020, representing a growth rate exceeding 36%. [2]. These numbers show that in Asia, milk tea has become a modern and fashionable tea drink among young people. Moreover, the milk tea era is evolving from 2.0, the fruit tea era, to 3.0, the tea-based era. This evolution is closely linked to the shifting preferences and consumption patterns of Generation Z, a pivotal consumer demographic of the industry. With a high potential profitability in the industry and a low barrier to entry, it leads to a more competitive market, such as a price war. While many milk tea enterprises face significant challenges, CHAGEE has defied industry norms and emerged as a standout success. CHAGEE, established in Yunnan, founded in 2017, harnessed the essence of Chinese tea culture and opened 2360+ stores worldwide. Given CHAGEE's achievement, there is a growing interest in CHAGEE, and more people are expressing franchising with CHAGEE. However, very few papers are researching CHAGEE, its business strategies and its competition. The main objective of this report is to provide a more profound understanding of the milk tea sector's dynamics, the emergence of CHAGEE as a dark horse, and the macro environment affecting its expansion and competitive position.

2. Generation Z

The milk tea industry primarily targets Generation Z. Generation Z refers to the individuals born between 1995 to 2009 [3]. They are the "internet generation" and heavily influenced by the internet, social media and instant communication. Due to the societal and digital age context in which they were raised, Generation Z has developed a diverse set of consumer values compared to other
generations. According to data from the National Bureau of Statistics of China, Generation Z is approximately one-fifth of China's total population [3]. They are primarily active consumers in areas such as food, clothing, entertainment and especially the primary force of the milk tea industry. One of Generation Z's biggest consumption behaviour characteristics is their emphasis on consumption experiences. This includes being adept at sensory-driven, scenario-based consumption, exhibiting high brand loyalty, valuing personalized consumption, and seeking symbolic value in their purchases to fulfill their psychological needs, such as social interaction. Recently, they have favoured low-sugar and low-fat diets, leading to the emergence of low-sugar beverages and milk tea. This gives the opportunity to CHAGEE for its rapid development within the industry, because CHAGEE specializes in low-calorie and healthy beverages. With the new trend, CHAGEE’s number of stores had increased by a remarkable 133.4%, and the average performance per store had improved by 28.28% compared to the previous year [4].

3. The Development of Milk Tea

In accordance with "Retail Business & Finance", the development of milk tea can be delineated into three pivotal phases, transitioning from a traditional beverage to a new-generation tea drink. This transformation is intricately intertwined with the broader retail consumption trends observed in China throughout the preceding two decades [5].

3.1. Milk Tea 1.0

Before 2010, the prevalent milk tea offerings in the market mostly consisted of concocted drinks primarily made from powder and fruit jam [5]. These products didn't actually contain real "milk" or "tea," and the representative brand is MIXUE. They used powdered mixture that approximated the taste of milk tea to achieve extremely low production costs, catering to the most basic cravings of the masses.

3.2. Milk Tea 2.0

After 2010, a new generation of milk tea started adding toppings like grass jelly, bubbles, and taros [5]. The notable brands are Heytea and Nayuki. This was also the period when milk tea became a hot trend, and various milk tea brands emerged rapidly due to consumers' higher purchasing power, where a single cup of milk tea could sell for more than 30 yuan.

3.3. Milk Tea 3.0

Around 2019, due to the impact of the pandemic, overly high prices and excessively sweet fruit teas gradually fell out of favour [5]. The new milk tea trend shifted towards "health" and "low sugar." During this period, teas with appealing natural colours became extremely popular, and brands that emphasized the essence of "tea" itself gained significant attention. Consumers started leaning towards seeking high-quality tea and the most authentic milk tea aroma brought by fresh milk. CHAGEE is a typical representative of the tea beverage industry's 3.0 phase. Their product lineup primarily consists of 'real milk + real tea', which caters to market change.

