

A Marketing Strategy Analysis of Xiaoguan Tea

Yuan Zhao Song ^a, Myeong Cheol Choi ^b, An Na Zou ^c, Cheng Jie ^d, Joo Hee Han ^e

^{a, *c, d} Ph.D. student, Department of Business, Gachon University, S.Korea

^{*b} Assistant Professor, Department of Business, Gachon University, S.Korea

^c Assistant Professor, Department of Business, Gachon University, S.Korea

Corresponding author*: Myeong Cheol Choi, Email: oz760921@gachon.ac.kr

An Na Zou, Email: z592292438@gmail.com

Abstract: Chinese tea culture has a long and ancient history, originating from the Tang Dynasty. Even now, tea drinking plays a significant role in people's daily lives. However, the inherent characteristics of the smallholder economy have severely restricted the proliferation of the tea industry. The scattered tea market pattern has also negatively impacted industrialization. Therefore, it is necessary to study the marketing strategy of the tea market. This article uses a case analysis and literature review to analyze the consumption characteristics of the tea market, and combines the brand marketing strategy of Xiaoguan Tea to conduct a special study on the factors limiting the industrialization of the tea industry. We also forward constructive suggestions to promote the standardization and branding of the tea industry. According to the marketing strategy analysis of Xiaoguan Tea, we conclude that integrating the industrial chain and increasing the utilization rate of machinery are two effective measures. Moreover, establishing a universal pricing standard and evaluation system and constructing the brand architecture for tea, are the steps necessary for the Chinese tea industry to achieve innovative breakthroughs.

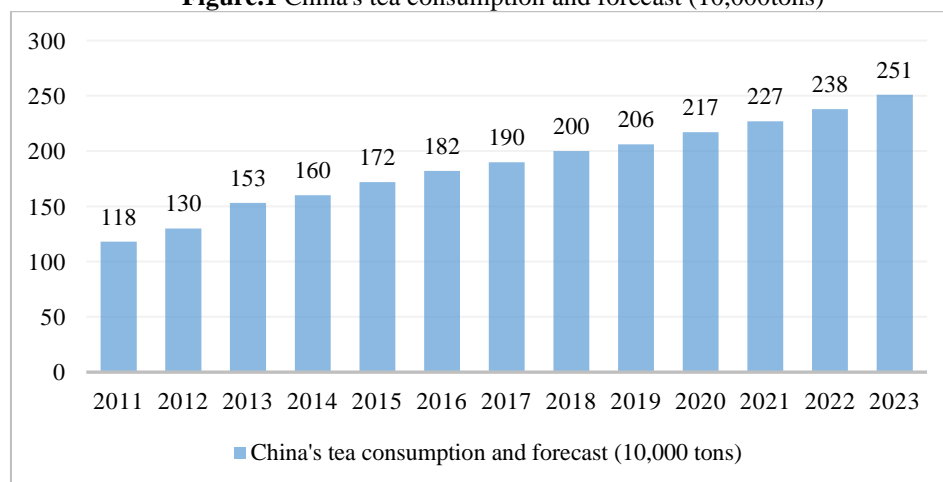
Keywords: Xiaoguan tea, STP analysis, marketing strategy, industrialization

1. Introduction

1.1. Research Background

China is the first country to discover tea. China is a large producer and consumer of tea. In recent years, China's tea production, domestic and export sales have maintained steady growth, and the tea market has shown great potential. According to the Report on China's Tea Production and Marketing Situation in 2019, the area of tea gardens in China's 18 major tea-producing provinces was 30, 652 square kilometers, with an output of 2.8 million tons valued at 240 billion RMB, and domestic sales of 274 billion RMB. The areas under tea cultivation and the volume of tea production are both ranked highest in the world (Mei & Liang, 2020). In 2019, the Prospective Industry Research Institute forecasted that China's tea consumption will reach 2.51 million tons and tea sales will exceed 400 billion RMB by 2023, as shown in Figure 1 (Qianzhan Industry Research Institute, 2019).

