

Chatime



Gong cha



# Bubble Tea

The business behind Southeast Asia's favourite drink

Aug 2022



- 1. Rise of bubble tea**
- 2. Bubble tea landscape & players**
- 3. What's the business behind it?**
- 4. How do key players create a moat?**
- 5. Conclusion & perspectives**

# Why are we doing this report?



**1 Across Southeast Asia, bubble tea is a US\$3.66B market, and the unofficial national beverage.<sup>1</sup>**

Country	Industry annual turnover
SG	\$342M
MY	\$330M
PH	\$280M
ID	\$1600M
VN	\$362M
TH	\$749M



**2 Bubble tea is more than a consumer sensation. F&B brands / tech players are riding on the bandwagon too.**



**3 In China, where the market has reached US\$ 20B, key “new tea” players have gained significant scale (and valuation).**

Company	Market cap. (July 2022)	Valuation (Aug 2021)
NAYUKI (奈雪の茶)	US\$ 1.3B	-
HEYTEA (喜茶)	-	US\$ 9B
蜜雪冰城 (Shixue Bingcheng)	-	US\$ 3B

## In this report, we decode:

- Why is bubble tea so attractive, and **is the hype over?**
- What are the **economics** behind bubble tea?
- What defines a **successful bubble tea chain?** How to scale and what is the moat?

1. For more, refer Momentum Works' Southeast Asia Investment Opportunities - A fresh perspective report ([Click here to access the report](#))

## Introduction (or some call executive summary)



1. Bubble tea is a fascinating business for its universal appeal (common language of addiction) and sheer simplicity (caffeine, sugar, tapioca pearls).
2. In China, “new tea” is a **> ¥136B (US\$ 20B) annual turnover** market in 2021. Significant investment has been poured into relevant companies: **Nayuki** (> US\$ 1.2B market cap), **HEYTEA** (US\$ 9B valuation) and **Mixue** (US\$ 3B valuation).
3. From 2018 onwards, the landscape in China entered a new tipping point: amidst saturating local competition, Chinese brands like Mixue, Chagee, HEYTEA, which have gained initial scale domestically, are venturing into Southeast Asia, joining earlier counterparts like Gong Cha and KOI.
4. Southeast Asia, a **US\$ 3.66B annual turnover market**, offers diverse test ground for Chinese brands expanding overseas: mass market-focused Mixue started off with Vietnam, whilst premium-focused HEYTEA chose Singapore. Vast local Southeast Asian brands emerged, but most remain a local / single-country play.
5. Despite the **good product gross margin across the industry** (60-70%), **few players have managed continuous profitability at a large scale**. Nayuki, the first “new tea” brand to go public (HKSE), has seen its market cap plunge > 70% since.
6. Building valuable and profitable brands amidst the saturated purple ocean market with low differentiation is not sophisticated but no easy feat.
7. The underlying fundamentals of a bubble tea chain are simple: (i) **build (decent) flagship products** to get initial traction (ii) **achieve single-store profitability** (iii) **scale the model** while maintaining the positive unit economics. Challenge, as usual, lies in execution - and the ability to build (and of course, maintain) a defensive moat along the way.
8. Ultimately, we believe the **market size of F&B is vast** (and big enough for big and long-tail players). Success comes down to the appetite and of course, the ability, to capture the market, in terms of the breadth (going **beyond bubble tea** to other adjacent products), depth (**mass vs. premium**) and **value chain**. Evolving into a **supply chain solution provider** is a viable and proven path. Cases in point: Nestle & Haidilao.

# 1. Rise of bubble tea

# The fascinating evolution of adding milk to tea



## How "tea" is pronounced in each country - "Tea" or "Cha / Chai" depends on how each country has traded tea with China

Mandarin Chinese: "Cha" | Minnan/Hokkien dialect: "Teh"

### Britain

Drink tea with milk (and often sweetener) to tame the acidic taste -  
**(sweetened) milk tea.**



### Indian subcontinent

Add spices to tea -  
**Masala chai "mixed spiced tea".**



### Malay Peninsula

Pour milk and tea repeatedly between two cups, believed the high impact force will mix milk and tea more evenly and stimulate rich aroma - the act of pulling the tea -  
**Teh Tarik "pulled tea".**



### Tibet

Around Tang Dynasty, tea was traded to the plateau in 'tea brick' form. Nomads and monks would boil brick tea, milk and butter together, and season it with salt - **the (salty) milk tea.**



### Taiwan

Added tapioca balls to milk tea circa 1986/7 - **"bubble milk tea / boba milk tea".**



### Hong Kong

Use a white cloth bag to filter black tea leaves for richer, smoother and more uniform milk tea. After repeated filtering, the white cloth bag will turn brown, which looks like a stocking - hence **"silk stocking milk tea".**



# Bubble tea, and its permutations, have become popular everywhere



The classic bubble tea has given birth to many different variations collectively known as "New Tea" ('新茶饮' in Chinese)

Fat straw

Base:  
Milk, tea

Sugar

Add on:  
Chewy tapioca balls (pearls)



Fresh milk



Matcha



Coffee



Tea



Chai (tea + spices)



Fruit tea



Brown sugar



Milk foam



Cheese top



Flavoured pearls



Grass jelly



Others -  
e.g.: taro mash

In many parts of the world, bubble tea is a shared language of addiction.

Caffeine is addictive, more so when it is **caffeine in iced-cold, sweet, creamy milk tea with chewy mix of tapioca pearls**, especially in much of Southeast Asia where the day time temperature is above 30°C all year long.

Often, having bubble tea is a group affair: "Who wants bubble tea?" - we will likely give in for one.



