

Analysis of the Hong Kong Beverage Market Based on Classical Economic Theory: The Vitasoy Incident

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Abstract. Beverage businesses have had to contend with an expanding range of products in recent years as the beverage market has grown more competitive. Against this background, Vitasoy Enterprises has suffered a certain blow in terms of sales. In particular, the Vitasoy incident has led to the company being negatively affected by consumers in the mainland market. After establishing the research objectives, this paper collects relevant information, reads books and literature, and organizes and analyzes them, and chooses to use classical economic theory to explain and analyze the impact of the Vitasoy incident on the company. Classical economic theory suggests that markets should be characterized by transparency and complete information. In addition, classical economic theory also emphasizes the importance of market competition. However, apart from the classical economic theory, there are other economic theories that can be used to explain the impact of the Vitasoy incident. For example, behavioral economics, institutional economics, and new institutional economics. The impact of the Vitasoy incident on the company can be explained through classical economic theory, while also drawing on other economic theories to provide a more comprehensive analysis and recommendations.

Keywords: Vitasoy, Classical economic theories, Macroeconomic, Consumer values, brand image.

1. Introduction

1.1. Research Background and Significance

In recent years, as the beverage market has become increasingly competitive, beverage brands are faced with a growing variety of products. The beverage market in Hong Kong has a significant impact on the free market as a whole. Any unfavorable news or issues concerning the leading beverage company can have a significant impact, not only affecting the beverage market itself, but also leading to a number of conflicts and issues within the industry. Furthermore, the impact could go beyond the beverage market and affect the general development of Hong Kong market. However, when explaining specific observations or phenomena in the beverage market, it is crucial to recognize the limitations of classical economic theory. As a result, this paper will also explore the application of other economic theories in order to provide a more comprehensive analysis. For example, behavioral economics can investigate how consumers make decisions and how social factors and psychological biases affect their decisions. This perspective can help us understand consumer behavior in the beverage market and identify potential challenges or opportunities.

This paper aims to propose targeted solutions and strategies to address any issues. It combines the insights from classical economic theory and other relevant economic theories. These solutions will be tailored to the specific challenges that the Hong Kong beverage market is facing, while taking into account the distinct features and dynamics of the industry. In conclusion, this paper will examine possible issues in the Hong Kong beverage market by using classical economic theory. It will then integrate insights from other economic theories to provide a comprehensive understanding of the market dynamics. By doing so, this paper aims to propose targeted and effective solutions to address any challenges and promote the sustainable development of the Hong Kong beverage market.

1.2. Literature Review

Companies should in order to understand and adapt to the changing environment and react to the changing environment accordingly [1]. Fu Zeyu suggests that classical economics views capitalism

in a non-historical and non-social dimension, ignoring the inherent contradictions of the capitalist mode of production. Classical economics is only an abstract concept of contradiction [2]. Heinz Kurtz and Neri Salvadori mention that most modern macroeconomic theories are theories of full employment. Many economic theories are just an idealized assumption that does not exist in the real world, such as full employment [3]. Long Ling mentions that behavioral economics provides a more comprehensive perspective for explaining people's behavior and decision-making. It emphasizes people's limited rationality, interaction effects, time preference and loss aversion to provide a more accurate explanation of economic phenomena and market behavior [4].

1.3. Research Content and Framework

This paper is a study of the Vitasoy incident and its company in the Hong Kong beverage market based on the classical economic modeling theory. First of all, we will find and read the related literature first, and then we will set the topic. The text first writes about the general economic background, the motivation of the study and the significance of the study. Secondly, it will describe the incident. Next, in the analysis section, the paper will use classical economic theory to analyze the principles used in the incident and suggest certain reasons that cannot be explained by classical economic theory. In the suggestion part, the paper will use other related economic theories to analyze some points that cannot be explained by classical economic theories. Finally, the paper will be summarized with shortcomings, limitations and directions for future research.

2. The case of Hong Kong Vitasoy

Vitasoy is a well-known beverage company founded in Hong Kong in 1940. Soy milk, almond milk, oat milk, and a variety of fruit juices are just some of the plant-based beverages it produces and distributes. Over the years, Vitasoy has expanded its product offerings to cater to different consumer preferences and dietary needs.

