

Analysis on the Marketing Strategy of MXBC MilkTea

Ziwen Chen

*Aquinas International Academy ; Garden Grove, CA;
2377963631@qq.com*

ABSTRACT

This paper studies the reasons for the success of MXBC marketing strategy. With the early background information of the MXBC and Industry, this article adopted the secondary research method to collect essential data and information. The purpose of conducting this research is to reveal the marketing strategy secret of MXBC, analyze its franchise model by discussing its pros and cons. In this model, because the supply chain of MXBC supports all of its opening franchised stores from raw materials to finished products, MXBC can gain a high amount of revenue through supporting them. But at the meantime, the franchise model also harms its future growth. For example, saturation of franchised stores will lead to fiercer competition, even the same brand. Thus, MXBC should consider changing its marketing method to avoid these problems.

Keywords: *MilkTea, Franchise model, MXBC, Marketing Strategy, Pricing*

1. INTRODUCTION

As the lyric “I love you. You love me. MIXUE Ice cream and tea.” gained clout on the internet, nearly everyone in China or even foreigners have become familiar with this MilkTea brand. The lyrics are from an advertising video published by MXBC. In the video, three MXBC mascots dance and sing one song in which lyrics are repeated and brainwashed, and people especially the teens can almost recite the entire song whenever they want to. While MXBC gained a massive amount of popularity on the internet, it maintains the momentum of rapid development, the scale of store opening firmly ranked first in the industry in recent years. In 2016-2020, the number of MXBC stores are 2,500, 3,500, 5,000, 7,500 and 10,000, respectively. At present, this figure has been refreshed to 15,000, is expected to reach 20,000 by the end of 2020[1], far more than the current trend of HeyTea, Nayuki which two milk tea brands are both in the leading position in China region. Admittedly, the number of MXBC’s stores was growing exponentially, whereas the secret is its franchise model. Thus, to figure out the franchise model of MXBC, this essay mainly investigates and discusses how franchise model of MXBC becomes its major competitiveness that makes MXBC stands out in the industry. The marketing strategy of MXBC from its early year of until the present and the advantages and disadvantages of the franchise model strategy will be the main focal point during the essay. This research starts at

an objective view, in which MXBC will be compared with another brand so as to be evaluated comprehensively. The purpose of analyzing the marketing strategy of MXBC is to construct people with a comprehensive insight into its success, therefore, to learn from its unprecedented business model and to stay inner-directed from fluctuated news and bias information.

2. The Development of Michelle Ice City

2.1 Early year of Milk Tea (Ice cream) industry

In 1987, the emergence of pearl milk tea waved a huge trend of drinking milk tea. Milk tea gradually changed from a small drink in the store to a mainstream drink with an independent store. Over the past 30 years, from 5 square meters to 100 square meters, from 2 RMB to 30 RMB and even higher, from powder drinks to milk + tea, from a single tea shop to a multi-functional leisure beverage shop. Same as the Ice cream industry, the price of Ice cream jumped from 0.5 RMB to 20 RMB and higher nowadays. Even going to the grocery store, the ice cream with product packaging still costs people around 3 - 15 RMB. Milk tea and Ice cream are constantly iterating and upgrading[3].

2.2 Early Year of MXBC

MXBC was a family-dished restaurant founded by Previous CEO Zhang Hongchao, but Zhang Hongchao sought the chance of Ice cream and therefore, he established a new branch of MXBC majoring in Ice cream, which is the starting point of MXBC. The early MXBC uses its own list of ingredients of ice cream and cones to reduce the cost per ice cream. In 2006, each of the MXBC's ice cream is priced at 2 RMB comparing with other brand's 20 RMB ice cream, and it surely attracted a lot of students and many other low-end customers. In addition, on sales, MXBC also attract some investors who want to be franchised. Since then, MXBC's ultimate strategy launched and this company began to blossom.

Besides launching a new product like new flavors of drink or ice cream, current CEO Zhang Hongfu, the younger brother of the previous CEO, developed its supply chain for two reasons. First, because the issue of Trichlorocyanidamide occurred in 2008, nearly all of the companies relating to milk (milk tea) are affected during that period in China, and the MXBC's ice cream powder supplier was one of them and seriously affected so to shut done. Ever since that, the supply problem has plagued the MXBC for three years until 2011, CEO Zhang Hongfu began to construct its supply chain for MXBC. [1]The second reason is that MXBC wants to minimize its total costs and maximize the total profit. The point of minimizing cost is apparent, since the company owns its supply chain, MXBC no longer needs to purchase raw materials from other companies but make its own.

