

CHAPTER I

INTRODUCTION

1.1 Research Background

In today's highly competitive beverage market, customer satisfaction plays a crucial role in ensuring long-term business sustainability and success. As consumer demand increasingly shifts toward personalized, high-quality, and trend-driven products, many tea and beverage brands are being compelled to rethink and refine their marketing strategies. Within this dynamic landscape, Heytea has emerged as one of China's most popular beverage brands, gaining widespread attention for its innovative cheese tea offerings and distinctive, creative branding.

China has a long-established tea culture and a large consumer base for tea-based beverages. Between 2016 and 2021, the ready-to-drink tea industry in China experienced rapid expansion, recording a compound annual growth rate (CAGR) of 57% according to iiMedia Research. However, the combined effects of the COVID-19 pandemic and slowing economic growth caused the industry to shift into a more stable development phase in 2022, with year-on-year growth expected to decline to 5.1%. Despite this slowdown, rising consumer demand and the continuous introduction of high-frequency, high-quality products have driven the new tea beverage segment into a new stage of expansion. As store numbers in first-tier cities approach saturation, market competition has intensified, accelerating the industry's transition toward a "survival of the fittest" phase.

Tea beverages benefit from strong consumer loyalty, partly due to their mild caffeine content and habitual consumption patterns. During the pandemic, and amid increasing pressure on the catering sector, online sales channels for tea beverages expanded significantly, demonstrating the market's resilience. Nevertheless, heightened competition has posed challenges for many emerging brands, and the overall market structure is gradually stabilizing. In the high-end and mid-range segments, brands such as Heytea and Nayuki's Tea dominate, while mid-range competitors include Yidian Dian, Chaba Dao, COCO, Guming, and Chayanyuece. In the low-end market, Mixue Bingcheng stands out as a key representative. These brands continue to offer healthier, more diverse, and distinctive products, providing consumers with a wider range of choices. As competition intensifies, it has become increasingly important for new tea beverage brands to carefully evaluate their marketing strategies, operating conditions, and market environment to identify opportunities for sustainable growth.

In recent years, China's broader beverage industry has shown steady development, supported by economic growth, rising disposable income, and an upgrading consumption structure. Annual sales increased from 465.216 billion yuan in 2014 to 578.56 billion yuan in 2019, with a CAGR of 4.46%. This growth encompasses packaged drinking water, carbonated beverages, fruit juices, Asian specialty drinks, and emerging sectors such as coffee, cocoa, and cola, all of which have attracted increasing investment. Within this context, the tea beverage market has undergone significant transformation. Younger consumers increasingly value

personalization, lifestyle quality, and leisure-oriented consumption, driving strong demand for innovative tea products.

Since 2016, China's domestic tea beverage market has experienced explosive growth, with brands such as Heytea, Nayuki's Tea, Deer Horn Lane, Lelecha, and Answer Tea rapidly gaining popularity among young consumers. These brands became highly visible on social media platforms such as WeChat Moments, Douyin, and Xiaohongshu, turning new Chinese-style tea beverages into a prominent consumption trend. Between 2018 and 2019, the sector witnessed nearly 20 major financing events, often involving investments worth billions of yuan, with brands like Heytea, Lelecha, and Nayuki's Tea receiving strong capital support. Data from Meituan further illustrate this expansion, showing that the number of tea beverage merchants on its takeout platform tripled from 2017 to 2018, while the total number of freshly brewed tea stores reached 410,000 by the third quarter of 2018, representing a 74% increase.

Despite this rapid growth, the new Chinese-style tea beverage market has revealed several structural issues, including a lack of strong domestic brands, weak corporate culture, inconsistent product quality, limited marketing channels, insufficient innovation, and pricing and service levels that fail to fully meet consumer expectations. These challenges have led to severe homogenization across the industry. Against the backdrop of intensifying competition and market saturation, Heytea must adopt targeted strategies to maintain and enhance its competitive advantage. This study therefore examines the key factors that require attention in a highly competitive and homogenized market and analyzes Heytea's

innovative marketing strategies to identify potential pathways for future development and breakthrough growth.

To maintain and grow its market share, Heytea must continuously optimize its marketing mix (product, price, place, promotion) and ensure that its segmentation, targeting, and positioning (STP) strategies align with evolving customer expectations.

The marketing mix is a foundational concept in marketing theory. It provides a framework for understanding how firms can influence consumer behavior and satisfaction through strategic control over the 7Ps (Kotler & Keller, 2016). In addition, STP strategies enable firms to focus their marketing efforts on specific customer groups, thereby increasing the effectiveness of their messaging and offerings (Chaffey & Ellis-Chadwick, 2019). When well-executed, the combination of a strong marketing mix and clear STP strategies can result in high levels of customer satisfaction, loyalty, and brand advocacy.