Since 1970, the standard of living for Hong Kong residents has increased significantly, which has led to a decline in the demand for relatively cheap Vitasoy. In the middle of the 1970s, however, Vitasoy's development took a turn for the better, bringing the image of young people's consumer goods and leisure drinks back to the beverage market. From the 1980s to the present, however, the Hong Kong population's affinity for and recognition of Vitasoy has helped to establish the image of [1]. However, in 2021, Hong Kong Vitasoy purchasing director stabbed a police officer and committed suicide, Vitasoy claimed that he "died unfortunately", triggering Chinese netizens to criticize the "support for terrorists" and call for a boycott [5]. And at the end of 2021 Vitasoy Company announced its interim results for the period ended September this year, as the company's net profit dropped 95.12% year-on-year to HK\$32.840 million due to the impact of the Mainland boycott fiasco [6]. In the next part of the analysis, we will examine how the classical economic theory can be used to analyze the reasons for the drop in sales of Vitasoy after the boycott by the Mainland under the free market in Hong Kong.

3. Analysis on the Problems

There are two basic assumptions in classical economics model, which are the flexibility of wages and prices, and full employment. However, in the real society, full employment cannot always be existed. The study's findings are supported by Figure 1 and Table 1, which demonstrate Hong Kong's free market economy and free price system for goods and services. In accordance with market expectations, Hong Kong's seasonally adjusted unemployment rate decreased slightly from 2.9% to 2.8% in the three months ended July 2023. It was the lowest jobless rate since June 2019, as the number of unemployed decreased by 1.9 thousand from a month earlier to an over four-year low of 111.7 thousand. Meanwhile, employment increased by 19.2 thousand to 3.708 million. Among

sectors, reduction in unemployment were mainly from retail, accommodation services, food and beverages, transportation, information and communication, and real estate [7].

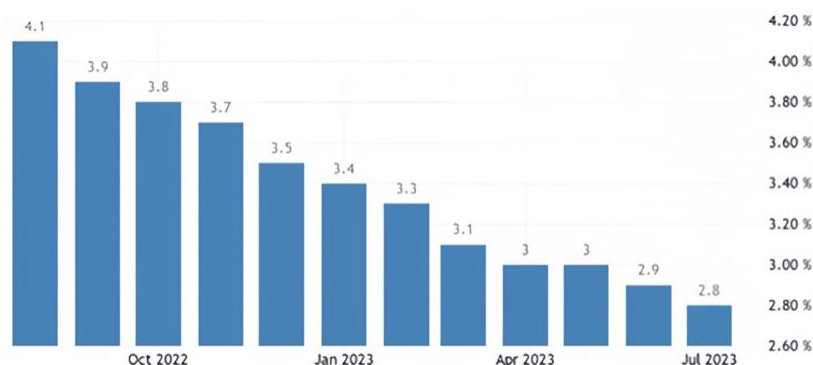


Figure 1. Hong Kong overall unemployment rate [8]

Table 1. Hong Kong related unemployment rate [9]

Related	Last	Previous	Unit	Reference
Unemployment rate	2.80	2.90	Percent	July 2023
Unemployed persons	111.70	113.60	Thousand	July 2023
Employed persons	3708.00	3688.80	Thousand	July 2023
Labour force participation rate	57.60	57.50	Percent	July 2023

Since there are no truly perfectly competitive markets and economies in the world, this premise assumption of the classical economic model is also not valid, as it assumes that all markets and economies are perfectly competitive. So why the author chose Hong Kong for my analysis is because it is the closest city to a free market economy. Because an economy that is not imperfectly competitive is going to have government intervention. Yet classical economics advocates minimal government intervention in the economy, based on the belief that markets self-regulate and naturally allocate resources efficiently. However, this view ignores the potential benefits of government intervention in correcting market failures, promoting social welfare, and addressing externalities.