4. Introduction of CHAGEE

CHAGEE was founded in 2017 and is positioned as a new Chinese-style national tea brand, providing consumers with freshly made ‘real milk real tea’ [6]. The brand specializes in premium loose-leaf milk tea and offers a range of products, including freshly brewed tea, fresh fruit tea, bagged tea, and related tea culture merchandise. It has opened 2,360 stores worldwide, and the most popular product, jasmine milk green tea, sold for over 80 million cups [7]. CHAGEE aims to become a representative of oriental tea culture and become the 'oriental Starbucks'. Therefore, following the Starbucks coffee concept of ‘coffee + milk’, CHAGEE introduces a product positioning of ‘tea + milk’.
The distinctive feature of CHAGEE is the natural aroma of tea and milk, making milk tea more refreshing, healthy and long-lasting, aligning with the health-conscious tea consumption preferences of young consumers.

CHAGEE positioned themselves as a Chinese-style tea beverage brand with the ambition to bring Chinese Tea to the world. This strategy has allowed them to naturally stand out and differentiate themselves from brands like Xicha (Heytea) and Nayuki, known for their modern cultural tea beverages. There are four reasons to focus on Chinese-style tea, which are illustrated by their team below:

1. Tea, a carrier of Chinese culture with a history spanning thousands of years, possesses cultural continuity and sustainability [8]. This also became a symbol of Chinese traditions and heritage.
2. From a business perspective, it is believed that any country will likely experience a cultural revival after economic recovery [8]. In the long term, there are often opportunities for the cultural industry following economic recovery. Therefore, CHAGEE can combine Chinese culture with economic activity.
3. There are few competitors in the Chinese-style milk tea market, which presents a great opportunity for differentiation and competition. As mentioned above, most milk tea brands focus on fruit and bubble tea, so CHAGEE can quickly take the market shares and set the consumer base.
4. CHAGEE is oriented towards the global market, with its distinctive oriental cultural characteristics poised to exert a significant influence in this endeavour, imbuing the brand with a unique essence [8]. Also, this gives CHAGEE an advantage over other brands in the global expansion to distinguish itself from other brands.

CHAGEE's logo also contains many traditional Eastern cultural elements which align with their business idea and cultural marketing. The brand incorporates elements of traditional Chinese opera into its logo and uses product names that evoke classical Chinese aesthetics. This approach enables consumers to associate the brand with nuanced realms of Chinese opera, classical poetry, and painting, cultivating an enhanced appreciation among them for the richness and inclusiveness of Chinese culture [9]. One of CHAGEE's goals is to become the oriental Starbucks, so the logo is also trying to benchmark Starbucks's logo. Starbucks’ Green represents the image of the Siren from Greek mythology, symbolizing the pioneering role of Western coffee culture and the adventurous spirit of the entire Western coffee beverage brand [10]. On the other hand, the red CHAGEE logo represents the East. The character also drew inspiration from Buddha, showing the equality of all beings (open to all consumers) and a sense of tranquility and peace. One is green, symbolizing Western coffee culture, and the other is red, representing Eastern tea culture, which strongly contrasts the two brands and leaves a deep impression.

5. CHAGEE’s Product Strategies

CHAGEE's business strategy revolves around the concept of a 'flagship product', and there are multiple compelling reasons behind the adoption of this strategy. Firstly, it can streamline both the product lineup and the supply chain. This approach helps improve product quality and enhances the concentration of warehousing and transportation. CHAGEE puts a strong emphasis on its jasmine milk green tea, featuring a simple 'tea + milk' recipe, which contributes to over 35% of the store's total sales. [11]. The utilization of advanced machinery drastically reduces the preparation time, with the quickest serving time recorded at a mere 10 seconds [11]. This innovation not only results in cost savings related to labour but also significantly enhances operational efficiency.

5.1. Social Media Style Promotion

In order to cater to consumers of Generation Z, CHAGEE often uses social platforms like Xiaohongshu as their primary method of promotion and communication. Their promotional line and advertisement are also characterized by internet culture, making it quite popular among young people. CHAGEE also frequently employs marketing tactics similar to the entertainment industry's draft picks,
allowing customers to vote for their favourite beverages, like choosing entertainment idols [12]. Alternatively, customers can vote against beverages they dislike, with the products ranking lowest ultimately being removed from CHAGEE offerings. This approach leverages the appeal of internet-driven trends and engagement strategies to connect with and engage their target audience effectively and to enhance the brand's reputation further. Additionally, this can create a polarized fan base, cultivating loyal fans for their products from different perspectives, and achieving overwhelmingly positive word-of-mouth [12].

