

THE TEA MARKET IN CHINA

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Who we are

Your Market Research Company in China

We are **daxue consulting**:

- A market research firm specializing on the Chinese market since 2010
- With 3 offices in China: in Shanghai, Beijing and Hong Kong
- Employing 40+ full-time consultants
- Full, complete, national coverage
- Efficient and reliable fieldwork execution across China
- Using our expertise to draw precise, reliable recommendations
- With key accounts from around the world





The strengths of Daxue Consulting

6 crucial competitive advantages



1. Localized & Creative 创造和本土

- Our team has an international background, leveraging the best of both worlds
- Teams are tailor-made depending on the projects
- ✓ One client = one dedicated team

3. We manage from A to Z 内部

- daxue consulting does not outsource its services. We manage our own assistants and use directly technological tools.
- ✓ We have a deep understanding on the fieldwork and the context within which data was collected.

5. Innovative 创新

- Constant on the look for new research tools and methodologies
- ✓ Our goal is to combine traditional methodologies with the latest tech tools

2. Responsive & Flexible 负责和灵活

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- daxue consulting has a commitment to answer emails within a day. We are result-oriented and do not count our time to accomplish our tasks.
- Regular reports with our clients in order to make sure we reach the goal expected from our clients.

4. Actionable recommendations 可行建议

- ✓ We care about results and design our research in order to be operational.
- ✓ We are **driven by metrics** such as customer acquisition costs, business plan KPIs, P&L optimization.

6. Professional 专业

- Our methodologies are rigorous and serious, taking information from the best practice in the world of consulting and research.
- Demanding on the results, detailoriented, respectful towards our commitments.



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350+ clients with 600+ projects for the past 7 years

Examples of references





A recognized expertise on the Chinese market

Regularly featured and quoted in global publications







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The largest tea market in the world



7 types of tea leaves in China



" Tea can be mild like **green tea** which is not fermented, it has chlorophyll,

vitamin selenium, and tastes slightly refreshing. White tea is a kind of slightly fermented tea with cooling (yin) nature. Yellow tea is semifermented tea or post-fermented tea with cooling nature. Oolong tea belongs to semi-fermented tea, and is gentle, neither cooling (yin) nor warming (yang), which can be considered as neutral tea. Finally, Black tea belongs to fermented tea. But can also be post-fermentation tea, which has a mild nature with a strong taste and less obvious smell."

Manli Wu (Esther), founder at Esther tea shop



New Style Tea: trend since 2014





"There has been **rapid development** in **Chinese tea innovation** and tea houses in the last couple of years, but around about 4 years ago there wasn't nearly as much, and I think that was because there is such a strong **culture of tea** and **history** behind it and they are very proud of the tea that they became very insular."

Martin Papp, co-founder at PAPP'S TEA



China is the largest tea producer in the world



- The total global tea output in 2018 was 5.9 million tons, China contributed 2.6 million tons of them (44.7%).
- China is the largest tea producer in the world, but its huge market demand for tea leaves are still unmet. Hence, the output of major tea producing countries will continue to grow. In particular, the increased awareness of Chinese consumers on health & wellness will also drive the global tea market to further increase.

Source: iimedia; World Tea News



The tea industry chain in China

Raw materials collection

Tea planting & picking Use of fertilizers & pesticides Processing and packaging



Tea production



Withered, rolled, dried, fermented and/or oxidized to make black tea, green tea, yellow tea, white tea, dark tea, or oolong tea.

Sales channels

Supermarkets Tea shops Restaurants E-commerce platforms





China's tea production market

- Green tea leaves make a majority of China's tea production. Considering China's tea growing environment and huge market demand, green tea will continue to maintain its output advantage for a considerable period of time.
- Drinking tea is an important part of the Chinese culture and living customs. China's tea sales will maintain an upward trend. With the increase of per capita disposable income of Chinese residents and the upgrading of residents' consumption, quality will become an important factor in the sales of tea.





China's demand for tea is rising steadily

- China's 1.4 billion people already drink nearly 40 percent of the world's tea, and they are thirsty for more.
- Chinese consumers prefer higher quality tea products, they often rely on third-party certification for assurance the tea is organic and sustainably grown.
- They are accustomed to paying much more per serving than Western tea consumers. The best tea in China can be up to US\$1,000 for 500 grams.