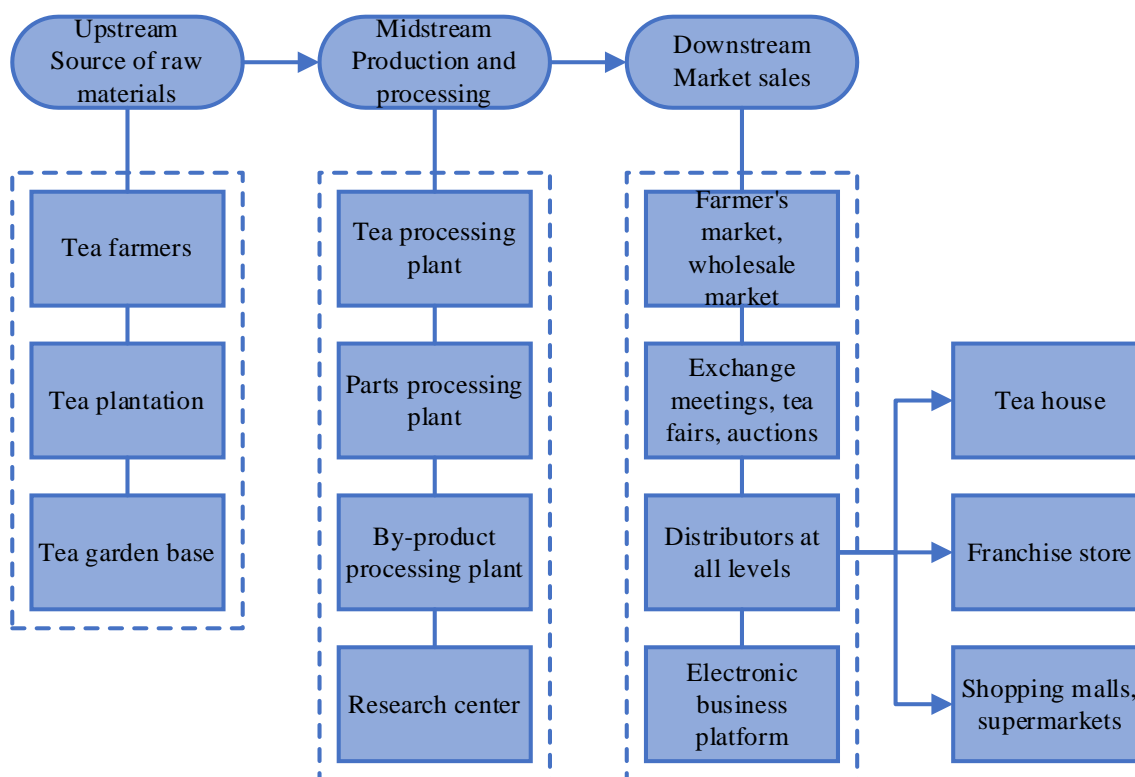
Figure.1 China's tea consumption and forecast (10,000tons)



China has many world-renowned regional tea varieties, but lacks specific major tea brands. The tea market is large but not strong, with low branding and a lack of uniform industry standards. Therefore, the total output value, profit, and degree of industrialization of the tea industry are far behind the tobacco and alcohol industries.

The tea production process runs through the primary, secondary, and tertiary sectors, from upstream raw material sources, midstream production, and processing to downstream market sales, where planting, processing, circulation, and consumption are all extensions of the industrial chain, as shown in **Figure 2**. The industrial cluster effect exerted by the tea industry has also driven its related supporting industries, such as material packaging, fertilizers, agricultural ancillary products, and logistics to develop and grow. Notably, all these supporting industries are indispensable components of the development of an integrated industrial chain.