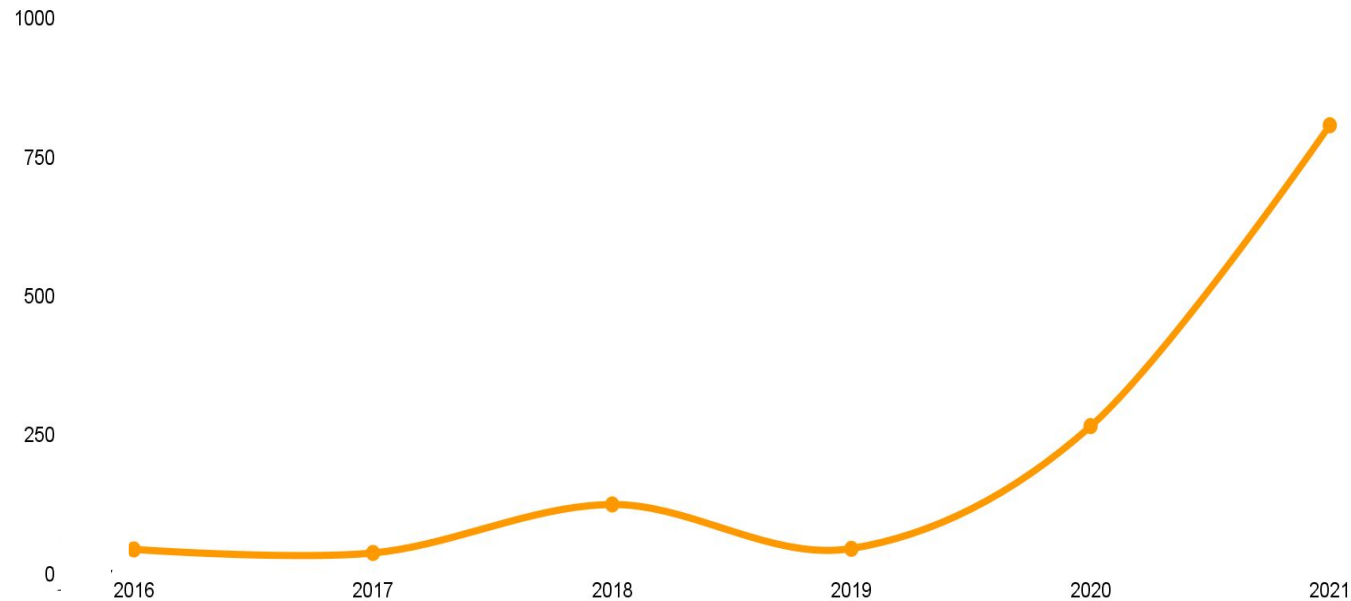
Simu Liu introduced Bill Gates to bubble tea at TIME 100 gala (June 2022)

# In China, "new tea" market is twice that of coffee

> US\$20 billion turnover in 2021



## "New tea" brands funding amount (US\$ M)



## Estimated industry annual turnover (US\$ B)



Benchmark



luckin coffee

US\$ 3.6B



NAYUKI

US\$ 1.3B



HEYTEA

喜茶

Valuation (Aug 2021)

US\$ 9B



始于1997·冰淇淋与茶



SINCE 1997 · ICE CREAM & TEA  
MALAYSIA

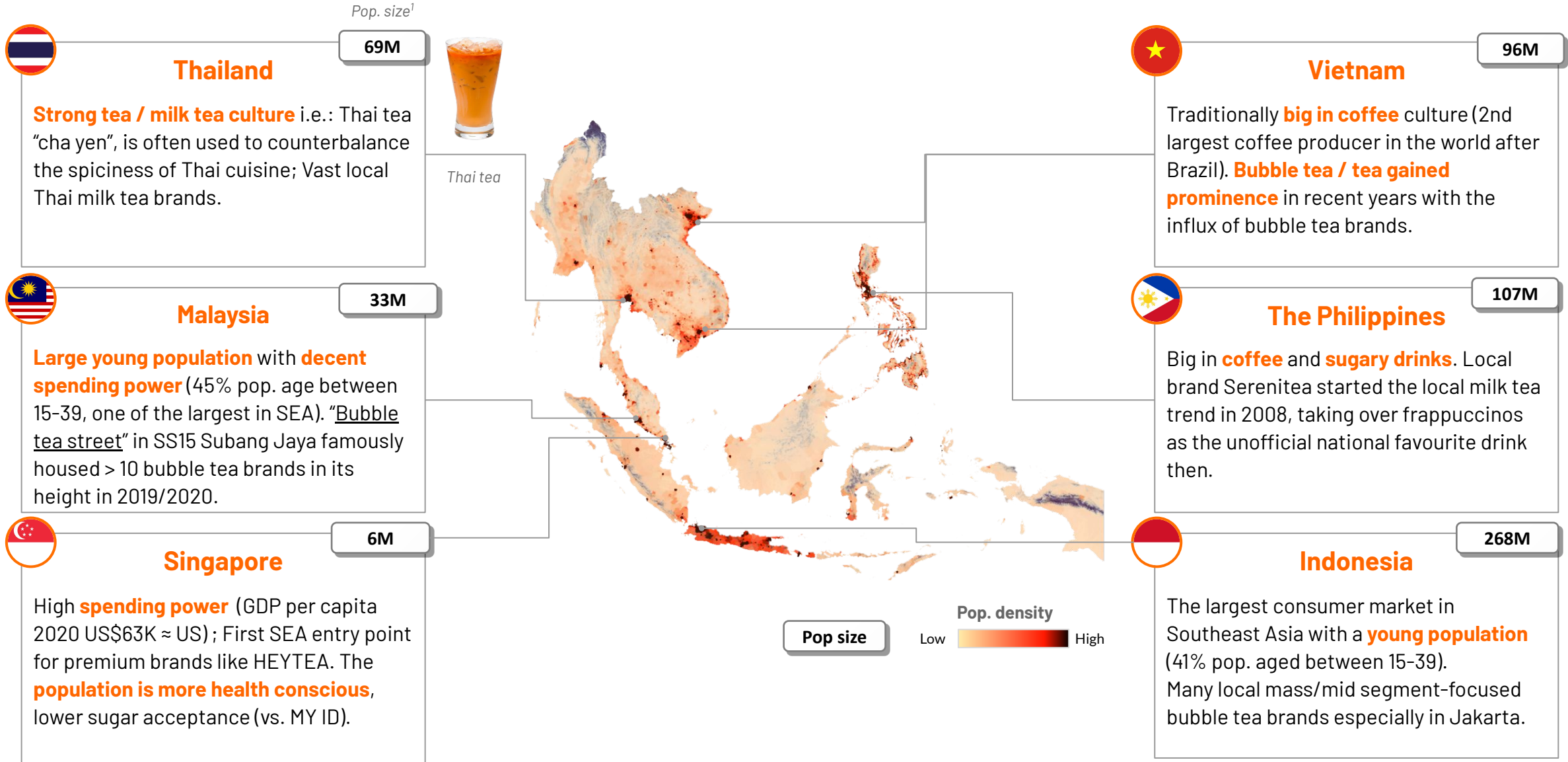
US\$ 3B

1. 2021E 2. As of 4 Aug 2022 Source: Nayuki prospectus; QCC; Aliresearch



# Southeast Asians are avid consumers of bubble tea across the board

And many young people's dream is to own bubble tea shops (not exactly a good idea)



1. 2021 Sources: World Bank; Industry practitioners and consumers interviews; Momentum Works insights  
© Momentum Works

# Bubble tea is a US\$3.66 B annual turnover market in Southeast Asia

Vast local brands emerged, most remain single country focused



## 2021, Southeast Asia bubble tea market size (total annual turnover)

Total size: US\$ 3.66B



Regional players	MIXUE	Chatime	Gong cha	KOI Thé
# stores <sup>1</sup>	> 1000	595	276	270

Local brands in each country

**Indonesia and Thailand** have the largest bubble tea market in Southeast Asia.

In **Indonesia**, the share of orders done through delivery platforms has increased sharply during the pandemic. Although offline retail has been recovering strongly, online persists because of the traffic and weather.