Recent studies have emphasized the importance of adapting marketing strategies to dynamic consumer behavior, especially in fast-moving consumer goods (FMCG) sectors like beverages (Rafiq & Ahmed, 1995; Nguyen et al., 2020). However, research on how these strategies impact customer satisfaction in the context of premium tea brands in China remains limited. Given Heytea's innovative approach and its appeal among younger consumers, it presents a valuable case for exploring how marketing efforts affect customer perceptions and satisfaction.

China's new tea beverage industry has grown rapidly over the past decade and has become one of the most dynamic segments of the country's consumer market. As the industry moves from a phase of rapid expansion to a more mature and saturated stage, competition among brands has intensified. In this environment, customer satisfaction is no longer a secondary outcome but a central factor that determines whether a brand can survive and remain competitive in the long term. Marketing scholars increasingly argue that in highly competitive and experience-driven markets, businesses must go beyond product innovation and focus on how customers perceive their overall marketing strategies (Kotler & Keller, 2022; Lemon & Verhoef, 2016).

The marketing mix remains one of the most widely used frameworks for understanding how firms influence consumer perceptions and behavior. Recent studies show that customers' perceptions of product quality, price fairness, accessibility, and promotional effectiveness significantly shape satisfaction, loyalty, and repurchase intention, particularly in the food and beverage sector (Alnawas & Hemsley-Brown, 2019; Hanaysha, 2023). For lifestyle-oriented products such as new tea beverages, customer satisfaction is strongly linked not only to taste and quality, but also to brand image, store atmosphere, digital engagement, and promotional creativity. This makes perception-based evaluation of the marketing mix especially relevant in contemporary beverage markets (Rather, 2021).

At the same time, segmentation, targeting, and positioning (STP) strategies have gained increasing importance as consumer preferences become more diverse

and individualized. Effective STP strategies help brands identify their most valuable customer segments, deliver tailored value propositions, and establish a clear and differentiated market position. Recent marketing literature emphasizes that well-executed STP strategies enhance perceived relevance and emotional connection, which in turn contribute to higher levels of customer satisfaction (Wedel & Kamakura, 2020; Hooley et al., 2023). This is particularly evident in China's new tea beverage market, where young consumers seek personalization, lifestyle alignment, and social recognition through their consumption choices.

Despite the growing body of research on marketing strategies, several gaps remain. Many existing studies examine the marketing mix or STP strategies in isolation, rather than considering how these strategies jointly influence customer satisfaction. In addition, much of the empirical evidence comes from traditional retail or fast-moving consumer goods (FMCG) contexts, with relatively limited focus on the new tea beverage industry, which combines experiential consumption, digital engagement, and strong brand communities. Although Heytea is frequently highlighted in industry reports as a leading brand, academic studies that systematically examine its marketing strategies from the perspective of customer perception are still scarce.

Recent research has called for more context-specific and customer-centered studies to better understand how modern consumers evaluate marketing strategies, particularly in experience-driven and highly homogenized markets (Hollebeek et al., 2022; Lim et al., 2023). As competition in China's tea beverage industry continues to intensify, brands face increasing pressure to refine their marketing

approaches and clearly differentiate themselves. Understanding how customers perceive the marketing mix and brand positioning has therefore become a strategic necessity rather than a managerial option.

Against this gaps, this study investigates **the effect of perceived marketing mix and STP strategies on customer satisfaction**, using Heytea as a case study in China. By integrating these two core marketing frameworks, this research addresses a clear gap in the literature and offers a more comprehensive understanding of how strategic marketing decisions translate into customer satisfaction in the new tea beverage industry. The findings are expected to contribute to marketing theory by extending perception-based research in an emerging beverage context, while also providing practical insights for tea beverage brands seeking sustainable growth in an increasingly competitive and saturated market.

1.2 Problem Identification

In recent years, with the rapid rise of the premium tea beverage market, Heytea has quickly gained widespread attention and market share through its innovative brand concept, differentiated product positioning, and omnichannel marketing strategy. However, as the industry develops and competition intensifies, the company faces increasingly prominent external environmental pressures and internal operational challenges, with its market position no longer being unshakable. This necessitates systematic research on marketing strategy optimization. Based on comprehensive analysis from two studies, Heytea's current challenges can be identified in the following aspects:

First, intensifying market competition is eroding Heytea's competitive advantages. With the emergence of rival brands like Nayuki, Guming, and Chayan Yuese, product categories are becoming increasingly homogenized, giving consumers significantly more choices in terms of taste, price, and in-store experience. Consequently, the competitive barriers Heytea originally built through brand novelty and premium positioning are gradually weakening, making price-sensitive and experience-oriented customers more likely to be attracted to competing brands.