Figure.2 Flow chart of the tea industry chain



1.2. Significance of The Study

There are many varieties of Chinese tea and various classification methods. In the "GBT 30766-2014 Tea Classification" released in 2014, tea leaves are divided into seven categories: green tea, black tea, yellow tea, white tea, oolong tea, dark tea, and reprocessed tea (**General Administration of Quality Supervision, 2014**). Although tea categories are uniformly specified, tea prices lack a unified industry standard. Taking Longjing tea as an example, tea output from trees of the same origin and the same plantation varies due to a difference in picking season. For example, the Longjing harvested before Grain Rain (April 19, 20 or 21) is called "Pre-Grain Rain Tea", and the one harvested before the Ching Ming Festival (April 4, 5 or 6) is called "Pre-Ching Ming Tea". The tea picked after the Ching Ming Festival is called "Sparrow Tongue Tea". Not only does the taste differ, but price differs too. When evaluating the characteristics of tea, all links in the tea industry chain, including tea farmers, tea farms, tea garden bases, and tea enterprises, have their own evaluation criteria. Various evaluation criteria have fragmented the large Chinese tea industry, and created an asymmetrical pricing structure. Tea gardens rely on the small-scale farmers' economy, and tea companies lack modern technology, resulting in low production efficiency. These problems have severely restricted the development of China's tea industry.

According to data from the National Bureau of Statistics, in 2019 the total operating income of China's brewing industry and the total industrial output value of the tobacco industry reached 835.07 billion RMB (**MIIT, 2020**), and 1006.194 billion RMB (**State Tobacco Monopoly Administration, 2020**) respectively. The output value and scale of the tea industry, which is also a traditional consumer goods industry, lags far behind the tobacco and alcohol industries. Overcoming the regional origin of tea and solving the dilemma of the tea industry with its myriad varieties but no brands (**Ibrahim & Harrison, 2020**), is of great significance to the standardization and branding of the Chinese tea industry.

1.3. Research Method

The research methods of this article are mainly case analysis and literature review. We will research the development path of the Xiaoguan Tea brand through a case analysis method, and research consumer behavior in China's tea market through a literature review. Finally, we conclude the study by reviewing the market segmentation, product positioning, target market, product, price, channel, and publicity strategies, of the tea industry and of Xiaoguan Tea to forward constructive opinions.

2. The Development History of Xiaoguan Tea

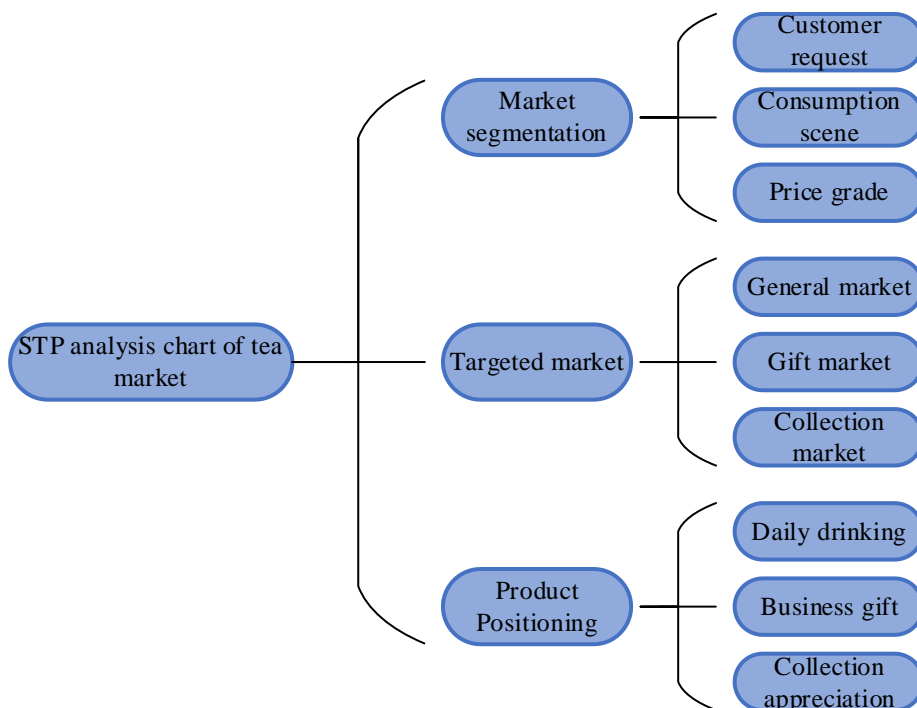
Xiaoguan Tea is a full-category high-end tea brand founded by Du Guoying in 2014. The founder Du Guoying has created many popular brands and is known as a marketing master. Xiaoguan Tea was launched in July 2016, and its sales exceeded 100 million RMB that year. In 2016, Xiaoguan Tea independently developed the first fully automated aluminum can production line in the tea industry. The Xiaoguan Tea Huangshan Central Factory, the first intelligent chemical factory in the industry, started in 2017. In 2018, Xiaoguan Tea established the "Tea Industry Equipment Center" and "Tea R&D Center". In December of the same year, Xiaoguan Tea cooperated with Siemens to accelerate the intelligentization of Chinese tea. In 2019, Xiaoguan Tea and IBM jointly created the "AI Tea Robot" which was unveiled at the World Artificial Intelligence Conference that year.

