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Zhuyeqing Tea Co.: Reassessing Strategic Direction[[1]](#footnote-1)

Haifen Lin, Yanfang Hu, Fen Hu, and Xianhong Tang wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Sichuan Mt. Emei Zhuyeqing Tea Co., Ltd. (ZT), founded in 1998, operated eight tea brands through the integration of production and sales. ZT produced green tea, black tea, and scented tea, covering three grades: high-end, mid-end and low-end. Due to the regional characteristics of consumer tea products, ZT, the number one tea company in Sichuan Province, still faced difficulties in expanding its national market. Due to increasing and intensified competition, ZT’s overall sales growth was weak, both in Sichuan Province and in the national market outside Sichuan Province.

In June 2018, ZT enlisted the consulting services of Shanghai KMIND Business Management Co. Ltd. (KMIND).[[2]](#footnote-2) According to KMIND’s research report, ZT’s development bottleneck was caused by an out-of-focus operation. KMIND suggested that ZT focus on the brand and market, and on selling high-end green tea in China. However, great uncertainties surrounded the sales of high-end green tea, and it was difficult to break the development bottleneck by continuing the sales of multiple brands and categories. ZT faced a difficult decision. Should ZT take a new strategic direction and transform its regional tea brand into a nationally well-known brand? Should ZT continue to pursue its cost leadership strategy of diversified development, or adopt other competitive strategies to break through its development dilemma?

TEA IN CHIna

The three major non-alcoholic beverages were tea, cocoa, and coffee. Tea comprised the leaf and buds of the tea tree. Depending on the processing method and degree of fermentation, tea was divided into six major categories: green tea, white tea, yellow tea, oolong tea, black tea, and dark tea. Green tea was unfermented, while black tea was fully fermented. In addition, reprocessed tea was made from a variety of unprocessed or refined teas. The Bitan Piaoxue jasmine tea produced by ZT was a reprocessed tea.

The custom of drinking tea began in China. Tea was not only a healthy drink but also a symbol of China’s traditional culture. In China, gift giving had become an indispensable part of social interaction. Tobacco, alcohol, and tea had strong gift attributes in Chinese culture, but tea was the best choice of gift in terms of health attributes.

Tea farming was a traditional Chinese agricultural industry and a pillar industry in the tea economy. From 2011 to 2015, China’s tea industry had experienced steady growth. In the past five years, however, the number of tea consumers in the country had increased from 420 million to 471 million. Tea sales had also increased, by 56 per cent, and total sales had more than doubled. In terms of tea consumption structure, green tea, which was the most consumed tea in China, was still the mainstream consumer product in the tea market. In 2017, green tea accounted for 52.3 per cent of China’s total tea sales, with a market size of more than ¥120 billion.[[3]](#footnote-3)

Although China had a long history of tea culture and rich tea categories, the domestic tea industry experienced several issues, including low industry concentration; a low degree of branding, intensification, and standardization; insufficient modern management techniques for tea gardens; low production efficiency; and high costs. In China’s tea industry, tea categories were often more popular than the tea’s brand. For example, Longjing green tea was more well-known than the specific brand that sold Longjing green tea.[[4]](#footnote-4) According to a popular Chinese saying, “70,000 tea companies lost to one Lipton.”[[5]](#footnote-5) That was to say, tea brands in China were extremely dispersed. Although China had several leading regional tea companies, in terms of the scale of the entire tea industry, large companies and well-known brands still held relatively few shares of the entire tea market. The top 100 brands together accounted for less than 10 per cent of the market share.[[6]](#footnote-6) Limited enterprise scale and weak comprehensive strength restricted the development of China’s tea industry.

At the beginning of 2016, the China Tea Marketing Association (CTMA) formulated the Thirteenth Five-Year Development Plan for China’s Tea Industry (2016–2020). To address the existing issues limiting the development of China’s tea industry, the CTMA proposed to cultivate leading enterprises, strengthen brand building, and innovate marketing models.3

CHINA’S TEA INDUSTRY CHAIN

The industrial chain of Chinese tea from production to sales included planting, processing, circulation, and consumption. Market participants included upstream tea gardens, midstream primary processing plants, fine processing plants, downstream terminal stores, and customers.

The planting link was divided into three main forms: tea farmers, tea farms, and bases. To establish bases, some large tea companies signed agreements with tea farmers to ensure an adequate supply of raw materials. Upstream suppliers found it difficult to upgrade their tea production, as a result of facing vicious competition, including price reductions due to their small enterprise scale, decentralized tea gardens, low tea yields, and low labour efficiencies.