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Source: chyxx.com, askci.com



China exports green tea and imports black tea





- China's tea exports are 0 steadily increasing.
- Green tea accounts for 83% of 0 the total tea exports. Exports of black tea, green tea and flower tea all increased by more than 6%.

- Black tea accounts for 0 83.3% of tea imports.
- The rise of new tea drinks 0 such as milk tea has further increased the demand for black tea in China.







Source: www.chyxx.com; www.askci.com

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3.0

3.0

1.6

2018

Key characteristics of tea consumers

02



"I think young people still drink a lot of tea. China is still a tea drinking country. So the notion that young Chinese people are not drinking tea I think is not correct. You can definitely say that coffee consumption is growing; that's undeniable. It's not that young Chinese don't want to drink tea. They are going to Starbucks because they can't find a tea location that really fits their lifestyle, and they don't want to go to a traditional Chinese tea house. They want to be more modern, more cool, more fashionable."

Martin Papp, co-founder at PAPP'S TEA



The income and occupation of tea consumers

- According to the survey of China Tea Industry Research (10,000 respondents), tea consumers are mainly enterprise employees with 50,000-120,000 RMB annual salary, they usually have decent spending power and pursue a high quality life.
- Hence, office places are a common place to consume tea.



Source: China Tea Industry Economic Research

Where do Chinese consumers buy tea

- Chinese consumers still mainly rely on offline channels such as exclusive stores or large supermarkets.
- Tea enterprises should broaden their channels and combine online & offline to find new ways to attract customers. Quality assurance, convenient purchase, good experience and low price are the focus of consumers attention and also issues that tea companies must consider when doing channel construction.





Source: China Tea Industry Economic Research



Drinking milk tea is a daily habit for many Chinese people



- According to the survey of 36Kr Research (1,500 milk tea drinker respondents), milk tea is becoming a daily
 part of the lives of many young Chinese people, most milk tea drinkers consume it regularly. 93% consume it
 at least every week.
- Milk tea consumers are usually repeat customers, therefore it's essential for brands to improve customers loyalty leading to repeat business.

Source: 36Kr research

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New-style tea consumers are mostly young women in tier-1 cities



Geographical distribution of new-style tea consumers





Urban white-collar women are the main consumers

Women under 40 years old are the main consumer group. Urban whitecollar women are particularly keen to milk tea and fruit tea.



Large space for men's market

Only 30% of consumers are male. The male consumer market still has a large space to develop.

More research could be done on male flavor and aesthetic preferences of new-style tea in order to further penetrate the market



About 70% live in big cities

This is consistent with the fact that many stores are located in first tier cities.

Tier-1 cities are saturated markets, but second and third tier cities have a lot of room to grow. However, lower tier city consumers are more concerned with price.

Source: 36Kr research

The leading brands in China's new-style tea market

- Most of the direct-sale shops are high-end brands. They are more concentrated in the first tier cities with higher prices but less offline stores, which means franchises are helpful for expansion but not for a high-end image.
- There is little variation in store menus, which means there is a trend of product homogeneity in the market.

Sales modes	Brands	Number of shops	Main drinks	Unit price (RMB)
Direct-sale stores	HEYTEA 喜茶	309	Cheese tea, milk tea, fruit tea	25~32
	Nayuki 奈雪的茶	129	Cold Brew tea, fruit tea, fruit tea	24~33
	MODERN CHINA TEA SHOP 茶颜悦色	126	Milk cover tea, pure tea	19~28
Franchises	MI XUE BING YU 蜜雪冰域	5,000	Milk tea, fruit tea, ice cream	5~8
	COCO 都可	3,500	Milk tea, fruit tea	11~16
	Yidiandian 一点点	1,600	Milk tea, fruit tea	10~16

Source: iResearch



Baidu Index analysis of Green tea (绿茶)



Baidu is the #1 search engine in China. The volume of search (more than ³/₄ of the total search made on Chinese Internet) exhibits the market digital trends.

The most related keywords of "green tea" are "The effect and function of green tea" and "How many varieties does green tea has". It means Chinese netizens try to understand the true value and function of green tea rather than its brands.



Baidu Index analysis of Black tea (红茶)



Search index: low • • • High

Baidu is the #1 search engine in China. The volume of search (more than ³/₄ of the total search made on Chinese Internet) exhibits the market digital trends

The most related keywords of "black tea" are "The effect and function of black tea", "Tie Guanyin" and etc., which means the attitude of Chinese netizens towards "black tea" is similar with "green tea".



