

**Innovation Strategies of the Herbal Tea Industry in  
Guangdong**

**Peng Xuetao**

Thesis submitted as partial requirement for the conferral of the degree of  
Doctor of Management

Supervisor:

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## **Abstract**

The traditional Chinese medicine has thousands of years' history. It is the result of accumulated experience of Chinese people when they are fighting against diseases and therefore is very important to the prosperity and continuity of the Chinese nation. The traditional herbal tea belongs to one soup of traditional Chinese medicine which has hygienic functions. It is made by brewing one or more kinds of medicines. Herbal tea is just one product originated from the traditional Chinese culture. As one form of traditional Chinese medicine, herbal has hundreds of years' development history.

For hundreds of years, herbal tea with regional characteristics has been the folk medicine form in China. In the 1990s herbal tea is brought into the industrial production, but there is no breakthrough in the regional limits before 2003. However, in 2003, Wong Lo Kat changed herbal tea "herbal tea" image into a national beverage brand rapidly, and scored the overseas market. Herbal tea rapidly become the focus of public concern, the rapid growth of market sales and huge market space attracted many followers, many Chinese manufacturing enterprises and beverage production enterprise quickly into the herbal tea industry.

The herbal tea industry has many brands now. However, only a few leading enterprises succeed in obtaining profits, as most herbal tea producers still lose money. After the boom of rapid development, currently herbal tea industry has come to the tiredness, due to weak industrial innovation, coupled with rising industrial concentration. Innovation has become the strategic key for the herbal tea industry to progress healthily.

The most basic functions and purpose of the industrial innovation is to realize the upgrading of the industrial structure, to promote the industry's development. Yet blind change or purely individual innovation may be negative for individual enterprises and the overall industry. The implementation of industrial innovation is a complex system, which requires the government, industry, and enterprises to work

together. Guiding government policies, industry structuring and enterprise strategies should be consistent in order to achieve the development of the herbal tea industry.

This study shows the evolution and situation of the industrial development, and finds some obstacles hindering herbal tea industry development through the field investigation. At the same time, by focusing on the leading and highly innovative herbal tea producers, we learn about the innovation strategy that could inspire other firms in the same industry. Finally combining the macroscopic background with micro level findings, it is possible to get some herbal tea industry innovation and practical experience from the enterprise, government and industry perspectives.

Herbal tea evolved from a private self-help type of health decoction to become an innovative beverage, through constant innovation, obtaining a huge market success. Studying the herbal tea innovation process, we also learn about the potential development of Chinese medicine, with practical significance for both users and investors in the health industry.

**Keyword:** Herbal tea industry, Innovation strategy, Chinese medicine.

**JEL:** L22, M12



## Resumo

A medicina tradicional chinesa tem milhares de anos de história. É o resultado da experiência acumulada pelo povo chinês na luta contra as doenças e por isso é muito importante para a prosperidade e continuação da China enquanto nação. O chá de ervas tradicional pertence a uma categoria da medicina tradicional chinesa com funções higiênicas. É obtido a partir de um ou mais tipos de medicina. O chá de ervas é apenas um produto obtido a partir da cultura tradicional chinesa. Enquanto produto da medicina tradicional chinesa, o chá de ervas tem centenas de anos de história de desenvolvimento.

Durante centenas de anos, o chá de ervas com características regionais fez parte da medicina popular na China. Na década de 1990 passa a ser objeto de produção industrial, mas mantendo uma dimensão essencialmente regional. Em 2003, Wong Lo Kat transformou a imagem do “chá de ervas” convertendo-o numa marca nacional de bebidas e entrando no Mercado externo. O chá de ervas tornou-se rapidamente o centro da atenção pública, com um rápido crescimento das vendas e a criação de um mercado que atraiu numerosos seguidores. Muitas empresas industriais chinesas e produtores de bebidas entraram no mercado do chá de ervas.

Atualmente, o setor do chá de ervas conta com numerosas marcas. No entanto, apenas alguns líderes obtêm lucros, dado que a maioria dos produtores continua a perder dinheiro. Depois da fase de rápida expansão, o setor do chá de ervas revela um certo cansaço, devido à falta de inovação industrial e à tendência de reforço da concentração industrial. A inovação tornou-se a chave estratégica para o desenvolvimento saudável do setor.

As funções mais básicas para a inovação industrial consistem na melhoria da estrutura produtiva, como instrumento do desenvolvimento do setor. No entanto, mudança cega ou inovação puramente individual pode ser negativa tanto para

empresas específicas como para o setor. A implementação da inovação industrial é um sistema complex que carece de cooperação de governo, setor e empresas. Políticas orientadoras do governo, estrutura do setor e estratégias das empresas devem ser consistentes para se alcançar o desenvolvimento do setor do chá de ervas.