Consumers in **Thailand** have the highest bubble tea consumption on average compared to other regional peers. According to the restaurant review platform Wongnai there are more than 31 thousand bubble tea stores in the country.

**Singapore** has the smallest population, but the highest average order size (e.g. for a standard bubble tea from the same brand and same product, it costs \$3.9 in Singapore and \$2 on average in other Southeast Asian countries).

1. In Southeast Asia Sources: Industry practitioners interviews; Momentum Works estimates and insights. - marketing sizing estimate includes sales of all 'new tea' products at food services establishments

# An evolution of bubble tea ecosystem in Southeast Asia



Brands from Taiwan and Mainland China

Bubble tea originated in Taiwan



1990

2000

2005

2010

2015

2017

2018

2019

2021

2022

Southeast Asian brands



Regional expansion & IPO



IPO in Hong Kong Stock Exchange



Exited SG

Southeast Asia milk tea stalls era - bubble tea from powdered mixes



Chinese market boom  
Rise of premium brands:  
from 10¥ (US\$ 1.5) to  
¥35 (US\$ 5) per drink

Chinese market becomes hyper-competitive,  
many smaller brands exit;  
larger brands start to expand overseas for new  
growth areas

## 2018 - 2020: the 'Boba Everything' era in Southeast Asia



*My pizza lab, MY (2018)*



*Benjamin Browns toast, SG (2018)*



*Crab Generation, MY (2019)*



*Moge Tea, MY (2019)*



*Edith Patisserie, SG (2019)*



*Ban ban, ID (2019)*



*Black Scoop cafe, PH (2019)*



*Baiza Sushi, ID (2020)*

**Is the hype over?**

# Behind the hype, bubble tea is a tough business

That's why we said "not a good idea" on page 9



market cap has plunged > 70% since IPO



Nayuki, the first "new tea" brand to go public (HKSE) has seen its **market cap plunge > 70%** between IPO and July 2022.

According to China's government company registration data, in 2020 only **18.8% of "new tea" businesses survive for more than a year**. There is also an industry saying that **nine out of ten bubble tea stores lose money**.

Theoretically, bubble tea is a high-margin business (industry gross margin between 60-70%), so what went wrong?

Other than the overly-saturated market i.e: in Singapore alone, there were **90 brands** at its peak - dubbed the **purple ocean** (redder than red), bubble tea is a **low differentiation** game and has easily replicable products.

The **supply chain** is also challenging, and more demanding than ecommerce due to the high demand for the freshness of raw materials.

Ultimately, is there a business behind it? How can we make it work? We will dive into these areas in the following sections.

1. As of 4 August 2022 Source: Company website; Press search; Momentum Works research

## 2. Bubble tea landscape & players

# Mid segment is a bloodbath



By price point and brand positioning

Non-exhaustive (obviously)

## Mass

## Mid

## Premium



**Neighbourhood-focused:** Boast high accessibility in **high traffic** areas such as schools, train stations

Price range: **< US\$ 2**

Need strong cost management to maintain **price advantage**



**Mid-end malls, offices**

Price range: **US\$ 2 - 5**

**Most competitive segment** as most brands are targeting this segment - this calls for stronger **differentiation** from peers



**Premium locations** e.g. high-end malls  
**Premium product offerings** e.g.: fruit tea with cheese top, alcohol milk tea

Price range: **> US\$ 5**

**High real estate cost** poses challenge to scale sustainably - this calls for strong branding, supply chain and operational efficiency

# Comparison of a selection of players



	Gong cha	tealive	MIXUE	CHAGEE	KOI Thé	HEYTEA
<b>Background</b>	<p><b>Mass market</b>-focused, available in seven markets in SEA<sup>1</sup>, over 1,700 outlets worldwide</p> <p>One of the early movers to expand into Southeast Asia</p>	<p>Started as <b>franchisee of Chatime</b> in Malaysia, went on to launch its own brand; now one of the large <b>homegrown brands in MY</b>, 650 stores in 7 countries (95% of outlets in MY)<sup>2</sup></p>	<p><b>Mass market</b>-focused &gt;20,000 outlets in China (one of the largest), expanded into VN, ID, PH, MY, SG (&gt; 1,000 overseas outlets)</p>	<p><b>Mid</b> segment, <b>tea</b>-focused</p> <p>Founded in Sichuan, China; now expanding fast in Southeast Asia, 45+ outlets in MY TH SG; 560+ outlets worldwide</p>	<p><b>Mid-to-high</b> segment focused</p> <p>One of the popular brands in the region for its large presence, available in six countries in Southeast Asia</p>	<p><b>Premium</b>-focused One of the most <b>popular and well-funded</b> beverage players in China (\$9B valuation Aug 2021); Consumers famously queue for 7 hours for HEYTEA</p>
<b>Products (# products)</b>	<p><b>Large selection</b> (&gt; 60)</p> <p>Flavoured tea, milk tea, juice, coffee, smoothies</p>	<p><b>Large selection</b> (&gt; 50)</p> <p>Milk tea, milk-based, smoothies, flavoured tea, matcha, coco, coffee</p>	<p><b>Decent selection</b> (&gt;30)</p> <p>Ice cream, tea, fruit tea, smoothies, milk tea, cheese tea</p>	<p><b>More focused</b> (~30)</p> <p>Tea-focused: Macchiato, milk tea, creamy top, brew tea, ice drip tea, fruit tea</p>	<p><b>Decent selection</b> (~40)</p> <p>Flavoured tea, milk tea, juice, coffee</p>	<p><b>More focused</b> (~20)</p> <p>Focus on cheezo, flavoured tea, fruit, ice cream</p>
<b>Strategy Brand positioning</b>	<p>Focus on a <b>large selection</b> from tea to creative mixes (e.g.: passion fruit green tea, lemon juice white pearls) and coffee for <b>mass appeal</b></p>	<p><b>Large availability, mass market appeal</b>: 600 locations in MY, e.g.: petrol stations</p>	<p><b>Low price strategy</b> to gain traction - \$1 signature ice cream cones</p> <p>Build <b>own supply chain</b> to keep cost structure low and sustain low price strategy</p>	<p>More <b>focused product offerings</b> (i.e.: Tea, fruit), make sourcing and supply chain easier</p> <p>Have built good <b>retail and supply chain</b> system to ensure the freshness of its fruit selection</p>	<p><b>Mid-to-high</b> segment and make it <b>widely available</b>: Use <i>KOI Express</i> as quick takeaway kiosks and <i>KOI Signature</i> for a premium experience<sup>4</sup></p>	<p><b>Focus on brand building</b> of key products - leverage KOL marketing on social media (e.g. Instagram, Xiaohongshu)</p>

1. Malaysia, Singapore, Indonesia, Brunei, Vietnam, Philippines, Myanmar 2. Malaysia, Australia, Brunei, United Kingdom, the Philippines, Cambodia, Myanmar, Vietnam 3. Singapore, Indonesia, Cambodia, Vietnam, Thailand, Malaysia 4. With cafe-style seating areas, serves differentiated products like alcohol milk tea Source: Company website; Industry practitioners interviews; Momentum Works insights



# What do consumers look for?



## Three dimensions of purchasing decisions

**Exposure**  
How many stores  
(Southeast Asia)



**Product selection**  
Product types - e.g.:  
milk tea, juice, coffee



**Pricing**



**Consistency of taste/quality**, while important, is **almost a given** for any of the chain stores. Those who fail to guarantee that are quickly out of business.