Second, product homogenization has become increasingly severe. Although Heytea once led trends with hit products like "cheese foam tea" and "grafruit tea," its slowing R&D pace and competitors' rapid imitation have made it difficult for new products to sustain market buzz. Consumer excitement about its offerings has declined, leading to reduced repurchase intention among some loyal customers.

Third, brand image has become blurred with weakened differentiation. While Heytea initially stood out with unique brand storytelling and visual identity, frequent cross-border collaborations and diversified product lines in recent years have diluted its core value proposition. Some consumers now perceive the brand as gradually losing its distinctive "premium and original" positioning, resulting in decreased brand recognition.

Fourth, marketing approaches lack sustained innovation. Early successes through social media buzz, store queue phenomena, and limited-edition collaborations created tremendous traffic, but the marginal effects of this novelty-driven marketing model have diminished as consumer attention shifts. The absence

of systematic, long-term customer relationship management and precision marketing has made it difficult for Heytea to effectively engage and convert customers at different lifecycle stages.

Finally, declining customer loyalty has become increasingly evident. Many consumers view Heytea as an "occasional indulgence" rather than a daily necessity. This low-frequency, high-price consumption pattern inherently limits loyalty. Meanwhile, the premium pricing strategy is driving price-sensitive consumers toward more affordable alternatives amid economic pressures and intensified competition.

In summary, Heytea's challenges stem from both external market competition and internal operational shortcomings, including brand positioning and marketing innovation gaps. The compounding effect of these issues is gradually weakening its competitive edge in the premium tea beverage market, making strategic adjustments and optimization urgently necessary.

1.3 Scope of Research

This research focuses on analyzing the effectiveness of Heytea's current marketing strategies, particularly the application of the Marketing Mix (7Ps: Product, Price, Place, Promotion, People, Process, Physical Evidence) and STP (Segmentation, Targeting, Positioning) frameworks in influencing customer satisfaction. The study will concentrate on customers in urban areas of China, with a specific focus on young adult consumers aged 18–35, who represent Heytea's primary target market.

The research uses quantitative methods, relying on data collected through structured questionnaires to measure consumer perceptions and satisfaction. Key indicators will include brand perception, purchase behavior, and response to marketing efforts.

This research focuses on the marketing strategies of Heytea, particularly analyzing the effectiveness of its Marketing Mix (7Ps: Product, Price, Place, Promotion, People, Process, Physical Evidence) and STP (Segmentation, Targeting, and Positioning) strategies in influencing customer satisfaction. The scope of this study is limited to consumers of Heytea in China, with primary data collected through online questionnaires distributed to individuals who have experience purchasing or consuming Heytea products.

The time frame of the study covers the marketing activities from the past two years, allowing relevant and recent analysis. The research emphasizes a quantitative approach, using descriptive and inferential statistics to interpret the data collected from respondents.

Limitations of this study include:

- ✓ The research is geographically limited to selected cities in China which may not fully reflect consumer behavior in other regions or countries.
- ✓ The data is self-reported by respondents, which may introduce bias.
- ✓ Case Specificity as Primary Limitation. The study focuses only on Heytea and does not provide comparative analysis with direct competitors such as Nayuki or Lelecha. The exclusive focus on Heytea as a single case study means the derived strategic recommendations are particularly tailored to its

specific context. For other brands or enterprises across different industries, the applicability and reference value of these findings may be substantially limited. The absence of comparative case studies (e.g., Nayuki, Chayan Yuese) restricts the ability to generalize insights into the broader premium tea beverage sector.

- ✓ Qualitative aspects like brand storytelling or emotional branding are not deeply explored.

In summary, while this study will provide a relatively comprehensive analysis of the shortcomings in Heytea's marketing strategy, certain limitations in research scope and methodology have inevitably affected the universality and depth of the conclusions. This research does not include internal company data from Heytea such as financial reports, internal decision-making processes, or comparative analysis with other competitors in the same industry. Furthermore, the study is limited to the customer's perspective and does not consider the views of Heytea's management or employees. Constraints such as time, access to broader geographical data, and language may also affect the generalizability of the findings. These constraints warrant careful consideration when interpreting the findings.

1.4 Research Problem

As one of the leading brands in China's premium tea beverage market, Heytea achieved rapid expansion and strong brand equity through distinctive product innovation, premium positioning, and cutting-edge marketing strategies, garnering a loyal customer base and significant market share. However, amid intensifying industry competition, evolving consumer preferences, and weakening

internal innovation momentum, the brand now faces critical challenges including diluted brand identity, severe product homogenization, stagnant marketing innovation, and declining customer loyalty. These issues not only erode its historical competitive advantages but also threaten its long-term sustainable growth.