Este estudo ilustra o desenvolvimento e a situação atual do setor, identificando, através do trabalho de campo, alguns obstáculos que limitam o setor do chá de ervas. Ao mesmo tempo, o foco nas empresas líder e altamente inovadoras permite extrair lições sobre estratégias de inovação que poderão ser fonte de inspiração para outras empresas do mesmo setor. Finalmente, combinando uma análise agregada do setor com observações ao nível micro é possível obter elementos práticos e experiência sobre inovação na perspectiva das empresas, do governo e do setor.

O chá de ervas evoluiu de um produto de auto ajuda medicinal para se tornar uma bebida inovadora, através de melhorias constantes, até atingir um elevado sucesso comercial. O estudo do processo de inovação do chá de ervas permite extrair lições para o desenvolvimento da medicina chinesa com implicações práticas tanto para os utilizadores como para os investidores no setor da saúde.

**Palavras Chave:** Setor do chá de ervas, estratégia de inovação, Medicina chinesa.

**JEL:** L22, M12

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## **Chapter 1 Introduction**

### **1.1 Research Background**

With a long history of development in China, herbal tea originally existed as a form of effective folk medicine, demonstrating successful application of traditional Chinese medicine among the general public. As an effective folk medicine and a dietary supplement, herbal tea is able to clear heat, resolve toxin and eliminate dampness (She, 2009). Traditionally, herbal tea, which is made from Chinese herbal medicine, is mostly popular in rural areas. However, as time goes by, herbal tea develops accordingly. On the one hand, its efficacy becomes more diversified; on the other hand, it has evolved from a traditional medicinal tea to a daily beverage. In fact, herbal tea had been mass-produced in the form of “herbal tea granules” and boxed or canned beverages since the early 1990s. However, despite decades of development and expansion, herbal tea is still restricted to certain areas. (Huang, 2005).

The outbreak of SARS in 2003 was a turning point in the development of herbal tea business. According to traditional Chinese medical science, since SARS, an infectious atypical pneumonia caused by virus, the treatment must be focused on clearing heat, resolving toxin, eliminating pathogenic factors and removing blood stasis. If this idea is implemented throughout the whole process of prevention and treatment, there will be good results in containing SARS. Fortunately, herbal tea is believed to prevent and help treat SARS (She, 2009). This opportunity was seized by Wong Lo Kat, a company that launched red canned herbal tea, a brand-new type of beverage, across China. Wong Lo Kat herbal tea became popular in the domestic market very soon and the company has been continuously promoting its herbal tea in the international market (Lu, 2008). Surprisingly, in 2006, the sales volume of herbal tea in China exceeded that of Coca-Cola in China; in 2007, the sales volume of Wong Lo Kat alone exceeded that of Coca-Cola in China, The remarkable performance of Wang Lo Kat attracted extensive public attention (Chinese Tech-food, 2008). Since 2003, many companies have started to engage in herbal tea production, hoping to

generate profits by producing herbal tea beverages. As more companies followed suit, a herbal tea industry came into being. With the rapid expansion of herbal tea market, the herbal tea industry experienced a boom. Within a short period, the industry not only became a critical component of the traditional Chinese medicine industry, but also blazed a trail for its development.

Originally, herbal tea was mainly sold in several parts of China. However, after the outbreak of SARS in 2003, Wong Lo Kat, a leading herbal tea company, broke down geographic restrictions and soon became a top brand nationwide (Guo, 2004). Its sales volume in the main land had surpassed Coca Cola in 2006, become the top brand of canned drink in the region, according to AC Nelson Data. Up to 2008, sales amount of herbal tea at home had reached 6 million ton, more than twice as the amount of Coca Cola in the same region. (Wu & Luo, 2007). With a rapid growth in sales, it quickly became a focus of public attention as a history-creator in the beverage industry. The rise of Wong Lo Kat as well as the huge market demand for herbal tea has attracted many companies to follow suit. For instance, traditional Chinese medicine businesses and beverage businesses rush to enter the new herbal tea market. As a result, herbal tea business has evolved into an industry within several years. This leads us to wonder why herbal tea, that until 2003 was mostly a local business, has expanded nationally and even overseas, leading to the consolidation of a strong cluster.

Herbal tea originates from a folk wholesome decoction which people make by themselves. After constant innovation, it has become a new type of beverage with successful market performance. Its development history propels us to think about two questions: how to innovate in developing traditional Chinese medicine products? What implications does the rise of herbal tea have to the development of traditional Chinese medicine industry?