According to the "2019H1 small can tea operation status and industry trends research report" released by iiMedia Ranking in 2019, at the end of 2018, Xiaoguan Tea had more than 600 specialty stores, 2,000 cooperative tobacco and liquor stores, and 3,000 cooperative tea shops. Annual sales are about 2 billion RMB. In the report on the Top 30 Online Development Ranking of Chinese Tea Brands (August, 2020), Xiaoguan Tea won the championship with a gold list index of 94.8 (iiMedia, 2020). As a young, modern tea company, Xiaoguan Tea has become a phenomenal brand in the Chinese tea industry.

2.1. Segmentation, Targeting and Positioning (STP) Analysis of Xiaoguan Tea

As a national drink, tea has different consumption concepts in China. Faced with the complex market demands of China's tea industry, it is impossible for any tea company to meet the needs of all consumers with limited resources. However, through market segmentation, tea companies can target consumers, choose superior products to invest in the target market, and conduct marketing for product positioning, as shown in **Figure 3**.

Figure.3 The STP analysis chart of tea market



2.2. Market Segmentation

In the Chinese tea consumption market, different consumers have different consumption needs, which can be divided broadly into three concepts: cultural tea for ceremony, gift tea as presents, and ration tea for daily drinking.

Cultural tea pays attention to the spirit of tea ceremonies and the spiritual enjoyment of tea. It pays attention to the utensils, the water, tea-making skills, and the tea-drinking environment, and incorporates philosophical ideas into the tea ceremony. Cultural tea is not only tea, but also the aesthetic concept displayed in the whole tea drinking process.

Gift tea is used as a gift for visiting relatives, friends, and business exchanges during the New Year celebrations. First, gifts are an important means of socialization. They need to be suitable for various occasions, and also reflect the high quality of the tea. Therefore, gift tea pays attention to several aspects such as grade, packaging, and price (Li et al., 2020).

Ration tea is used for daily drinking and entertaining friends. The consumption is large, so it needs to pay attention to cost performance. It requires a moderate taste and must be suitable for daily consumption. It only needs to be of good-quality and cheap, and does not pay attention to packaging.

2.3. Product Positioning

Xiaoguan Tea locks the brand's consumer group as high-income consumers with a tea habit. The consumption scene is mainly business contacts and gifts. According to different packaging materials, the products can be mainly classified into the following series: gold cans, silver cans, colorful cans, and multi-bubble series. Each has a different pricing policy. For example, the average unit price for a gift box containing 18 gold cans is 55 RMB, while the average unit price for a gift box containing 20 silver cans is 25 RMB. In particular, the most high-end appreciation gift box is priced as high as 6000 RMB.