Participants in the processing link included primary processing plants and fine processing plants. With the rapid development of the refined tea processing industry and the rapid increase in the number of enterprises, the market concentration of China’s refined tea processing industry had continued to decline, and the industry’s gross profit margin had gradually declined.[[7]](#footnote-7)

The circulation link was the process by which tea entered the market through wholesale and retail channels. Loose tea entered retail channels such as supermarkets mainly through wholesale channels, while branded tea was rapidly developed by relying on its own strength to establish direct stores, or by distributing packaged tea through tea stores, shopping malls, tea houses, online shopping platforms, and other retail channels. According to the 2017 “List of China’s Top 100 Companies with Comprehensive Strength in the Tea Industry,” issued by the CTMA, Tianfu (Cayman) Holdings Co., Ltd. (Tianfu) had topped the list for five consecutive years.[[8]](#footnote-8) Tianfu, founded in 1993, mainly sold traditional Chinese tea products through its self-built sales channels. It integrated tea resources in China and adopted a multi-brand and multi-category strategy to occupy various market segments. In addition to competition from the established tea companies, emerging Internet tea brands were impacting the traditional tea market. Founded in 2014, Beijing Xiaoguan Tea Co., Ltd. (Xiaoguan Tea) had transcended tea above agricultural products, collectibles, and cultural products to become a consumer product that truly served drinking. Xiaoguan Tea united eight tea masters in six major tea categories to create a good tea that customers could buy with their eyes closed. It simplified customer perception by unifying small pots, weight, price, and packaging.

The consumption link was the process of buying and drinking tea. The upgrade of the consumption level diversified customers’ demand for tea. Price was no longer the most important factor when purchasing tea. Faced with more and more brand teas in the market, customers who did not know much about tea were more inclined to buy well-known brand teas. In the face of powerful well-known traditional tea companies, emerging Internet brands, and regional tea brands outside Sichuan Province, ZT experienced insufficient channel layout and low product awareness. Therefore, ZT’s competitive advantage was not obvious.

BUSINESS BACKGROUND

Development Overview

Established in 1998, ZT was a key leading tea enterprise in China’s national agricultural industrialization. As a kind of green tea, Zhuyeqing was named after Minister Chen Yi in 1964. In 1998, Tang Xianhong, the future chairman of ZT, bought the Zhuyeqing Tea Factory due to the restructuring of township enterprises. After discovering the huge price difference between brand tea and loose tea, Tang, who had previously made only loose tea, decided to focus on producing branded tea. The tea, which was positioned as conveying an open-minded attitude toward life, targeted politicians and businesspeople. In 2002, Tang created the tea brand ZHUYEQING, and adopted the slogan “ZHUYEQING, Just Let It Be.” This slogan was gradually internalized into ZT’s corporate culture and was actively used until 2015. From 2016 to the first half of 2018, ZHUYEQING was positioned as China’s most beautiful green tea, and its slogan was changed to “The Most Beautiful Green Tea with the Most Delicious Taste.”

Since 2011, ZT had been exploring an entry into China’s national market, but it had a long way to go. Due to the unclear focus of the national market development, all parts of the country had moved forward together, increasing the number of stores blindly, but some resource allocations, such as for advertising, had been insufficient. ZHUYEQING, a regional tea brand, faced double difficulties in transforming into a national brand. Since 2013, some of the stores that had rapidly opened were restructured or closed due to poor performance. On the one hand, consumers’ brand recognition was unclear. ZT had been rooted in Sichuan Province for 20 years; however, its eight brands were not well-known in the rest of the country. In particular, consumers could not distinguish the categories of ZHUYEQING[[9]](#footnote-9) (i.e., tea, wine, and Trimeresurus stejnegeri). On the other hand, the cost of channel construction was high. As consumers paid attention to the drinking experience when buying tea in branded stores, the investment in store construction was relatively large. ZT had introduced the Amoeba business model in its stores and then co-operated with a positioning consulting company, but failed to find a strategic plan suitable for the national expansion. (See Exhibit 1 for the company’s overall sales growth from 2012 to 2017.) Tang was puzzled as to how to break through the development bottleneck, boost sales, and expand the national market.

Organizational Structure and Human Resources

The company was divided into Emei headquarters and the Chengdu marketing branch, which consisted of the Sichuan Marketing Subsidiary and the Beijing Sales Subsidiary (see Exhibit 2). Due to the vague strategy and bloated organizational structure, the Sichuan Marketing Subsidiary and the Beijing Sales Subsidiary were directly managed by Tang. He felt overwhelmed by simultaneously managing three major tea categories—green, black, and scented tea—as well as overseeing many managers in the national market. As an example, the Beijing Sales Subsidiary comprised five managers who held their own distinct opinions during a meeting, making it difficult to reach a consensus. In addition, due to the vague powers and responsibilities of the Beijing subsidiary’s operation department, the information transmission between the Chengdu branch and its subsidiaries was prone to information asymmetry, resulting in low work efficiency.