At present, there are many brands in the herbal tea industry. However, what's worrisome is that only a few leading firms are profitable, while the majority are operating at a loss. (Economic Daily News, 2009). In other words, the current development of the herbal tea industry is lopsided and unbalanced. How businesses

innovate by themselves has become a strategic key to the sound development of the herbal tea industry. One way to realize innovation is to acquire experiences from the successful businesses in this industry so as to figure out why they are able to dominate the market and earn profits and how they achieve development through innovation.

When the author visited in Guangzhou Pharmaceutical Group Company in July 2012, the marketing director Ms. Gao says: “In the 21st century, the herbal tea industry is faced with huge challenges: on the one hand, more and more businesses enter this market, increasing competition in the domestic market; on the other hand, competition in the beverage industry is becoming fiercer in the international market as international beverage giants have been formulating targeted strategies to compete with herbal tea businesses in China”. Due to fierce competition in both domestic and international markets, the market share of any single herbal tea business is continuously shrinking. Therefore, after a rapid growth period, the herbal tea industry has entered a development fatigue period, with weak innovation capacity and a high industrial concentration ratio. Up till now, Chinese herbal tea still occupies a tiny market share in the international market.

Innovation refers to a series of sequential activities, including generation of a new idea, product design, prototyping, production marketing and promotion. It also refers to a process in which knowledge is created, transferred and applied (Lin & Li, 2003). Herbal tea could represent Chinese culture; herbal tea enterprises could grasp the opportunity of international background, spread Chinese herbal tea culture, so as to expand international market, make herbal tea a world famous soft drink. (Wu & Luo, 2007). However, herbal tea businesses are faced with difficulties in innovation. For instance, most herbal tea businesses are traditional Chinese medicine businesses, which are often small in scale and weak in innovation. In addition, there are difficulties in the following two steps: First, production. Should herbal tea be developed in accordance with traditional Chinese medicine theories or modern beverage production processes? Second, marketing. Should the focus of innovation be on traditional Chinese medicine culture or should the element of medicine be avoided? Some consumers focus on the efficacy of herbal tea. However, herbal tea is not

exactly a type of medicine. Others simply treat herbal tea as a daily drink, paying no attention to its efficacy. As a result, it is difficult have “herbal tea” clearly positioned in the market place. Due to the pressing market environment and weak business performance, it is necessary for herbal tea businesses to take an innovative path in order to survive and develop.

## **1.2 Research Content**

Industrial innovation is a system in which businesses are the source of innovation. Whether a business is able to realize innovation depends on many factors such as national policies, market demand and economic environment. This thesis identifies the factors that influence industrial innovation and classifies them into external environment of industrial innovation and internal environment of industrial innovation. The external environment encompasses policies, laws and regulations of the herbal tea industry as well as its market environment. The internal environment includes major herbal tea producers, main products and key competitive behaviors.

The aim of industrial innovation is to improve the industrial competitiveness. As an industry is composed of many businesses, the enhancement of industrial competitiveness is based on the enhancement of the competitiveness of businesses in the industry. If industrial innovation is realized in some stronger herbal tea businesses, the whole industry will be pushed forward. In addition, the evolution of some representative herbal tea businesses can serve as a reference for other businesses. Therefore, with representative herbal tea businesses as a case, this thesis explores their approaches and means of innovation.

On the basis of a study on the external and internal environment of the herbal tea industry and the approaches typical herbal tea businesses apply to realize innovation, a path to realize innovation is put forward for the herbal tea industry. It includes what policies should the government make to support the herbal tea industry and how to innovate in an industry with businesses as its building blocks.

Herbal tea, a type of traditional Chinese folk medicine, has developed into a



beverage with successful market performance and huge development potential. It has far-reaching significance to the development of traditional Chinese medicine. Through a study on the industrial innovation of the herbal tea industry, the present thesis tends to propose suggestions to the innovation of health industry in Guangdong.