Another example indicates CHAGEE's great understanding of using internet platforms, social media and internet generation Z consumer's psychological needs. On August 25th, CHAGEE's apology sparked a significant amount of discussion among netizens on Weibo. The reason behind this was CHAGEE's new coconut water product, which, after being on the market for 19 days, was officially announced for discontinuation through an apology letter posted on their official WeChat account and Weibo [13]. The founder of CHAGEE, Zhang Junjie, acknowledged that the coconut water product had received polarized reviews due to taste issues and openly admitted, "We messed up." In addition to discontinuing and improving the product, CHAGEE compensated users with free vouchers to try their new product [13]. Many netizens were touched by their sincere attitude and expressed their intention to support CHAGEE even more. This action also turned many casual observers into fans. This incident shows that CHAGEE emphasizes the value of emotions and the power of social narratives and is handled very well.

CHAGEE's active presence on social media has made it more attuned to current trending products, marketing strategies, and things that young people love. Blind box marketing is a great example of this. During specific holidays or new store openings, they introduced a "Blind Box Cup Ripping Activity," where they incorporated the concept of blind boxes into their milk teacups. They allocated about one-third of the lower section of the traditional milk teacup for this activity, where they placed various prizes. The random prizes included discount coupons, accessories, makeup sets, and even rare items worth nearly 1000 RMB, such as Gucci scarves [8]. Linking blind boxes with milk tea is a clever move that capitalizes on young consumers' love for trendy blind box experiences. It brings a dash of thrill to consumers, elevates their feeling of engagement and surprise during the consumption and achieves success with 25,000 RMB daily sales per store during special holidays [8].

5.2. Price War and Competition Among Milk Tea Industry

2022 marked a historic year for the widespread popularity of milk tea, and also a year that permanently transformed the industry’ environment. February 2022, Heytea, one of the big three brands in the milk tea industry, took the lead in reducing prices, making the 15–20-yuan price range the primary bracket for their products. In March, Lelecha announced that some of their beverages would be priced below 20 yuan, and Nayuki also introduced a "Light Series" of tea beverages priced between 9-19 yuan. However, the average per-customer spending at Nayuki's tea stores was 42.9-yuan, 43.1 yuan, and 43 yuan in 2018, 2019, and 2020, respectively [14]. This shows that the entire industry is undergoing a shift towards lower-priced products. It's evident that after the price adjustments made by big brands like Heytea, they pose a significant threat to a large number of mid-range milk tea brands. As CHAGEE competes in the mid-range market, it exacerbated their business pressures.

For example, the number of milk tea collaborations has increased, and recently reached its highest point. Among them, Nayuki Tea has already announced 20 joint/collaborative activities so far, compared to fewer than 10 last year; HeyTea has announced 19 joint/collaborative activities since the beginning of this year, which is 5 more than the total for the entire previous year [15]. IP collaboration has consistently delivered great results, making it a powerful tool in marketing campaigns. They have brought tangible sales growth to the stores and many intangible benefits, such as consumer freshness within the brand. While IP collaborations can indeed generate short-term excitement and attention, the associated risks should not be underestimated. For example, CHAGEE’s most recent collaboration with The Lost Tomb led to a huge failure. There are many problems during this collaboration,
including the not-so-appealing peripheral designs, high thresholds of understanding, insufficient inventory, alleged plagiarism disputes by the author, and malicious targeting of the loyal fan base in marketing and communication efforts [16]. Although CHAGEE’s public relations department quickly apologized on WeiBo, it still dissatisfied many fans, and the reputation has been on a steep decline since then. Therefore, to maintain its brand power and good reputation, CHAGEE should be careful with collaborations and take time to design each promotion, not just try to maximize sales revenue in the short term. Moreover, to gain a competitive edge in the intense market competition, CHAGEE should continue to innovate in product development, marketing strategies, and customer service, introducing new offerings to attract more consumers and looking for long-term growth.