2.4. Target market

According to statistics, 60% of the current sales of Xiaoguan Tea are used as gifts and 40% is consumed. Consumers of Xiaoguan tea have three main requirements for tea:

1. Consumers are concerned about the different healthcare effects of the tea
2. Consumers with a daily tea-drinking habit pay attention to the quality of the tea
3. Consumers with high income pay attention to the grade of the tea gifts

Traditional tea companies mainly classify tea based on the varieties of the tea plants, the place of production, the manufacturing process, and the taste of the tea. It is difficult for consumers without tea knowledge to make appropriate choices. Therefore, Xiaoguan Tea sets aside the cumbersome traditional tea grading system, and uses the authority of tea masters to emphasize the high quality of tea instead. Moreover, Xiaoguan Tea also applies the same weight and the same price to reduce the difficulty of consumer choice, and adopts experience marketing to increase consumer stickiness, along with high-end packaging to meet business elites' gift function needs.

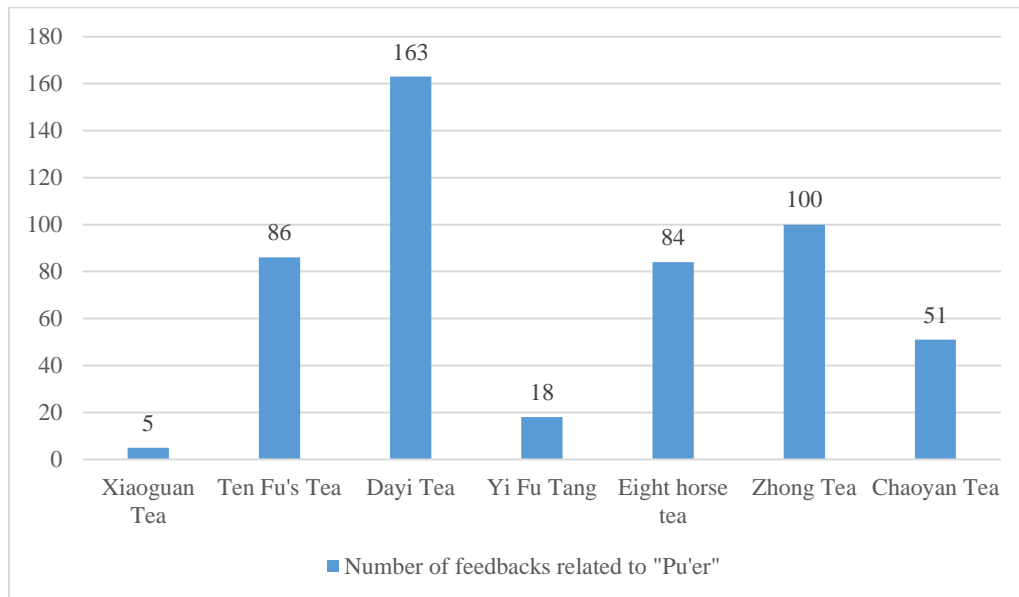
3. The Marketing Strategy Analysis of Xiaoguan Tea

3.1. Product Strategy

It is also considered a hobby consumer product. When it comes to cigarettes, consumers often think first of cigarette brands such as Chunghwa and The Lotus King. When it comes to traditional Chinese liquor, Moutai, Wuliangye, and other wine brands are well-known at home and abroad. When it comes to tea, consumers often only consider regional tea varieties such as West Lake Longjing Tea, Anhui Tieguanyin Tea, and Dongting Biluochun Tea. It is difficult to divide the standard of tea due to personal preferences, and there is no well-known tea brand to use as a market basis, resulting in price confusion in the market. It is also difficult for consumers to find the products they want from many similar, available choices.