Baidu Index analysis of Milk tea (奶茶)



Baidu is the #1 search engine in China. The volume of search (more than ³/₄ of the total search made on Chinese Internet) exhibits the market digital trends

The most related keywords of "Milk tea" are "Homemade milk tea", "The ranking list of milk tea brands", and "The way of making milk tea", which means Chinese netizens are interested to make milk tea by themselves and vey care about milk tea brands.



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Lipton (立顿) – The most successful tea bag brand

Lipton is the largest foreign tea brand in China, it mainly focuses on black tea, green tea, jasmine tea and oolong tea.



Founded in England

Lipton was launched in England as a black tea brand. Its advertising slogan is: "Direct from tea garden to the tea pot".

Entered the Chinese market

Lipton officially entered China and started to sell black tea and green tea, the brand was devoted to tasty, easy-to-carry, small packages of tea.

Lipton achieved very high sales in China

Due to the high quality, clear target market and its precise market position, Lipton achieved very large sales and market share in China.

More investments in China's market

Lipton's owner Unilever invested 50 million USD in Anhui (安徽) province to build one of the biggest tea factories in the world at that time.

The most popular tea bag brand in China

The total annual output value of Lipton was about 23 billion RMB, which was almost the 2/3 of the output value of the China's tea bag industry.

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How Lipton built itself as a mainstream tea brand (1/2)



Source: lipton.world.tmall.com



Lipton brought its standardized design and production of tea products when the brand entered China, they helped Lipton reach every corner of the market while also building brand awareness among Chinese consumers.

×

Investments and localization in China

Many foreign tea brands sell tea products from abroad using Chinese distributors, however, Lipton invested in building a local factory and hiring local employees. With this strategy, Lipton greatly reduced the costs and localized the brand. It helped the brand to act quickly to meet the needs of Chinese consumers



Expanded sales and promotion channels

In 2008, Lipton was one of the first international brands advertising on mobile Internet in China. The brand was also one of the first to use e-commerce in China.



How Lipton built itself as a mainstream tea brand (2/2)

Lipton targets Chinese white-collar workers and young adults with its tea bags.





Traditional target consumers

- Tea is traditionally considered a leisure product. Therefore, many Chinese brands target middle age and elderly people, who have more leisure time.
- Most Chinese tea brands sell loose leaf tea, which can make people enjoy the process of brewing tea.





Lipton's target consumers

- Lipton mainly targets on China's whitecollar workers and young adults in urban areas.
- The brand uses its tea bag as a competitive difference in China's tea market, because it is convenient, cleaner and safer. It also greatly simplified the steps of drinking tea in China.



Lipton is facing great challenges in China

According to the annual report of Unilever in 2019, Lipton's profits decreased. The brand is facing many challenges in China.





Chinese consumers' discussion about Lipton (立顿)

Questions on Zhihu

- Most questions about Lipton on Zhihu centered around products' quality, price and function.
- The brand could be careful about the difference between Chinese tea and English tea, and emphasis on the specialty their product.



Lipton 立顿茶叶怎么样?

Lipton 立顿茶叶怎么样?搜索到农药残留的信息,用过的朋友请发表评论。

How is the quality of Lipton tea's leaves? Someone said it had pesticide residue, people who have tried this product please give some comments.

英国茶好还是中国茶好?

如题,没怎么喝过英国茶,平时喝的都是我爸买的中国茶叶,然后搜了下淘宝的英国茶发现都不是 很贵,然而这个价格买中国茶是买不到好喝的?

English tea or Chinese tea - Which one is better?

I hardly drink English tea and always drink Chinese tea bought by my father. After visiting Taobao, I found that English tea isn't expensive, but at the same price point, I can't find good Chinese tea.

我感觉立顿的茶叶主要是为了方便,一些不适合冲茶的场合来喝的。 跟普通的茶叶相比,差距还是很大的。

自己想啊,茶叶包里的碎茶叶沫能给你用多好的原料呢?

I think the main advantage of Lipton tea is convenience, especially on special occasions. Compared to common tea, there are great difference between them. Think about it, how high quality could broken down tea leaves in a bag be?

中国茶是好,但英国茶和中国茶几乎已经不是一个东西。审美的方向完全不同。

Although Chinese tea is good, it is quite different with English tea. Also, these two kinds of tea are totally different in terms of aesthetics.