Consumer expectations for bubble tea (taste, acceptable price points) vary. Based on interviews with users across different markets, we found 3 key dimensions that affect purchasing decisions:

1. **Exposure**: how many stores available / ease of access
2. **Product selection**: vast product options (i.e. beyond milk tea) will appeal to a diverse group of consumers
3. **Pricing**

**The taste criterion is highly subjective** - there is a saying "a thousand consumers will favour 1000 different tastes"; but consumers often cite two key dimensions that define a good bubble tea:

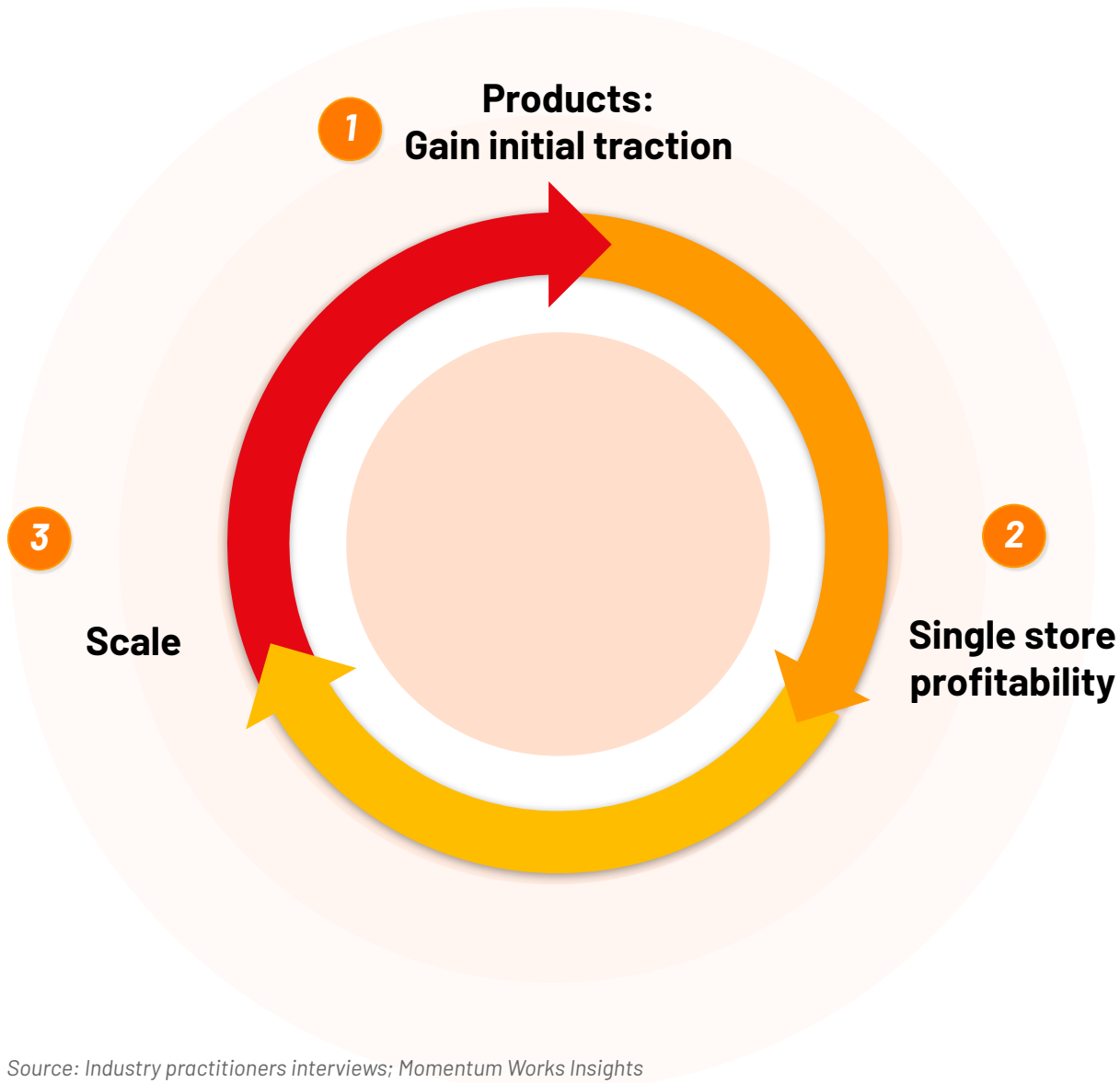
- **Pearls**: Freshly made, soft (but not soggy) and chewy texture, with a good balance of flavour / sugar ratio (honorable mention - *Playmade*).
- **Milk tea base**: Again, subjective - some prefer a stronger tea base (i.e.: CHICHA San Chen) while some prefer stronger milk.

Overall, two types of strategies:

- **Mass market-focused brands** (Gong Cha, Tealive) boast large product selections and easily accessible locations.
- **Premium-focused brands** (HEYTEA, KOI) focus more on signature products.

### 3. What's the business behind it?

# How to build a successful bubble tea business



- 1 Build (decent) flagship products to get initial traction;**
- 2 Achieve single-store profitability** - make sure each store makes sense in terms of (using consumer internet terms) unit economics and sustainability
- 3 Scale the model up** (while maintaining the positive unit economics)

# #1: Build (decent) flagship products to gain initial traction

There are many ways to 'differentiate', and consumers vote with their wallets



## Bubble tea has a low differentiation playing field, easy to imitate

"US\$ 0.5 ice cream"



Tea-focused



Milk-focused



Fruit-focused & "cheezo"



"Flavoured boba"



"Golden bubble"



"Brown sugar"



"Torchred Crème Brûlée top"



Staying top of mind is key.

Some focus on promoting key products, whilst some have frequent new / limited-time product launches.