In recent years, Pu'er Tea has steadily ranked first in Taobao's "Double Eleven" tea transactions. For this study, the number of relevant feedback links that searched for Pu'er Tea in Taobao flagship stores of multiple tea companies were sorted out, as shown in Figure 4. In 2018, the second highest operating income of Chinese tea companies was generated by the Taetea Group. The company's Taobao flagship store has 21 series of Pu'er Ripe Tea and 12 series of Pu'er Raw Tea. The price ranges from the lowest 25.8 RMB to the highest 2,338 RMB, and there were as many as 163 relevant feedbacks from searching for Pu'er Tea.

Figure.4 Number of feedbacks related to "Pu'er Tea" in some tea companies' Taobao flagship stores



In the Pu'er Tea related search on the Taobao flagship store, the only five feedback links are Golden Pu'er Gift Box, Silver Pu'er Gift Box, Color Pu'er Gift Box, Multi-bubble Pu'er Gift Box and the Appreciation Pu'er gift box. The packaging of pure colors such as gold and silver is concise and clear, which greatly reduces the difficulty for consumers to choose grades.

Xiaoguan Tea sets the same price for its products. Black Tea, Green Tea, Yellow Tea, or Jasmine Tea have the same weight and price. Xiaoguan Tea uses uniform standards, prices, and quality, which avoids the tedious selection steps in the tea purchase process, so that the tea is standardized and branded (Chen & Su, 2009).

3.2.Price Strategy

In response to the gifting needs of visiting relatives and friends, and for business, the gold and silver cans series emphasize the positioning of high-end gifts through the high-end packaging, quality, and prices, highlighting the gift-giving style. Aiming at self-drinking consumers, Xiaoguan Tea has launched a larger capacity multi-infusion package priced at 150 RMB with 50 grams per can.

The multi-bubble drinking method is more free or casual and could attract consumers who have daily tea drinking habits and pay attention to drinking good tea.

3.3.Place Strategy

Xiaoguan Tea has offline stores in major cities and, also concentrates on selling in department stores or commercial districts with high traffic. The offline store hired Apple's design team to create a store design which is very different from the style of traditional tea stores. It uses metal, lighting, simplicity, LED screens, and other fashion elements to show their high-end brand image.

At the same time, small pots of tea are sold through e-commerce platforms, including Taobao and JD flagship stores. The goods are shipped from nearby offline stores to ensure the timeliness of after-sales service and logistics. Offline stores need to pay rent, management fees, utilities, and other costs, therefore, the online prices of many brands are usually more favorable than in offline stores. Xiaoguan Tea adopts a management strategy that matches online prices with offline prices, which encourages consumers to experience the services in-store, and reduces the effect of "online shopping fitting rooms" which refers to those customers who treat the mall as a fitting room, and then buy the same lowest-priced items online. It not only protects the interests of its franchisees, but also strengthens the emotional connection with consumers through offline experience services (Gary, 2015).

3.4.Promotion Strategy

When advertising, the brand should first understand its own advantages, and list the brand attributes that can represent and highlight those advantages and avoid the weaknesses. The disadvantage of Xiaoguan Tea is that the brand has been established in a short time and does not have the historical reputation accumulated by a time-honored brand. Therefore, the advertisement of Xiaoguan Tea supervised by the tea specialist and claims to combine technology and traditional tea to make up for its shortcomings.

With the development of the Internet, the speed and effectiveness of new media advertisements have surpassed that of traditional TV advertisements. Increasingly, brands rely on the Internet for publicity (Aghazadeh, 2015).

The Xiaoguan Tea went the other way, making a TV commercial and airing it on China Central TV (CCTV). The selection of the specific channel for placement of the advertisements was also carefully considered. For example, the advertisement that aired on the CCTV2-Financial Channel includes elements such as private jets, a chairman's office, and presidential suite. The targeted consumers are business elites who follow the financial news. The advertisements placed on the CCTV9-Recording Channel are in the form of documentaries. The advertisements contain informational elements such as famous mountain tea, traditional techniques, and intangible cultural heritage inheritor, which are highly consistent with the audience of cultural programs. The effect of TV advertising is also closely related to the advertising platform. Xiaoguan Tea uses the authority of CCTV to expand its influence.