In a perfect competitive market in Hong Kong, competition is very fierce and normal, consumers are usually more attracted by the new and forget the old, products are easily eliminated from the market if they are not marketed with attention to consumer preferences and changes in market supply and demand [10]. According to the research, the beverage market in Hong Kong is very competitive [11]. There are many types of beverages, such as milk, alcohol, sodas - Coke, non-fizzy - Vitasoy, etc. So in such a competitive market, what choices will Vitasoy make to make it the drink of choice and become an established beverage in today's market? One of the assumption of classical economics theory is its assumption of rationality. Despite the fact that classical economics makes the assumption that people and businesses always make decisions based on rational calculations to maximize their own self-interest, human behavior is frequently influenced by various factors that can result in irrational decision-making, as demonstrated especially by the egregious incident with Vitasoy. Emotions play an important role in decision making and individuals may make choices based on their feelings rather than purely rational calculations. Take the Vitasoy incident this time as an example, because Mainlanders were not satisfied with the response of the Vitasoy company, they reduced their purchases. Decisions may be affected by biases such as confirmation bias or loss aversion, which can affect how information is processed and lead to less optimal decisions. In addition, incomplete information is prevalent in many real-world situations, making it difficult for individuals to have complete knowledge and make fully rational decisions. Behavioral economics has studied these deviations from rationality extensively, exploring how psychological and social factors influence economic decision-making. According to behavioral economics, people may exhibit limited rationality, which means they make rational judgments within their cognitive abilities and access to information. From the perspective of behavioral economics, people may exhibit limited rationality, which means they make rational judgments within their cognitive abilities and access to information.

By adding ideas from behavioral economics, actual economic behavior is better understood and explained, including deviations from standard rationality assumptions [12]. The result of this understanding has been the creation of different economic models that include behavioral insights and provide more sophisticated explanations of decision-making processes.

Apart from that, the drop in sales of Vitasoy in the Mainland and its implications for the classical economic model. According to classical economics, supply and demand are expected to be in equilibrium, meaning that demand and supply are equal to each other in a competitive market. However, real-world situations often deviate from this idealized assumption. In the case of Vitasoy, the drop in sales suggests a situation where the demand for the product in the Mainland is currently lower than the supply. This could be due to various factors such as negative publicity, changing consumer preferences, or increased competition from alternative products. These factors can lead to a temporary imbalance in the market, where supply exceeds demand. It is important to note that classical economics provides a simplified framework for understanding market dynamics and assumes that markets adjust quickly to equilibrium through the price mechanism. In reality, however, markets can become out of balance and take time to adjust. This may be due to factors such as information asymmetry, transaction costs or market power [1].

4. Suggestion

In analyzing the Hong Kong beverage market and the Vitasoy incident using classical economic theories, there are some theories that are not explained. So in the suggestion part other theories and models will be used to explain and analyze. First of all, behavioral economics can be used to explain. It is different from classical economics in that it focuses more on people's behavior and decision-making process. First one is limited rationality: behavioral economics believes that people's decision-making process is limited by their limited cognitive ability and information processing ability. Compared with the assumption of rational decision makers in classical economics, behavioral economics pays more attention to people's biases and limitations in the decision-making process [13]. For example, people may be influenced by factors such as psychological biases, emotional factors and social influences, and thus make imperfectly rational decisions. Second one is interaction effects: Behavioral economics emphasizes that people's decisions are influenced by the behavior of others. Factors such as social norms, group behavior, and information transfer can influence people's decision-making process. For example, people may be influenced by the herd effect and tend to imitate the behavior of others rather than making decisions based on their own judgment [4].

5. Conclusion

The product selection offered by Hong Kong beverage brands is expanding, and the rivalry is intensifying. The Hong Kong beverage market has significant implications for the free market as a whole. Any adverse news or issues regarding leading beverage companies could have a significant impact, not only on the beverage market itself, but also on conflicts and issues within the industry. These impacts may go beyond the beverage market and affect the overall development of the Hong Kong market. This paper combines classical economic theory and other relevant economic theories to provide solutions and strategies to address these issues.

Consumers should be concerned about the movement of the beverage market in Hong Kong. This is because it will affect consumers' purchasing decisions and consumption behavior. In addition, beverage producers and suppliers should also be concerned. Because they are the key factors guiding market positioning and product development strategies. And understanding consumer needs and trends is the key to improving efficiency and increasing profits. Finally, governments and regulatory agencies should also be concerned. It is important to formulate relevant policies and regulatory measures to promote market competition and protect consumer rights. The most important aspect of studying the beverage market in Hong Kong is its impact on the economy. The beverage market

contributes a large percentage to Hong Kong's economy. It also affects the employment situation in Hong Kong. Future research directions include research on consumer behavior and trends: surveys of different consumer groups and analysis of beverage preferences and; research on factors influencing purchasing decisions. In addition, can also study the market competition and brand strategy: market share and brand awareness of the influence of factors analysis; brand positioning and marketing strategy research.

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