## #2: Achieve single store profitability



~80% of storefront expenses are attributed to cost of goods, rental & manpower

Benchmark

### Cost breakdown

2021



#### Cost of goods

Raw materials; storage; delivery	41%	32%
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#### Rental & manpower

	40%	45%
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#### Depreciation & amortisation

	5%	8%
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#### Store operating margin

	14%	16%
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A general principle of ensuring the sustainability of offline F&B businesses is to **maintain single-store profitability**. These are highly correlated with supply chain, stores and headcount efficiency:

- **Supply chain efficiency:** In-house handling of raw materials and distribution vs. through third-party intermediaries; which is also highly dependent on:

**Types of products used:** e.g.: fresh fruit / milk vs. powdered mix / syrups

**Range of product offerings:** Diverse product range calls for more efficient management, as you have to procure from different suppliers (likely from different parts of the country / world)

- **Store locations and store types efficiency:** Many premium players are using a combination of takeaway kiosks and premium storefronts with seating areas to optimise space efficiency
- **Headcount efficiency:** Headcount needed in each store from ordering to drinks handling; standardised operating processes

### #3: Scale / grow outlets (1/4) - Different expansion models



Many start with self-operated model, expand into franchising as operations and supply chain mature

Higher capital, greater control

Lower control

#### Operate own stores

#### Local franchises



Strengths

Ensure **control and standardisation of quality** over operations, marketing messages

**Slower and higher capital requirements to scale**

**Fast to scale**

But scaling before reaching maturity in the supply chain, operations and management systems can be risky for brand image

**Risk of losing control of brands**

e.g.: franchisees went on to create their own competing brands (case in point: Gong Cha's franchisee in SG launched LiHo Tea)

# #3: Scale / grow outlets (2/4) - Selection of store selections


Important factors: Population size, population density, spending power & price sensitivity, receptiveness



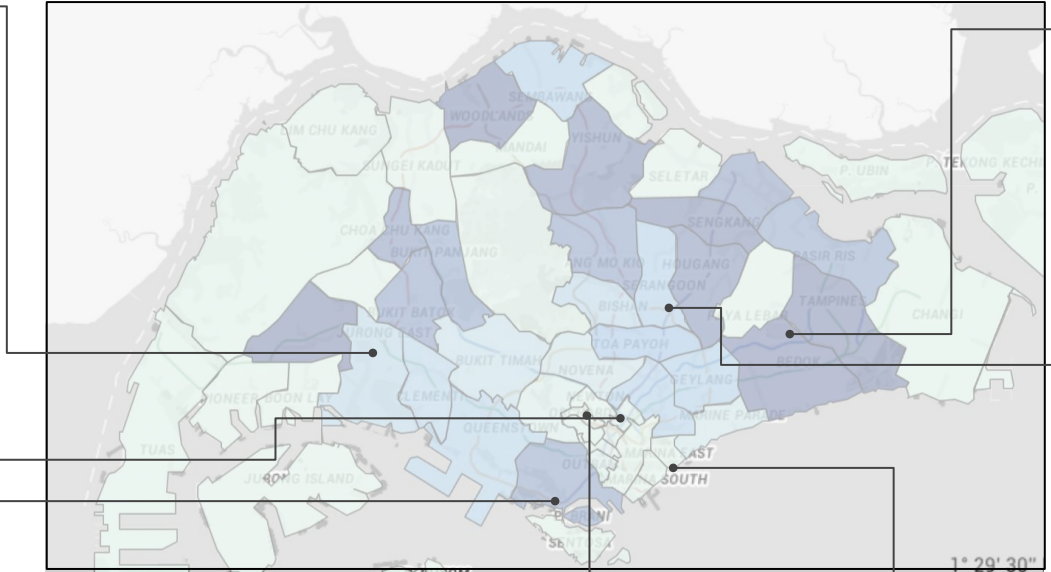
## Singapore

### Even in Singapore, each region is very different

**Jurong East (Westgate mall)**  
**High traffic flow** (major bus interchange - attracting students & working adults).


**Bugis**  
  
**Diversified population:** large range of spending power - mass & premium; Receptive to new products.

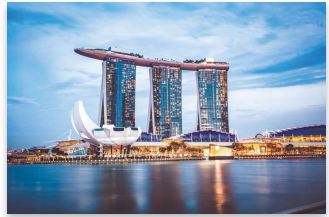
**Harbourfront (Vivocity mall)**  
**High traffic flow, diversified population** (major bus & train interchange, tourist spot - Sentosa); consumers are always hunting for **new and fresh concepts**.



**Tampines**  
**High traffic:** 3<sup>rd</sup> most populated region (261 K), young population, "people who stay in Tampines spend in Tampines"  
**46** bubble tea outlets

**Serangoon (NEX mall)**  
**High traffic** - hub for a number of **heartland** areas in Northeast region. Consumers are **loyal** to traditional brands.

**Bayfront & Orchard**  
**Premium:** Upscale areas; tourist hotspots - high spending power.  




Bayfront



Signature by KOI outlet in Orchard

# #3: Scale / grow outlets (3/4) - Selection of store locations

Important factors: Population size, population density, spending power & price sensitivity, receptiveness

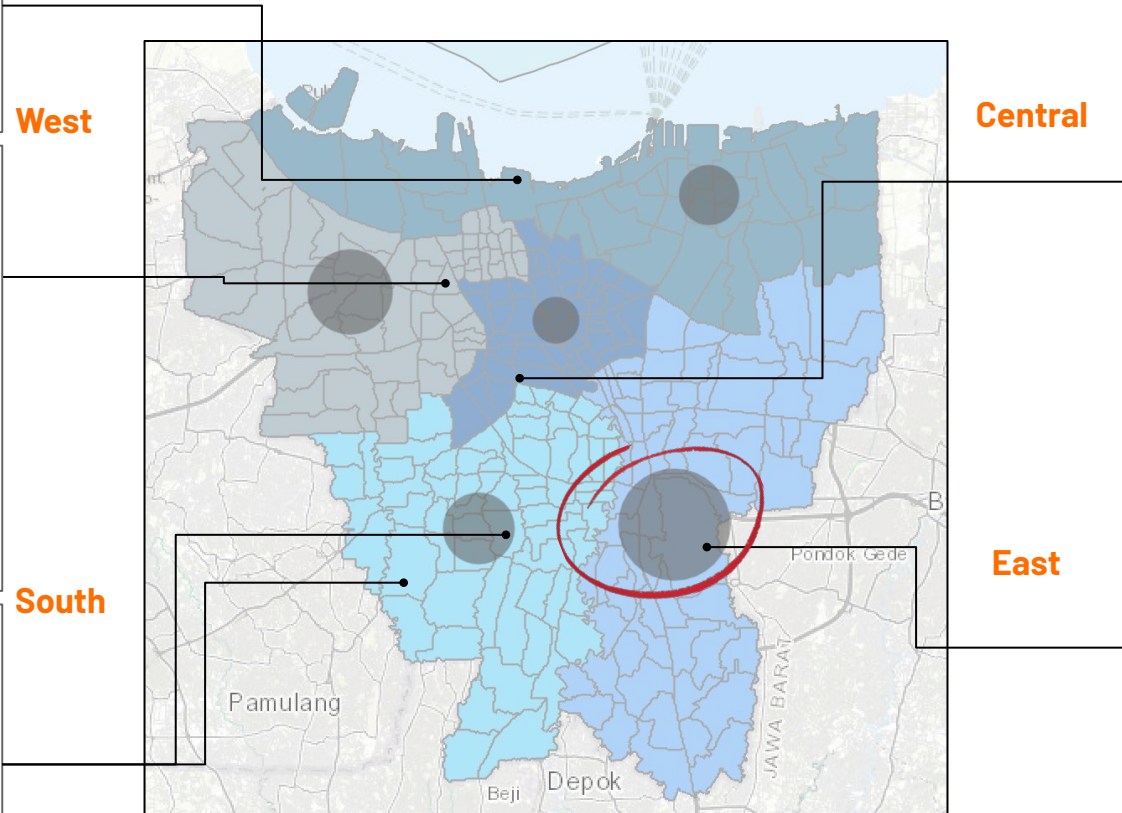


## Jakarta

**Kota Tua / Ancol**  
Hotspots for both tourists and traders (close to the port), diverse background and spending power.

