

China's Newly Launched Xiaolu Tea Delivers

By Dan Bolton August 19, 2019

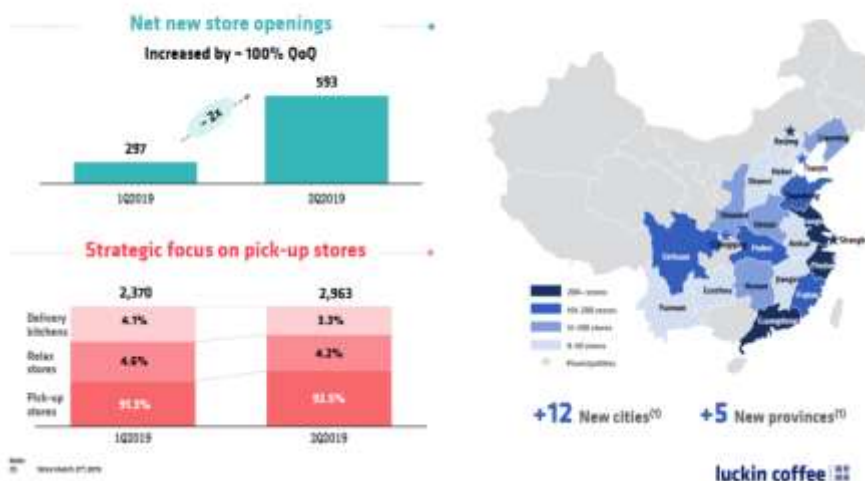
China's Luckin may prove to be the pioneer in tea delivery. In the United States, takeaway tea is lucrative—McDonald's sells \$1 billion worth annually—but largely confined to iced blends.



Luckin has opened 3,000 locations since 2017 and is now the largest domestic coffee chain in China. Building on its successful coffee delivery model, in July the company launched a new tea brand called Xiaolu (little deer) Tea. The line features 10 flavors including innovations such as jasmine green tea with mango topped with a frothed cheese imported from New Zealand. Blended with pudding, these teas are both a beverage and snack and sell for \$3.50 to \$4.50 per cup.

“We want to transform the tea series from traditional tea drinks into creative ones and we hope people drink it in the offices instead of streets,” Luckin’s chief marketing officer Fei Yang told *Retail News Asia*. “There are currently few renowned brands of milk tea in China (known as tea lattes and bubble tea in the West),” adds Luckin VP and co-founder Jinyi Guo. “The quality of franchise stores is inferior and supply chain management is deficient,” writes Guo.

On track to become #1 coffee network in China by the end of 2019



Luckin Growth Chart (Image credit: Luckin)

Chinese consumers drink 317 cups of non-coffee drinks per year on average, much more than the 208 cups in America. Tea is in greater demand during the summer months than coffee, explains Guo. He said the company targets young Chinese white-collar workers with offerings of cheese foam tea, freshly brewed tea and milk (bubble) tea. The latter is trending as coffee shops, which produce a variety of milk and coffee combinations, embrace creamy, sweet flavored tea drinks with chewy black tapioca. Balls of tapioca are known as pearls, it is vigorous shaking that

produces the frothy bubbles for which the drink is named.



XioluTea by Luckin

Modern milk teas were popularized by 163-store HeyTea which specializes in cheese tea and by Nayuki, a chain that mixes seasonal fruit with tea along with Gong Cha, a franchise with 1,500 outlets. According to [IDG Capital](#), HeyTea, founded in 2012, serves as many as 2,000 to 3,000 cups daily per store in Beijing and delivers 3,000 to 5,000 tea drinks per month in Guangzhou and Shenzhen. Each drink comes with a separate container of frothed cheese to add on delivery.

Sales of specialty tea beverages at tea and coffee shops and dessert shops in China have risen steeply since 2010. Wenjun Tech estimates milk tea sales of \$7.6 billion (CNY53.7 billion) in 2018 and projects an increase to \$11 billion (CNY77.9 billion) by 2021. The compound annual growth rate of beverage sales from 2016 to 2021 is estimated at 13.5%, as reported by [Equal Ocean](#).

Growth is coming at the expense of instant powdered coffee and tea and traditional street-side stalls where milk tea is prepared by the cup for passersby. The style of tea originated in Taiwan but it was innovators in mainland China who topped the tea with a thick cheese foam leading to [long lines](#) of young tea enthusiasts.

Source: [Retail News Asia](#), [Caixin](#)