5.3. Asian Milk Tea Market

In recent years, driven by the Asia-Pacific region, China has been leading the global milk tea industry and has experienced rapid growth. The promising market outlook has attracted significant investments from the capital markets, which has accelerated the growth in the number of domestic milk tea shops. Up to June 3, 2023, Guming Tea has 7401 stores, Shuyi Tealicious (6852), ChaPanada (6527) and CHAGEE (2360) [17]. In addition, given that these brands primarily operate through franchising and the fact that franchisees in the milk tea industry often switch brands, besides profitability and franchise fee, franchisee loyalty is directly related to a brand’s ability to maintain excellent operations and ensure profitable returns for franchisees. Therefore, CHAGEE should continuously refine the single-store model, optimize the franchise organization structure, and provide support and empowerment to franchisees, which will be crucial for its future development.

5.4. Global Market

The landscape of the overseas milk tea market differs significantly from the China market. For example, the most popular brands in the United States are in the milk tea 2.0 era, such as CoCo and XingFuTan [18]. The types of milk tea lack diversification, and the most popular brands in Milk Tea 3.0, like Heytea, have not entered the European and North American markets yet. Moreover, the milk tea prices abroad are more attractive compared to the Chinese market. The Data from HungaryPanda (a food delivery platform) indicates that the average price per order ranges from 92 yuan to 98 yuan. In comparison, the Chinese domestic market is around 20 yuan to 35 yuan [18]. Thus, the milk tea market remains largely untapped, and this presents opportunities for big milk tea brand names to expand and cater to a broader customer base. While most brands focus on the Chinese market, CHAGEE saw this opportunity and adopted the approach to expand overseas. CHAGEE, a brand representing the milk tea 3.0 era, uses matured business strategies and operational strategies to capture the market and attract numerous consumers quickly. In July 2022, CHAGEE revealed that overseas revenue accounted for approximately 15% of its total income and opened more than 70 stores in countries such as Malaysia, Thailand, and Singapore [18].

6. SWOT Analysis

6.1. Strength

Significant financial backing: In the first half of 2021, CHAGEE secured more than 3 billion yuan in funding, allowing for rapid expansion.

Effective with a low closure rate: The brand expanded its stores rapidly and established 2360+ stores worldwide, maintaining a closure rate of under 3%. This also boosts confidence in franchisees to choose CHAGEE instead of others.

Great franchisees management: Franchisees' profitability is around 95%, and to cover its cost, it only needs around one year. This attracted many franchisees and resulted in rapid expansion in various areas. For franchisees, CHAGEE has strict requirements. Their ideal profile includes individuals who are at least 25 years old, have a minimum of 3 years of work experience, and possess
over 500,000 RMB in idle capital [19]. The strict management of franchisees will result in better customer experiences and maintain its brand reputation.

Cultural alignment: CHAGEE capitalizes on traditional Chinese culture and cultural-related promotion and package. This distinguishes CHAGEE from other brands and potentially attracts more people interested in Chinese culture.

Excellent marketing strategies: CHAGEE is familiar with social media marketing, content marketing and brand building. They stay up to date with the trends among young people and often make creative promotions such as tea draft picks and blind box marketing to offer consumers freshness. Since they target Generation Z, who emphasizes the shopping experience, it aligns with their interest in purchase behaviours and captures their psychological needs.

Geographic advantage: CHAGEE’s headquarters is based in Yunnan, a region known for its rich tea production. So, CHAGEE can effectively leverage local tea resources and varieties and enhance its operation chains.

Overseas market penetration: The brand entered the overseas market, especially Southeast Asia and earned a good reputation and success. With its experience in entering the market ahead of time, it gives more resources and a consumer base than other big names in the milk tea industry.

6.2. Weakness

High competition field: CHAGEE targets the mid-range market, which is very competitive with many milk tea brands such as CoCo and Guming Tea. Moreover, some of the big names in the mid-range market have much more stores than CHAGEE. For example, big brands with over 6,000 stores include Ancient Tea, ShuYi Tealicious, ChaPanada, and Auntea Jenny They have 7,401, 6,852, 6,739, and 6,527 stores respectively [17]. Although CHAGEE's growth rate is faster than most brands, it might be challenging to sustain long-term.