**Central Park (mall)**  
Diversified population, vast mass-to-mid segment brands.

**Pondok Indah / Kemang**  
Upscale area, expats and local elites - mid-high-end brands.



**Grand Indonesia (mall)**  
Diversified population, receptive to new things; Vast mass-to-mid-end brands.

**East Jakarta**  
Highly populated residential areas; Mass market appeal.



Map @Bina Nusantara University, ESRI Indonesia

Size of circle  
Population per district

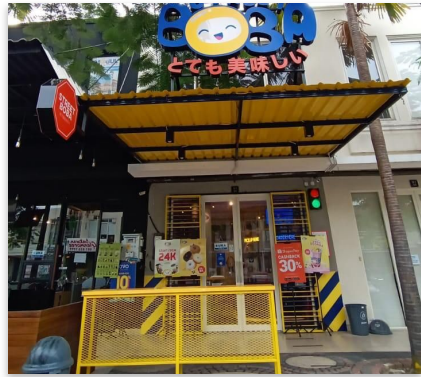


# #3: Scale / grow outlets (4/4) - Optimise store efficiency

Selection of store locations and types of stores



Neighbourhood stores



Drive-thru



Transportation hubs



Malls - kiosks



Tourist attractions



Petrol stations



Hawker centers



Malls - large storefronts



To choose the right spots requires a deep understanding about (local) consumers and retail.

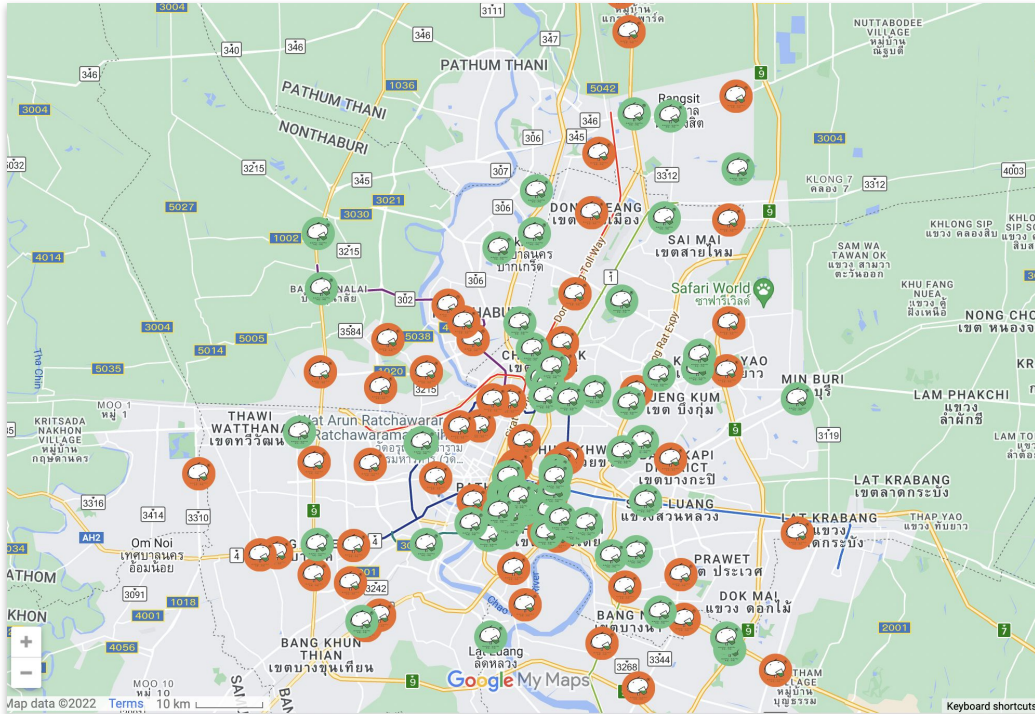
# The rise of food delivery platforms gave mass sales boost to bubble tea

Delivery of bubble tea has gained prominence in recent years, especially for group orders



Bubble tea outlets' easy access combined standardised processes make delivery a breeze.

Because of the relatively small value, ordering bubble tea online makes the most sense in groups



1x M-Milk Tea  
4.30

Priority • 35 mins We'll put your order ahead in the queue. You also get a voucher if it's late	7.00
Standard • 35 mins	4.00

Order Summary	
1x M-Milk Tea	5.20
0% Little Bit Ice	
JumBo Bubble	
Subtotal	\$5.20
Service fees	4.30
Small order fee	4.80
Add \$510.80 more, get \$5.00 off delivery fee	

Cutlery	<input type="checkbox"/>
Request for cutlery only if you need it.	

Payment details	
Total	\$14.30

Place Order

Priority • 30 mins We'll put your order ahead in the queue. You also get a voucher if it's late	7.10
Standard • 30 mins	4.10

Order Summary	
1x Double Mushroom Swiss Meal	11.15
Double Mushroom Swiss	
Fries (L)	
Coke (M)	
Subtotal	\$11.15
Service fees	4.40
Add \$513.85 more, get \$4.10 off delivery fee	

Hershey's Sundae Pie	4.40
Taro Turnover (1)	1.95
Subtotal	\$11.15
Service fees	4.40

Total	\$15.55
-------	---------


Place Order



1x Double Mushroom Swiss Meal  
11.15

The number of bubble tea outlets from a single brand around Bangkok metropolitan region

e.g. in Singapore, the total cost of ordering a single cup of bubble tea is comparable to fast food delivery



**However, while product, marketing, sales channels and store selections are fundamental / necessary, they do not automatically build a moat.**

## 4. How do key players create a moat?

# Mass market case study: Who is Mixue?



Among the **most well-funded** new tea brands in China (US\$ 3B valuation), revenue of US\$ 960M in 2019; Mixue has achieved fast expansion through **low-cost, low-price strategy**, earning a nickname as the **"Pinduoduo of beverages"**.