4. Conclusion

The core of the marketing strategy of Xiaoguan tea is standardization and branding, which breaks the dilemma of opaque prices and non-uniform standards in the traditional tea market, and solves consumers' selection difficulty. It simplifies the erstwhile complex process, that is, simple to understand, simple to choose, and simple to drink. Through the strategy of "vertical merger", the entire industry chain is developed. Xiaoguan Tea allows tea gardens and factories to buy shares in the company, opening-up upstream and downstream integration. In this case, a long-term benefit-sharing mechanism is established, forming a one-stop chain including supply, production, and market, which ensures the stability of the industry and supply chains (Moorman & Day, 2016).

In the high-tech field, the AI tea picking robot, developed in cooperation with IBM, helps promote the automation and intelligence of tea selection. Automated production lines are not only more efficient, precise, and controllable, but also significantly reduce production costs. The fully automated aluminum canning production line independently developed by Xiaoguan Tea adopts the same design scheme, canning equipment, and the same set of packaging materials for all packaging and production processes, which directly reduces the cost of a single can. The unique small can is designed to completely protect the color and fragrance of tea. The "one can one drink" tea drinking mode is clean and hygienic, which fits the living habits of modern people.

According to the STP analysis of the tea market, the various consumption levels and consumer demands of the Chinese tea market are conducive to the overall development of the tea industry. However, traditional tea companies have problems like poor investment in scientific research, insufficient mechanization, and a lack of emphasis on brand building. Combining the analysis of the marketing strategy of the small pot of tea, we put forward the following suggestions:

1. To integrate the tea industry chain, establish an effective linkage mechanism, and form an industrial advantage.
2. To increase investment in research and development funds, expand the scale of mechanized production, and improve production efficiency through the development of automation and intelligence.
3. To promote the branding of tea, establish a universal evaluation standard and price system, and promote the healthy and stable development of the tea industry.

Acknowledgement

This work was supported by the Ministry of Education of the Republic of Korea and the National Research Foundation of Korea (NRF-2020S1A5A8047203)

References

- A. Aghazadeh, H. (2015). Strategic Marketing Management: Achieving Superior Business Performance through Intelligent Marketing Strategy, *Procedia - Social and Behavioral Sciences*, 207, 125-134.
- B. Chen, D., & Su, Z. (2009). On Distribution Strategies of Chinese Tea Market, *Journal of Shenyang University*, 21, 31-34.
- C. Mei, Y., & Liang, X. (2020). A Report on China's Tea Production and Marketing Situation in 2019. *Tea World*, 1-14.
- D. Qianzhan Industry Research Institute. (2019). Analysis of China's tea industry market status and development trends in 2019. Available at: <https://bg.qianzhan.com/report/detail/459/190219-50b4b42d.html>.
- E. General Administration of Quality Supervision. (2014). *Inspection and Quarantine of the People's Republic of China. GB/T 30766—2014 Tea Classification*. Beijing: Standards Press of China.