ZT’s management, including the store manager, was mainly engaged in internal competition so that employees could see a channel for their career promotion. The top management team had strong cohesion, and most of the managers had worked with Tang since he started the business. The working atmosphere of the terminal store was deeply influenced by the slogan “Just Let It Be.” Due to front-line employees’ fixed salaries and the serious egalitarianism in the stores, most employees lacked enthusiasm for their work.

In July 2016, ZT introduced the Amoeba business model to the terminal store management, with the purpose of activating each employee’s business awareness. A single store was taken as the accounting entity, which was independently operated and responsible for its own profits and losses. The evaluation standard for the store had changed from being based on sales revenue to being based on performance (i.e., evaluating both sales revenue and expenses). However, after the actual implementation, it was found that firstly, the store had a limited degree of cost control. Rent and decorating costs could not be changed; only the water and electricity expenses could be controlled. Secondly, the sales staff were unskilled in the use of office software, which took up time normally devoted to sales. Most importantly, the Amoeba business model did not provide enough incentives for stores. Employees focused on how to control costs, and the operating results showed no positive growth.

VALUE CREATION ACTIVITIES

The company’s value creation activities were the same as all links in the tea industry chain, which could be subdivided into tea plantation, procurement, primary processing, finishing processing, logistics, and sales.

The raw materials of Zhuyeqing tea came from the company’s self-built base and the contracted base of tea farmers. All bases were selected to be built in the high mountain area of Mount Emei. The ecology of the tea garden was well preserved. The superior natural ecological environment provided good conditions for the growth of tea trees and laid a good foundation for the production of high-quality tea. The management of tea gardens was in accordance with the Zhuyeqing tea base management regulations for planting and production. The fresh leaves were sampled throughout the year to ensure the safety of the raw materials. They were single-bud, one bud and one leaf, all of which were picked by hand. The procurement method was divided into fresh leaf procurement and semi-finished product procurement.

Since 2014, ZT had begun to upgrade its production layout and facilities, purchased top Japanese production equipment, and built a new tea preservation warehouse and testing centre. The whole process of production and processing had realized digital control, and had performed well in energy conservation and in emission reduction and improvement. Zhuyeqing tea was a spring bud tea. To ensure the stable quality of all grades of Zhuyeqing tea throughout the year, the semi-finished Zhuyeqing tea was graded and assembled into three levels of tea: “Discovery,” “Meditation,” and “Taste.” After the initial processing, the semi-finished products were refrigerated for later finishing, packaging, and sales according to orders received throughout the year.

ZT’s sales channels were mainly direct sales, supplemented by franchising. In the process of tea sales, tasting services were offered, especially for high-end teas. Therefore, ZT’s sales were mainly offline and supplemented by online orders. To meet customers’ purchasing needs, the store sold a host of brands, including ZHUYEQING green tea (main brand), Baoding Xueya green tea, Junlin Tianxia black tea (main brand), Lundao Hong black tea, and Bitan Piaoxue scented tea (main brand). Among them, ZHUYEQING and Bitan Piaoxue were divided into three series according to quality standards: “Discovery,” “Meditation,” and “Taste.” ZT offered many categories of tea, many packaging specifications, and covered different price ranges. However, customers’ cognition of ZT’s teas was fuzzy because of the brand’s unclear positioning.

In 2016, when the Amoeba business model was introduced into the management of terminal stores, the supporting incentive system was imperfect, and thus failed to mobilize the enthusiasm of employees. As a result, the stores were not doing well. Employees moved from increasing the store’s income to reducing expenditures. For example, employees turned off the air conditioning when no customers were in the store, and chose “Taste” tea when customers wanted to sample the tea, which had led to weak awareness of high-end drinking services in the stores, insufficient customer awareness of the brand, and more difficulty in acquiring new customers.

Although ZT had attracted many customers, most were dormant after purchasing once. One reason for the low repurchase rate was the almost total lack of after-sales service in the stores. The employees lacked enthusiasm for work, and the work stopped at the store, which made it difficult for customers to think of the ZHUYEQING brand when buying tea the next time. Therefore, their purchase frequency was unlikely to increase.

THE ROAD AHEAD

ZT, facing increasingly fierce competition in the tea industry, weak growth of the market in Sichuan Province, declining national market expansion, and weak team morale within the company, was trapped in a development bottleneck and therefore eager to seek a new development path. Tang thought about the out-of-focus problem raised by KMIND.