## 1997 2000 2007 2012 2014 2018 2022

**Founded:** Founder Zhang Hongchao starts **shaved ice and drinks stalls** around schools in Zhengzhou, capital of Henan province



Open store, sell **¥2 (US\$ 0.3) sundaes** which are significantly cheaper than the market (¥10 / US\$ 1.5 on ave.)



Start **franchise** model  
Move in **Tier 3/4** cities quickly to penetrate the markets

Build **own factory** to produce key raw materials in-house

Start own **warehouse & logistics center** in Jiaozuo, Henan province

Warehouse network



Start **first overseas outlet** in Hanoi, Vietnam (in line with its mass market positioning)

Expand into other Southeast Asian countries in the following years

**> 20,000** outlets in China  
**> 1,000** outlets across VN, ID, PH, MY, SG (self-operated + franchise)  
**5** warehouses & logistics centers

**Target mass market, capture initial traction**

**Tap on large volume build supply chain - keep costs low**

**Expand into Southeast Asia Vietnam as the first entry**

# How did Mixue win the mass market?



Compared to other well-funded peers like HEYTEA and Nayuki, Mixue took a different approach - by penetrating mass market / Tier 3/4 cities through an **extremely low-cost / low-price strategy**.

With an average product price between ¥3-10 (US\$ 0.4-1.5), Mixue has quickly amassed a large group of customers.

With the volume it has accumulated, Mixue can work on its supply chain - taking **raw materials processing, warehousing and logistics into its own hand**, cutting out third-party intermediaries and keeping its **cost structure extremely low** and reliability high.

This translates into low price, which attracts **more customers and franchisees** looking to profit from Mixue's formula - making the brand more easily accessible and keeping it top-of-mind.

A fast-growing franchise network allows training ground for Mixue to refine its **franchise management and operation system** - to provide effective support from store selection, store renovation, staff training, store management, store software and hardware maintenance - this attracts more franchisees.

With more franchisees (and more raw materials demand), Mixue is able to maintain high negotiating power to **procure raw materials at a cheaper cost**, thus sustaining its low-cost-low price flywheel.

Mixue went on to **replicate this formula overseas**, starting with Vietnam.

# Premium brand case study: Who is HEYTEA?

Having impressed premium customers, HEYTEA is moving mass recently



**2012** //  
 Founded as **Royaltea** in a 20m<sup>2</sup> stall at riverside alley

**2015**  
 Enter **Shenzhen**

**2016**  
 Rebrand as **HEYTEA** to distinguish itself from copycats

**2017**  
 Enter **Shanghai, Beijing, Hangzhou**

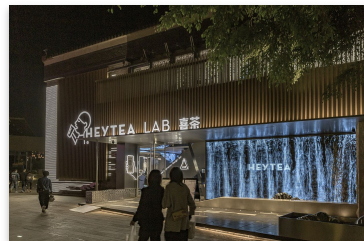
**2018**  
 Enter **Singapore** - high spending power



**2020**  
 Launch **Xixiaotea** brand to target mass market (price is half of HEYTEA's) and **bottled soda**

**2021**  
**781** outlets in China as of Q1 2021<sup>1</sup>

Launch **HEYTEA Lab** flagship store



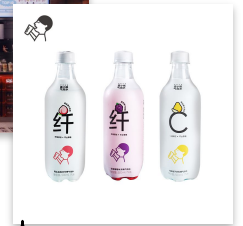
Launch **HEYTEA Bakery** Tea + Bakery



Launch **HEYTEA Go** Online ordering & takeaway kiosks



Xixiaotea Bottled soda



**Build branding**

**Explore new growth engines through regional expansion & online channels**

**Explore mass market segment**

1. Main stores + HEYTEA Lab + HEYTEA Bakery + HEYTEA Go Source: Press search; Momentum Works research & insights

# Will a premium model actually work in the long run?



## Are premium players ditching 'premium'?

### Price cut

Major premium brands have undergone price cuts in Q1 2022



"No product is above ¥30 (US\$ 4.4)"



The price of the entry-level product is now as low as ¥9 (< US\$ 1.5), previously one cup ~¥30 (US\$ 4.4) on average.

### Move mass market

Launch mass market brands & moved into Tier 3+ in recent years

Launch Xixiaocha



Price point is 1/2 of HEYTEA's

Launch Taigai



Tagline: "Vast selection of milk foam tea, get addicted in one sip"

Eventually, **market size & headroom for growth in premium / tier 1 markets are limited**. As growth reaches saturation point and competition heats up, extending beyond the premium segment is a natural extension, through **price cut** / launching **mass market brands**.

However, premium players are faced with a few challenges:

- Future moves to increase prices will risk facing consumers resistance
- Much of the efforts to move into the mass market have not been successful, with players like Mixue occupying a considerable market in these segments

Ultimately, the question depends on economic prospect and **spending power** i.e.: what is the price per drink consumer wallets can reasonably sustain (¥30?), as well as how players can **build a moat** to sustain their differentiation against other players.



# For F&B, supply chain is (often) the ultimate moat



## Expand stores / scale regionally

Post-2018, Chinese brands have been expanding to Southeast Asia more aggressively.

Many Southeast Asian brands have yet to make significant expansion beyond their home country.



## Expand into other segments

HEYTEA has expanded / invested in a range of products - tea, lemon tea, juice and coffee.



Tea & milk (sub-brand)



Lemon tea (70% stake)



Juice (60% stake)



< 15% stakes

Coffee



Tea



Cocktail

## Own supply chain

(Learning from the guru of F&B chains)  
- Haidilao started Yihai and Shuhai initially as Haidilao's in-house solution providers, now expanded to serve external parties.

Example:



Hotpot materials & seasonings



Supply chain solutions  
e.g.: procurement, central kitchen, warehousing, logistics



## Same logic applies to other similar businesses



F&B chains have similar underlying logic:

1. **Build (decent) flagship products to get initial traction;**
2. **Achieve single-store profitability** - make sure each store makes sense in terms of (using consumer internet terms) unit economics and sustainability
3. **Scale the model up** (while maintaining the positive unit economics)

To be sustainable however, brands have to build on a competitive moat. In F&B case, many successful brands do it by **controlling the supply chain**.

Ultimately, opportunities in F&B are vast, and there are **multiple ways to monetise**, for example:

- Sales of products (e.g.: selling bubble tea)
- Franchisee charges - franchising fees / management fees, profit sharing, procurement of raw materials
- Other products and services e.g.: supply chain solutions

## 4. Conclusion & perspectives

## Conclusion & landscape moving forward



### What's next for the space?

While the pandemic has slowed bubble tea store openings and driven many players out of business, it has served as a good natural selection process. Just as the development of consumer internet companies, after the first era of burning massive cash to gain market share, players are rationalising for efficiency and profitability.

Based on what we see from the ground, while brands are more cautious (e.g.: choosing the right locations and improving efficiency), the **hype of opening bubble tea stores is certainly not going away**. Similarly, consumers' love for bubble tea has not changed (and will not change). But they will vote with their wallets.