- F. MIIT. (2020). The operation of the liquor industry in 2019. Available at: <http://www.miit.gov.cn/newweb/n1146285/n1146352/n3054355/n3057601/n3057608/c7870397/content.html>.
- G. State Tobacco Monopoly Administration. (2020). Cigarette statistics in 2019. Available at: http://www.tobacco.gov.cn/html/56/90152805_n.html.
- H. Ibrahim, E. B. & Harrison, T. (2020). The impact of internal, external, and competitor factors on marketing strategy performance, *Journal of Strategic Marketing*, 28, 639-658.
- I. iiMedia. (2020). Online Development Ranking of Chinese Tea Brands in August 2020. Available at: <https://www.iimedia.cn/c880/74362.html>.
- J. Lee, Jeongmin., Yi, Jisu., Kang, Dawon., & Chu, Wujin. (2018), The effect of travel purpose and self-image congruency on preference toward airline livery design and perceived service quality, *Asia Pacific Journal of Tourism Research*, 23(6), 532-548.
- K. Lee, Youseok., Yi, Jisu., Kim, Sang-Hoon. (2020), Reciprocal relationship between movies and the movie-themed mobile games, *Korean Journal of Marketing*, 35(May), 39-53.
- L. Lee, Youseok., Yi, Jisu., Kim, Sang-Hoon. (2020), Segmentation of Performing Arts Market: An Application of Latent Class Analysis and Decision Tree Analysis to Infrequent Attendees, *Korean Society of Consumer Studies*, 31(3), 245-267.
- M. Li, D., Liu, S., Chi, Z. (2020). Analysis on the Structural Changes of China's Tea Export Market——Based on the Trade Gravitation Model, *Forestry Economics*, online, 1-9.
- N. Sigley, G. (2015). Tea and China's rise: tea, nationalism and culture in the 21st century. *International Communication of Chinese Culture*, 02, 319-341.
- O. Moorman, C. & Day, G. S. (2016). Organizing for Marketing Excellence, *Journal of Marketing*, 80, 6-35.
- P. Zhang, Z., Choi, M. C., & Zhou, Y. (2018). The Vinegar of China Time-honored Brand, The Success Reason Analysis of HengShun Enterprise, *Chinese Studies*, 77, 287-307.
- Q. Lee, S. H. (2020). *China's platform for action*. Seoul, Wiseberry Press.
- R. Jung, K. B., Kang, S. W. & Choi, S. B. (2020). Empowering Leadership, Risk-Taking Behavior, and Employees' Commitment to Organizational Change: The Mediated Moderating Role of Task Complexity, *Sustainability*, 12.
- S. Yi, Jisu., Gao, Yuan., Yoo, Changsok. (2020), The effect of the perceived risk on the adoption of the sharing economy in the tourism industry: the case of Airbnb," *Information Processing and Management*, 57(1).
- T. Yi, Jisu., Lee, Youseok., & Kim Sang-Hoon (2019), Determinants of growth and decline in mobile game diffusion, *Journal of Business Research*, 99C, 363-372.
- U. Kang, S. W. (2019). Sustainable Influence of Ethical Leadership on Work Performance: Empirical Study of Multinational Enterprise in South Korea, *Sustainability*, 11.
- V. Kipkosgei, F., Kang, S. W. & Choi, S. B. (2020). A Team-Level Study of the Relationship between Knowledge Sharing and Trust in Kenya: Moderating Role of Collaborative Technology, *Sustainability*, 12.
- W. Opoku, M. A., Choi, S. B., & Kang, X. F. (2019). Servant Leadership and Innovative Behaviour: An Empirical Analysis of Ghana's Manufacturing Sector, *Sustainability*, 8.
- X. Wei, F. P., Choi, M. C., & Shang, X. F. (2019). A Study on corporate culture of Dianping. *The International Journal of Advanced Culture Technology*, 7(4), 69-75
- Y. Shang, X. F., & Choi, M. C. (2020). A Study on corporate culture of BYD. *The International Journal of Advanced Culture Technology*, 8(1), 135-140
- Z. Shang, X. F., Choi, M. C., & Kan, Z. C. (2020). A Study on the Development Model of Ctrip. *International Journal of Psychosocial Rehabilitation*, 7(24), 2564-2573
- AA. Seo, M. K., & Choi, M. C. (2019). Contingency theory and the institutionalism in terms of management organization. *The Asian International Journal of Life Sciences*, 18, 1573-1580.
- BB. Jun, Sunghye., & Yi, Jisu. (2020), What makes followers loyal? The role of emotional attachment to influencer brand, *Journal of Product & Brand Management*, 29(6), 803-814.