ZT operated three tea categories and eight brands, and its prices spanned high, medium, and low budgets. Diversification could not only meet the needs of different consumer groups but also share fixed costs and ensure the company’s stable profits. Coupled with the Amoeba business model, diversification provided customers with the most cost-effective tea and drinking services while implementing a cost leadership strategy. In addition, the expansion of the national market was the only way to transform a regional brand into a well-known national brand. Without stores in different cities, the tea would not be recognized and consumed by customers. If the best-value focus strategy was implemented, and only the main brand ZHUYEQING was developed, would consumers accept ZT’s high-priced products? Would front-line employees have the ability to sell? How should the national market break through? Although Tang hesitated, it was time to make a strategic decision.

Direction 1: Adhere to the cost leadership strategy

ZT operated three major categories and eight brands, covering consumer groups and market scope to the greatest extent, and providing mass-market customers with cost-effective products. However, the implementation of this strategy meant that only limited resources and attention would be allocated among the eight brands. Each brand would receive fewer resources and less attention. There was a risk that none of the brands would succeed in transformation.

Direction 2: Adopt the best-value focus strategy

ZT focused on category and brand, and on transforming ZHUYEQING into China’s leading high-end green tea producer. Different from its first national market expansion, this expansion was undertaken on the basis of strategic priorities. The transformation of national tea brands needed to be realized in stages for ZT to truly become the leader. The resources and organizational conditions required by the best-value focus strategy differed, which meant ZT would face huge changes ahead.

EXHIBIT 1: Overall sales growth of Sichuan Mt. EMEI Zhuyeqing Tea co., LTD., 2012–2017 (IN ¥ Millions)

2012 2013 2014 2015 2016 2017

Note: ZT = Sichuan Mt. Emei Zhuyeqing Tea Co., Ltd.

Source: Created by the case authors based on company documents.

EXHIBIT 2: Sichuan Mt. EMEI Zhuyeqing Tea co., LTD. Organization Chart (Simplified version)

Tang was in direct charge.

Sales Department 1

Sales Department 2

Franchise Management

Directly managed city A

Directly managed city B

Directly managed city C

Directly managed city D

Sichuan Mt. Emei Zhuyeqing Tea Co., Ltd. (ZT)

Emei Headquarters (production)

Chengdu Branch （marketing）

Sichuan Marketing Subsidiary

Beijing Sales Subsidiary

Note: To protect corporate privacy, the figure above shows a simplified organizational structure, and some functional departments are not displayed. Sales department 1 and 2 belonged to the Sichuan Marketing Subsidiary. City A-D was directly managed by the Bejing Sales Subsidiary. Each sub-department has a director.

Source: Created by the case authors based on company documents.

1. In this case, the brand name is in uppercase and the category name is in lowercase. For example, ZHUYEQING is the brand name, and Zhuyeqing is a category name of green tea. [↑](#footnote-ref-1)
2. KMIND was a strategic consulting company dedicated to helping companies win the competition. Within five years, KMIND had helped nine companies grow to be industry leaders, of which five had exceeded 10 billion RMB in operating income. [↑](#footnote-ref-2)
3. China Tea Marketing Association, “The Thirteenth Five-Year Development Plan for China’s Tea Industry (2016–2020)” [in Chinese], Tuliu, July 6, 2016, accessed June 22, 2020, www.tuliu.com/read-34174.html. ¥ = RMB = Chinese yuan renminbi; ¥ 1= US$0.1547 on January 27, 2021; all currency amounts are in ¥. [↑](#footnote-ref-3)
4. Longjing tea was a famous green tea in China, produced in the West Lake area of Hangzhou, Zhejiang Province. [↑](#footnote-ref-4)
5. Lipton, which was owned by Unilever, was the world’s largest tea brand. [↑](#footnote-ref-5)
6. Guoying Du, “Business Logic behind the Xiaoguan Tea” [in Chinese], ALLPKU-Wangpu, August 8, 2018, accessed June 22, 2020, www.sohu.com/a/246001426\_228332l. [↑](#footnote-ref-6)
7. Qianzhan Industry Research Institute, “Analysis on the Current Situation and Prospect of China’s Refined Tea Processing Industry in 2018” [in Chinese], Sohu, July 17, 2018, accessed July 18, 2020, www.sohu.com/a/241720815\_100186158. [↑](#footnote-ref-7)
8. China Tea Marketing Association, “List of China’s Top 100 Companies with Comprehensive Strength in the Tea Industry in 2017” [in Chinese], China Good Tea, September 13, 2017, accessed June 22, 2020, http://www.tt5678.com/cyxw/News\_View.asp?NewsID=79. [↑](#footnote-ref-8)
9. There are trimeresurus stejnegeri (a kind of snake), Zhuyeqing liquor, and Zhuyeqing tea in China. They are all zhuyeqing in Chinese. [↑](#footnote-ref-9)