Few trends worth watching - as expected, **online channels** are becoming more important; while consumers are not necessarily more health conscious, brands are increasingly **catering to the larger segment** of the more health conscious / non-bubble tea drinking population e.g. through customisable sugar levels, 'healthier' alternatives like brewed fresh fruit tea.

Ultimately, the market is big enough and is too fragmented. Unlike internet companies, where there is a massive scale effect that can actively drive out smaller and new players, the "new tea" market has enough room for players - from regional chains to independent street-side stalls - to co-exist and flourish.

The emergence in the region of Chinese players, which have become really good in **branding, product/supply chain, and cost management**, could stir up competition even more. Their plays are not that complicated and could be learned by shrewd local bubble tea businessmen/women.

The ultimate questions are: who can **continuously captivate more consumers**? Who can keep consumers engaged and capture a bigger share of wallets, whilst also **maintain positive unit economics and generate a good return for the shareholders**?

## About qlub

**qlub** is a global digital payment solution provider

that enables dine-in customers to conveniently pay their bills at their table in 3 simple steps - **scan, pay, and go.**

Started by a group of veteran entrepreneurs in 2021, qlub is now present in **Australia, Japan, Malaysia, Saudi Arabia, Singapore, Turkey, United Arab Emirates**, and more. qlub raised one of the largest seed rounds in 2022 globally - US\$17 million.

With qlub's hassle free payment experience, waiters or diners do not need to walk back and forth or wait in queue in order to pay, **improving customer satisfaction, saving precious time and generally making the busy restaurant operations more efficient.** qlub supports Apple Pay / Google Pay, credit cards (VISA / Mastercard / Amex / UnionPay) and leading local digital wallets in each country.

To find out more about how qlub can help scale your f&b businesses, reach out to [sabrina.chan@qlub.io](mailto:sabrina.chan@qlub.io).



No app /  
registration  
required

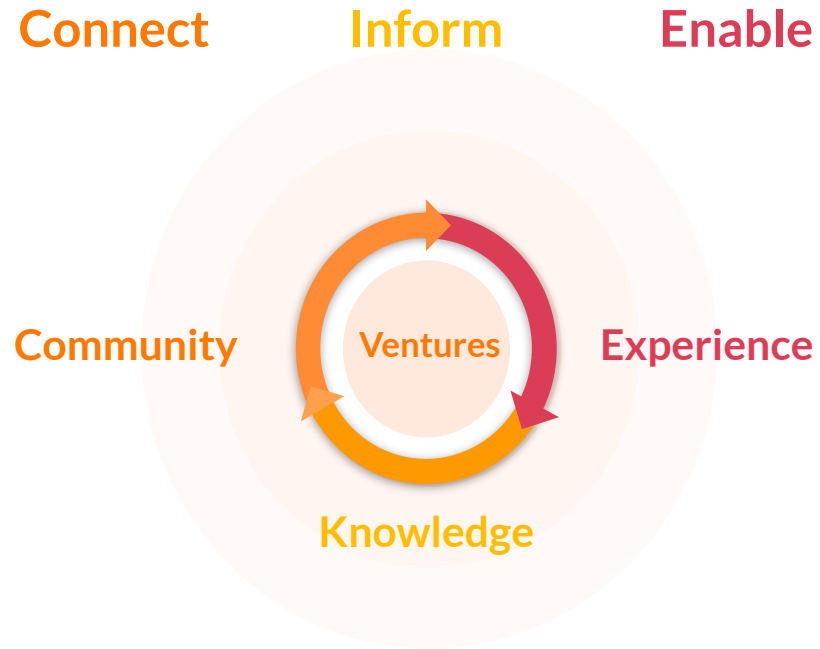
Easily split the  
bill & tip

<https://qlub.io/>

## About Momentum Works

A Singapore-headquartered venture outfit, Momentum Works builds, scales and manages tech ventures across the emerging world.

We also leverage our **knowledge**, **community** and **experience** to **inform**, **connect** and **enable** the tech/new economy ecosystem.



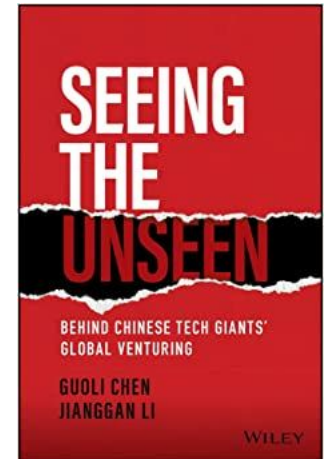
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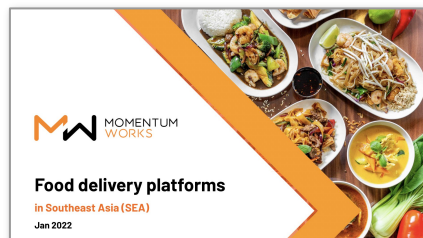
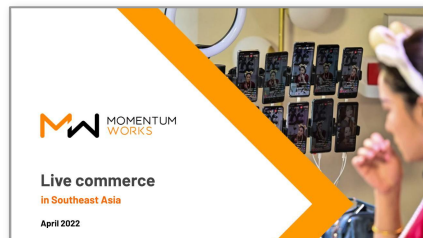
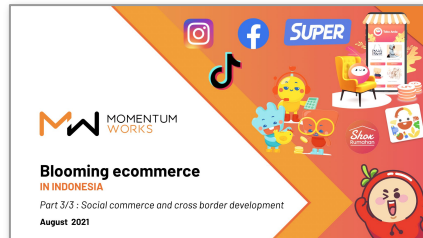


# Further insights & reports from Momentum Works

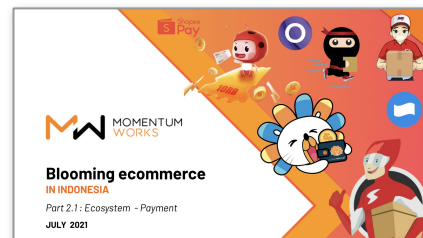
## Macro & investment



## Ecommerce & food delivery



## Fintech & digital banks



## Company anatomy



## Web3



## How can you take these insights further



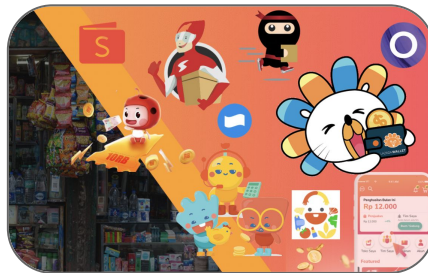
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*Curated insights on new industries (e.g. ecommerce, new retail, fintech, digital banking, electric vehicles) delivered through talks, workshops and other immersive learning experiences. We focus on areas including business models, strategy, products, operations, people and leadership to make it relevant to you and your organization.*



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