3. MXBC's Silent Growth; Reasons Behind its Success

3.1 Franchise Model Analysis

Back to its franchise model, strictly speaking, the threshold of the franchise requirement of MXBC is not simple. In addition to recognizing the company's corporate culture and business philosophy and abiding by the company's business norms, franchisees are also required to personally participate in the store operation (no less than 90 hours in the store every month) and actively participate in the training management organized by the company, with a pre-investment of more than 300000 RMB[3]. Even so, there is still a steady stream of franchisees willing to board the ship of MXBC. On the one hand, it is efficient to open a store. If the above conditions are met, a franchised store could be opened as soon as half a month. On the other hand, there is an "attractive" condition that MXBC does not participate in profit sharing. It is reported that the MXBC is mainly a single-store franchise, which needs the franchisee's wholly-owned operation, and the

company does not participate in the profit sharing. The advantage of this model is that the company manages the whole market, the store is easy to replicate, and the boss of the single store has more flexibility on managing.

3.2 Pricing Strategy Analysis

So far, all of the information about MXBC, such as pricing and franchise model, seems like declaring itself as the most friendly brand to the public, franchised alliances, and possible investors. Perhaps, if MXBC does not involve any profit sharing from its franchised stores, this company would not be able to gain sufficient profit to expand rapidly with its low-priced product, even though the sales quantity of MXBC's product is a considerable number. According to the revenue of MXBC in 2019, they made 6-6.5 billion RMB in total income, and the net profit is about 800 million RMB. The data in 2020 are still not disclosed. The way to achievethis great number of revenue is to collect franchise fees from franchisees and sell supporting facilities such as milk tea raw materials, marketing materials (Auxiliary supplies, semi-finished products, finished products), equipment, and decoration. This represents that the supply chain is the core competitiveness of MXBC. In 2014, it completed the construction of a complete set of the supply chain from R & D to production than to the warehousing and logistics, which allows MXBC to effectively control the cost and make the product cheap due to its capability. Its strong strength also supports itself to go nationwide and open stores madly and quickly.[2]

4. Disadvantages of MXBC's Franchise Model

However, the drawbacks of the franchise model that MXBC is proud of are also gradually emerging, mainly reflected in three aspects.

4.1 The Difficulty of Managing Franchised Store

First is the Hardship of managing each franchised Store. It is difficult to manage each store delicately. In previous content, we know MXBC does not participate in any profit-sharing, which represents the specific store management and operation is not the main focus to MXBC. Franchisees are usually responsible for their own profits and losses. Surely, MXBC is not completely adopting the idea of laissez-faire to franchisees and will check the basic operation specifications. Each area of MXBC has a regional manager who is responsible for the management of the given area, including inspecting the freshness of food materials, the daily cleaning of machines, and the right proportion of drinks. If the franchisees violate the regulations, they will be fined at least or disqualified at most depending on their violations. However, the store operation is meticulous,

and the above management measures cannot be comprehensive, always leaving some blind spots of supervision. Therefore, in 2022 May, 11 illegal problems were found in 529 stores of MXBC in Zhengzhou[6]. In addition to the common food hygiene problems, problems like imperfect account records and chaotic warehouse management are also worthy of attention. Apparently, news like this are numerous, they are widespread and transparent on the internet.

4.2 The Hardships of Franchised Store Development

Secondly, franchisees can barely make money. Looking at the menu, there are 3 RMB Ice cream, 4 RMB sundaes for any flavor, 6 RMB coffee snow tops, none of them are priced over 10 RMB but are deeply welcomed by the students and young people in the town. Because of the franchise model, franchisees have limited profit-taking space between the fixed cost and pricing under MXBC's regulation. The gross profit margin of MXBC is relatively low in the industry, roughly about 50%, lower than the industry average level 65%. Bluntly speaking, MXBC is a business with small profits and quick turnovers[5]. In order to survive, franchisees must be cautious when selecting the appropriate location, and the flow of people directly affects the survival of the franchised stores. Moreover, franchisees need to dedicate themselves diligently into the work to reach a certain sales volume, or they aren't able to gain profit and survive until the next fiscal year. Calculating the total costs of labor, water, electricity, raw materials, and other tiny expenses, many franchisees may not have any income left but support their stores from their own pockets. Roughly saying, 20% of people may result in the store closing, 50% of people will make ends meet, and only the remaining 30% of people will gain profit[5].