Lack of varieties: Even though CHAGEE succeeded with its flagship product strategy, such as jasmine milk green tea, CHAGEE offers very few products to consumers. CHAGEE needs more flagship products and not just rely on its past products. In the long term, how CHAGEE can maintain its flagship product strategy remains a question. In other words, the flagship product strategy is a double-edged sword. It achieves efficiency with the operation chains aspect but puts more pressure on future product innovation to meet consumers' expectations.

6.3. Opportunity

Global market potential: Expanding in regions like Southeast Asia, North America and Europe with a culture of tea consumption and a lack of established tea brands presents an opportunity for growth. Although CHAGEE succeeded in Southeast Asia, CHAGEE has not entered North American and European markets yet. CHAGEE should consider expanding to other regions on the next step.

Brand differentiation: CHAGEE is one of the few brands focusing on traditional Chinese-style tea beverages. If CHAGEE continues focusing and innovating on that, it can differentiate from other brands. Furthermore, most milk tea brands focus on fruit or bubble tea, and the lack of beverages focuses on 'tea flavours', indicating a high market potential.

Online market penetration: The brand has a minimal presence in the online market. CHAGEE can offer products like tea bags to establish a new business portal. This can provide services for consumers who are willing to make a cup of tea themselves or in the early morning before getting up to work. In addition, one of CHAGEE's goals is to become the 'oriental Starbucks’, so it should provide more convenience to office workers and earn market share.

6.4. Threat

Milk tea industry: Both the milk tea market and brands are rapidly evolving and highly competitive. Moreover, it has a low entry barrier. Anyone with some experience can quickly build a milk tea brand, and its brand development highly relies on financial backups. It is challenging to stay competitive in this environment.
Relies on social media marketing: CHAGEE heavily relies on social media marketing strategy. However, social media marketing is a 'double-edged sword'. While CHAGEE gained popularity and received many young people's attention, it can quickly become another situation. For example, the recent collaboration with The Lost Tomb resulted in a negative reputation. The unsatisfied consumers expressed online caused a rapidly spreading negative impact on the brand. CHAGEE should learn from past experiences and potential mishaps. They should create proactive and well-executed partnerships that resonate with their target audience. Cultivating strong relationships with the loyal fan base and delivering consistent, high-quality products and services will be for the long-term maintenance of customer loyalty.

7. Conclusion

In conclusion, CHAGEE, a prominent player in the milk tea industry, boasts considerable strengths, including substantial financial backing, effective store management with a low closure rate, showing the success with franchise strategy and leading to rapid expansion. Additionally, CHAGEE's alignment with traditional Chinese culture, such as its logo design, distinguishes it from other brands. On the other hand, the evolution of the milk tea era from 1.0 to 3.0 reflects how the industry has adapted to consumer preferences. CHAGEE's commitment to providing 'real milk real tea' perfectly positions it within this new era, emphasizing natural and authentic ingredients. Moreover, its outstanding social media promotion focuses on Generation Z's interests, providing them a better shopping experience and social interactions that meet their consumption preference. However, there are risks of overreliance on social media marketing. This is because its reputation can quickly turn negative, and the collaboration with The Lost Tomb is an example. Additionally, IP collaboration in the milk tea industry is no longer rare; most top brands, like HeyTea, are making more IP collaborations and trying to boost sales and consumer attention. Therefore, the industry is facing challenges with intense competition and pricing pressures. The price war initiated by some prominent brands has driven the industry towards lower-priced products, making it more challenging for mid-range brands like CHAGEE to maintain profitability. While there is fierce competition in the Asian market, the opportunities lie in global expansion and enhancing online presence. Furthermore, CHAGEE has made significant inroads into the Asian and Southeast Asian markets, and the North American and European market haven't been occupied by other top brands, so it becomes a high-potential market for its future development. With that being said, different regions present different challenges and opportunities. To continue thriving in this competitive landscape, the brand must remain adaptable, focus on product innovation, expand its global presence, and nurture strong relationships with its core customer base.

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