Zhihu is the first Q&A website in China, and has transitioned to a social media sharing platform gathering more than 100 million answers on various topics. The platform is especially relevant to reach higher-, well-educated social classes.

A:



Chinese consumers' perception of Lipton (立顿)

Weibo posts

- Most positive perceptions are about the traditional flavors, portability, and creativity of mix with other materials.
- Almost all negative comments about new flavors. Ο



- This netizen says he doesn't have much time to make 0 tea, and he enjoys the portability and convenience of Lipton.
- Posts that shared homemade recipes received 0 additional positive attention. It is certain that Lipton has captured Chinese consumers' yearning of DIY.

立顿这个樱花奶茶还不如让我去喝洁厕灵







Likes: 1

Comments: 11

- This review described a consumer's poor experience with Lipton tea, said it tasted bad and its low quality.
- These kinds of posts and comments are very rare, compared to positive experiences.



Weibo is China's biggest social media network that was launched in 2009. Over the past years, it has transformed from a Chinese equivalent of Twitter to a comprehensive platform. Weibo



Xiao Guan Tea (小罐茶)



- Xiao Guan Tea is a high-end Chinese tea brand launched in 2014, it covers six categories: green tea, black tea, oolong tea, dark tea, white tea and reprocessed tea.
- The brand targets young adults with strong consumption power and pursue the quality of life.



By the end of November 2018, Xiao Guan Tea's sales revenue reached **2 billion RMB** in China's market, with around **650 offline shops** in the nation.



Source: Xiaoguantea.com, Sohu.com



Positioning itself as a high-end brand

High-end brand image

Xiao Guan Tea positions its products as high-end. The brand built its high-end image using well-designed packages and offline stores, which can created the distinct sense of modern luxury for consumers.



Popular gifts in China

Xiao Guan Tea uses aluminum cans and high-end gift box as packages, which make the tea healthy, convenient to drink and easy to conserve. Hence, Xiao Guan Tea products are now popular gifts during some Chinese holidays.



Source: iimedia Research, Xiaoguantea.com

The price distribution of Xiao Guan Tea (2018)



Of Xiao Guan Tea's products are higher than **500 RMB**



Improve manufacturing with AI tech

Xiao Guan Tea is upgrading its tea manufacturing by developing and using AI.



Upgrade production tech



Visual inspection technology In World Artificial Intelligence Conference 2019

- In cooperation with IBM, they developed a robot with visual inspection technology that can scan and pick out the impurities of tea leaves. One robot can finish 50-60 human workers' job every day.
- The technology can reduce labor expenses and improve processing efficiency.



Upgrade productivity



Smart tea production factory In Huangshan China

- Xiao Guan Tea and Siemens launched a cooperation at the end of 2018 to build a new smart tea production facility in Huangshan (黄山).
- The factory will use AI technology to achieve the intelligence of the job-shop, optimizing the production process.



Chinese consumers' discussion about Xiao Guan Tea (小罐茶)

Questions on Zhihu

- Most questions about Xiao Guan Tea on Zhihu centered around products' taste, reputation and price.
- Brand could be careful about the negative effects of marketing strategies, and pay attention to products' quality at the same time.

小罐茶的味道究竟如何?

过年买了给爸爸,爸爸说不好喝,看了购买网页的评论,想想都是送人的吧没多少人自己尝过,只有问问知乎了。既然选择,我就认出广告费了,那么抛开外衣,单就茶叶,品质和味道,打几分?

How about the taste of Xiao Guan tea?

I brought it for my father during the Chinese new year. My father said it does not taste good. I think most people buy it as a gift rather than drinking it themselves. Thus, I need ask this question: packaging aside, what do you think about its quality and taste?

为什么小罐茶在网上一直褒贬不一?

📲 **阿莱** , 茶 / 生活 / 点滴 【公号 : wunongchatang】

Why does Xiao Guan tea have mixed reviews on the Internet?

先说结论:品相、滋味、纯净度,各项指标均表现优秀,品质稳定的好茶。如果你不太懂茶或者懒 得挑选,可以盲买。送人,好看也好喝,也很合适不过了。

The conclusion: good tea with excellent appearance, taste, pure and stable quality. If you don't know much about tea or don't want to select, you can buy it. It's very suitable to give people as gifts, which is attractive and good to drink.