4.3 Gradual Saturation of Franchised Store

Last but not least, the scale of opening stores is gradually saturated. At present, the location of opening a new franchised store is the most vital point which affects the flow of people directly. Although MXBC does not specify how many stores can be opened in an area, to ensure the flow of people, a township is usually allowed to open only one or two stores, and no more will be approved. However, with more than 150000 stores spreading all over China, urban areas and the number of stores in villages and towns have approached the limit[5]. Besides the MXBC stores, the market has begun to saturate and meet the requirements of opening stores of Milk tea. When people go to any mall or place that gathers people, they will see numerous milk tea stores operating and competing with other milk tea brands. Usually, a mall is encompassed with more than 20 milk stores. Chances of opening stores become fewer and fewer, and the scale of MXBC may have reached its

ceiling. Once MXBC reaches its expectation of opening 20000 stores, there is a big problem for the company's growth space, which is whether the revenue and net profit can maintain sustainable growth. Since MXBC mainly makes money from franchise fees and raw materials, so the number of stores is a direct cause for its revenue.[6]

5. The Opposition of MXBC - HeyTea

As we all know, MXBC outweighs the other milk tea brands by its low-priced product and a great number of franchised stores. On the opposite, there is one brand that has only 50 stores in China 200 stores in total, and it priced most products over 30 RMB that is about 7 times higher than the MXBC's. This brand is named HeyTea. The average sales number is nearly 2000 cups per day, and the monthly turnover of a single store can reach 500,000. The reason why HeyTea can have today's clout and sales is bypassing the pricing competition with other brands and simultaneously focusing on other aspects, such as quality, service, and publicity.[2]

5.1 Publicity Gaining by HeyTea

First of all, HeyTea makes countless consumers hold teacups and willingly take pictures and posters on social media. Such spontaneous behaviors are far more effective than spending a lot of money on advertising. This key of promotion is derived from HeyTea's good-looking cups, simple style of the logo, and other cute and tiny features that inspire the customers to drink. All of the beautiful features stimulate the customers to share, so to gain more publicity. But MXBC doesn't create this chemical effect on customers[4].

5.2 Brand Systematization of HeyTea

In terms of brand systematization, HeyTea Launched many daily items with strong brand marks and aesthetic styles, including mobile phone cases, umbrellas, T-Shirts, etc., which can not only increase the diversity of HeyTea but effectively strengthen emotional ties with consumers. On the other hand, MXBC has also published few items that related to the brand, which was not quite successful compared with HeyTea.

5.3 HeyTea's Sense of Drinking Method

In terms of drinking method, Heytea suggests not to stir when drinking the milk tea that is covered by the cream. People don't need to use a straw but to sip from the mouth of the cup. The real purpose of this requirement is to enhance the ritual feeling of drinking tea. For the young generation, the idea of ritual feeling grasps their curiosity and vanity. Moreover, "how to drink" and "where to drink" are sometimes even more important than "what to drink"[4]. In addition to selling

milk tea, HeyTea sells culture and ideas to its consumers, especially the young generation. In contrast, MXBC gives poor feelings to people due to its cheap products.

5.4 Publicity Gaining by MXBC

With all of the advantages HeyTea has, MXBC seems to be a mediocre brand in quality, service, and publicity. Even though, MXBC understands its target group and status in the customers' minds, which made it decide to adopt a different method in the promotion. In 2021, MXBC published its first advertising video on the internet and became popular[1]. Overall, the content is normal, but the song and the dance performed by three mascots of MXBC were quite influential on the network and brainwashed. If asking anyone on the street to sing the song of MXBC, anyone who browses the network in China is definitely capable of reciting the song. This network promotion surely boosted MXBC's publicity to the next level, which should be considered as one successful promotion, but many potential issues of MXBC such as sanitation are gradually revealed by medias with its publicity increase.

6. DISCUSSION

It is not difficult to see that the franchise model of MXBC is the double edges sword that rescued the past but will damage the future of the company's growth. According to the three disadvantages of the franchise model, it is not easy for MXBC to manage franchisees, and fine management is very difficult, which lays a lot of hidden dangers for its development. Nevertheless, the sanitation problems exposed in MXBC are caused by non-standard operation and inadequate staff training on the surface. But if going deep inside, it will be found that it is inseparable from the poor survival status of franchisees, which is the fundamental reason. Due to the low gross profit of MXBC's products and the fierce competition in the milk tea industry, it is more and more difficult for franchisees to earn or even survive. In today's huge system of 150000 stores, Once the franchisees encounter accidents, consumers usually count the account on the brand, and the brand image of MXBC will be damaged hardly.

In fact, MXBC welcomes every investors who are interested in joining them as a franchisee, because MXBC earns a lot of money whenever a new franchised store is opened. Later on, the only one who is worried about sales and profit is the franchisee instead of MXBC. At present, MXBC is famous for its brainwashing "Divine Comedy", but the effect on the actual sales remains to be further observed. At least, even if the improvement effect is commendable, given that it has 150000 stores, the benefits assigned to each franchisee are also very limited, and the current

situation(COVID19) of making money is doomed to be a dilemma.

7. CONCLUSION

All in all, the marketing strategy of MXBC is outstanding and successful so far, but there is no guarantee for its future growth. Under the situation of covid and fierce competition, the scale of MXBC might decrease. As MXBC becomes more and more transparent in public view, it should consider changing its marketing method and construct one unique feature that attracts customers instead of being cheap only.

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