This study therefore takes Heytea as a focal case to systematically diagnose the current state and shortcomings of its marketing strategies. By integrating analyses of customer satisfaction, it proposes targeted optimization measures within the area of product innovation, pricing, channel strategy, and promotional approaches, as well as STP strategies.

Heytea, as one of China's most prominent tea beverage brands, has experienced rapid growth due to its strong brand appeal and creative marketing. However, as competition intensifies in the fast-moving beverage industry, maintaining customer loyalty and market position has become increasingly challenging. Although Heytea utilizes a mix of marketing strategies—such as premium branding, innovative product offerings, and strong online presence, there is limited research evaluating the actual effectiveness of these strategies from a data-driven perspective.

Furthermore, while the company has adopted STP (Segmentation, Targeting, Positioning) and Marketing Mix strategies to reach its audience, it remains unclear how well these approaches resonate with their target consumers in terms of satisfaction and loyalty. Customer preferences are also shifting quickly, especially among Gen Z and millennial consumers who are influenced by social media, health trends, and environmental concerns. This study is therefore necessary to identify

whether Heytea's current marketing strategies are optimally aligned with consumer expectations and behaviors, and how they can be improved to enhance competitiveness and long-term success.

More specifically, this study will answer the following research questions:

1. How do the elements of the Marketing Mix (Product, Price, Place, Promotion, People, Process, Physical Evidence) influence customer satisfaction with Heytea in China?
2. How do the Heytea's current Segmentation, Targeting, and Positioning (STP) strategies influence customer satisfaction?
3. How does Heytea's marketing mix and STP strategy simultaneously affect customer satisfaction?

1.5 The Purpose of Research

Study the business environment and competitive position of Heytea. Examine the current market environment through an overview of the development of the tea beverage market and utilize the PEST macro-environment analysis model to analyze the competitive landscape of the new-style tea beverage industry. Investigate the status and existing issues of Heytea's marketing. Introduce the brand establishment process and operational status of Heytea. Elaborate on Heytea's marketing situation through the 7Ps marketing theory and STP theory, then distribute and collect questionnaires from the consumer market, and identify issues in Heytea's marketing strategy through the survey results, laying the foundation for proposing solutions. Research the optimization plan for Heytea's marketing strategy.

Based on the issues summarized previously, combine the 7Ps marketing theory and STP theory to optimize the existing marketing strategy.

Therefore, the purpose of this research is to

1. analyse the influences of the Marketing Mix (Product, Price, Place, Promotion) on customer satisfaction with Heytea in China,
2. analyse the influences of Heytea's current Segmentation, Targeting, and Positioning (STP) strategies on customer satisfaction,
3. analyse the simultaneous effect of Heytea's marketing mix and STP strategies on customer satisfaction.

1.6 Significance of the Study

This study offers several important theoretical contributions to the field of marketing, particularly in the context of customer satisfaction and strategic marketing in emerging consumer industries. First, by integrating the perceived marketing mix and STP (segmentation, targeting, and positioning) strategies into a single analytical framework, this research extends existing marketing literature that often examines these concepts separately. The study emphasizes a perception-based approach, highlighting how customers' evaluations of marketing strategies—rather than managerial intentions alone—shape satisfaction outcomes. In addition, by focusing on the new tea beverage industry in China, this research enriches the academic understanding of marketing strategy effectiveness in experience-driven and lifestyle-oriented consumption contexts that remain underexplored in prior studies.

From a practical perspective, the findings of this study provide valuable insights for managers and practitioners in the new tea beverage industry, particularly for brands operating in highly competitive and saturated markets. By identifying which elements of the marketing mix and STP strategies most strongly influence customer satisfaction, this research can assist brand managers in allocating resources more effectively and refining their marketing decisions. For Heytea, the results offer concrete guidance on how to better align product offerings, pricing strategies, distribution channels, promotional activities, and brand positioning with customer expectations, thereby enhancing satisfaction and strengthening brand competitiveness.

Furthermore, the study contributes practical implications beyond the case of Heytea. The findings may serve as a strategic reference for other new tea beverage brands and similar lifestyle-oriented food and beverage businesses seeking sustainable growth amid market homogenization and slowing industry expansion. Policymakers, investors, and industry stakeholders may also benefit from the insights provided, as the research sheds light on consumer behavior trends and strategic marketing practices within one of China's most influential beverage segments. Overall, this study bridges theory and practice by offering evidence-based insights that support both academic advancement and effective marketing strategy formulation.