没有调查就没有发言权,了解过小罐茶后,我觉得小罐茶的成功属于市场经济下的必然导向,因为 小罐茶对产品的定位人群非常明确,同样这也是为什么网上对小罐茶的评价一直褒贬不一的原因。

No investigation, no right to speak. I think the success of Xiao Guan Tea is from the market economy and because Xiao Guan Tea has very clear target groups. It's also the reason for mixed reviews online.



Zhihu is the first Q&A website in China, and has transitioned to a social media sharing platform gathering more than 100 million answers on various topics. The platform is especially relevant to reach higher-, well-educated social classes.



Chinese consumers' perception of Xiao Guan Tea (小罐茶)

Weibo posts

- Most positive perceptions are about the good smell and beautiful packaging.
- Most of negative comments are mainly about being expensive for the taste.



醉近的新宠小罐茶!茉莉花茶滴这个我泰爱了!!
从泡到和下去的每一日 香味也泰绝了叭~
●茶叶根根分明~泡的时候 香味被一次性激发出来!!

Likes: 1,580

Comments: 772

- This netizen says the smell of Xiao Guan tea is very good. She likes the taste and enjoys the process of making tea by herself.
- These kinds of positive posts and comments show that Xiao Guan Tea has captured some customers' pursuit of nice scent and packaging.



那个小罐茶的广告又长又絮叨,但是我总感觉那 玩意儿跟智商税差不多...

可能是偏见了吧,总觉得那玩意儿和普通茶叶没 差,卖那么高价格就呵呵了。

Likes: 44

Comments: 43

- This review described a consumer's poor experience of drinking Xiao Guan tea's products and its high price.
- These kinds of posts and comments are common on Weibo, which means a lot of people in China think it is not worth the price.



Weibo is China's biggest social media network that was launched in 2009. Over the past years, it has transformed from a Chinese equivalent of Twitter to a comprehensive platform.



04

The impact of COVID-19



How the Coronavirus affected China's tea industry



Tea export has been delayed

Exporting became slower and more expensive

- **International logistics**. The epidemic has complicated International logistics. Thus, China's tea export progress is much slower and export costs increased.
- **Tea import markets**. The main tea import countries strengthened their customs inspections and some countries reduced or stopped importing China's tea.





Domestic tea sales are seriously affected

Decreased tea sales

- During the epidemic, offline retail channels were the most impacted. **More than 60%** of tea shops had no sales revenue during February 2020.
- Online orders for tea decreased and some products couldn't be delivered as usual because of the lack of employees in logistics during the Coronavirus outbreak. Therefore, online tea sales also declined.

Long-term impact

The impact of the epidemic on tea distribution channels in China is temporary, and the impact on tea retails was mainly focused on **February and March**. The online and offline sales both will quickly recover when the epidemic is over.

Source: China Tea Industry Economic Research



Increased focus on health and social

- After the COVID-19 outbreak, there is no doubt that everyone will pay more attention to personal health than before. Although tea leaves are not medicine, they are still health-related products, and are believed to have health benefits. The proper promotion of the knowledge about tea leaves will help facilitate everyone's tea consumption.
- Chinese people's enthusiasm for social networking is still growing, tea brands need put more emphasis on packaging and appearance design.

\bigotimes

Health is necessary

- Because the COVID-19 outbreak, Chinese consumers have stronger health awareness. Many consumers choose to buy milk tea with little or no sugar. Fruit tea is also popular for due to having less added sugar and more health benefits.
- For milk tea brands, it's essential to add the concept of health into their promotion and advertising.

Social value is important

- Socializing is more and more important for today's young people. Tea is not only a kind of drink, but also a sense of fashion and ceremony for them. Thus, milk tea shops now focus more on appearance.
- Therefore, if traditional tea brands want to increase sales, appearance is as important as quality and taste.





How to know which tea suits you from the Chinese Medicine perspective?

"The most important thing is to see if we have any uncomfortable feelings after drinking tea. For example, if your stomach is not comfortable after drinking a 'cooling' tea, it means the tea with a 'cooling' or 'yin' nature isn't suitable for you, better choose another tea. If you had bad sleep or dizziness after drinking tea, it means you may drink too much strong tea. On the other hand, if you feel good after drinking tea, it may improve your immune system and have raise your spirits, then you can drink this kind of tea for a long time. Overall, you should drink tea according to your own feelings."

Manli Wu (Esther), founder at Esther tea shop

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