### **1.3 Research Objective**

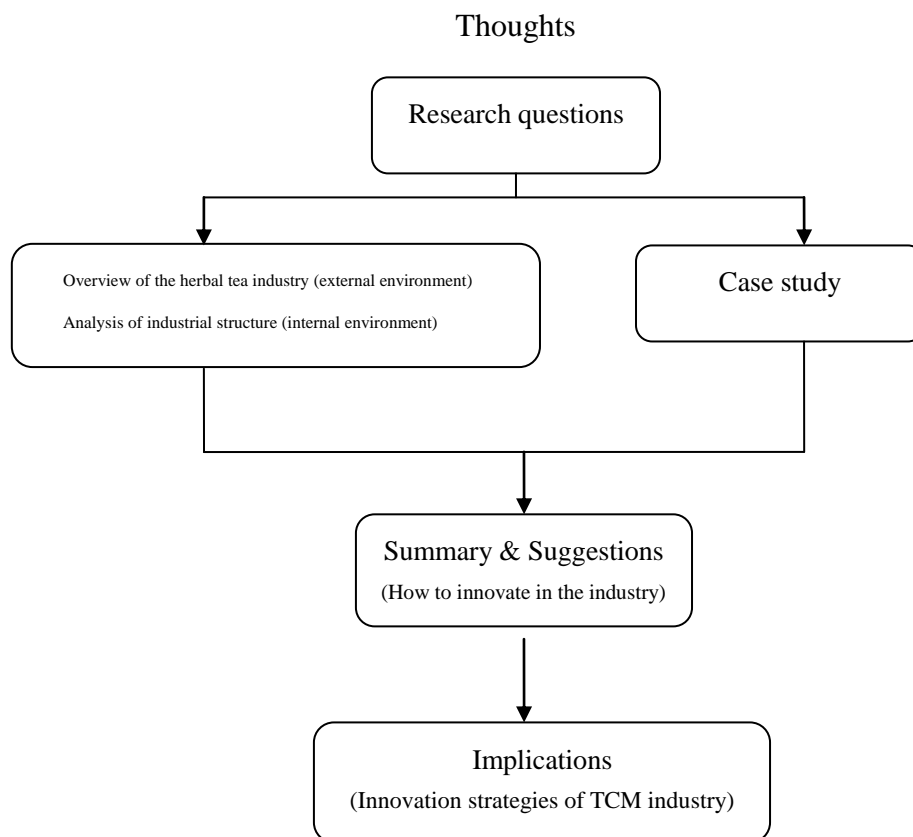
Herbal tea is an innovative form of traditional Chinese medicine. The progress of the herbal tea industry is a miniature of the progress of the whole traditional Chinese medicine industry. At present, many businesses have entered the herbal tea industry. But most of them are operating at a loss. They are confused about how to innovate, resulting in inadequate capacity of industrial innovation. As a result, the whole industry is mired in a bottleneck period. Despite that, still many entrepreneurs are interested in the herbal tea industry and are planning to invest in it. But they have no clear understanding of both the industry itself and the way to run a herbal tea business well. Therefore, this study is designed to reveal the evolution and current situation of the herbal tea industry. Then field investigation and secondary source analysis will be used to explore the plight of innovation in the herbal tea industry so as to identify obstacles to its development. Based on the above research, comments and suggestions on the innovation of herbal tea industry will be proposed. In addition, as a part of traditional Chinese medicine, the development of herbal tea epitomizes the development of the traditional Chinese medicine. Therefore, the present research aims to give implications to the innovation of the traditional Chinese medicine industry through a study of the herbal tea industry.

### **1.4 Research Thoughts**

If innovation of the herbal tea industry is studied from a macro perspective, the conclusions will often be impractical. Innovation of the herbal tea industry is still a new area of research without a solid theoretical foundation. Therefore, this research will first give an overview of the development and current situation of the herbal tea

industry, then reveal innovation approaches of herbal tea businesses through case study and finally offer suggestions on industrial innovation based on industrial innovation theories and features of innovation in traditional Chinese medicine industry(See Figure 1-1).

Figure 1-1: Map of Research



Source: The author

## 1.5 Research Methods

Based on the subject and purpose of research, secondary source collection and case study are chosen as the research methods. The method of secondary source collection is first used to get an overview of herbal tea industry from websites, TV news, newspapers, magazines and academic journals. Then the collected data are integrated, classified, screened and analyzed so as to reveal the development and current situation of the herbal tea industry.

Representative herbal tea businesses or brands are selected as cases. Data of the case businesses are collected by means of field interviews and secondary source collection. In the analysis of data, the focus is on how the businesses innovate in micro-level activities and how they develop through innovation. With an in-depth analysis of the case businesses, practical strategies for innovation of the herbal tea industry are proposed, serving as a constructive reference for herbal tea industrial innovation.



## Chapter 2 Literature Review

### 2.1 Literature Review on Herbal Tea

Through a retrieval of CNKI database, 91 studies on herbal tea are found (See Table 2-1).

Table 2-1 Literature on Herbal Tea

Topic	Number
Herbal tea culture	29
Quality evaluation-experimental research	21
Business model of a single herbal tea company	40
Overview of the herbal tea industry	1
In total	91

Source: CNKI database

Among the retrieved studies, 29 are on herbal tea culture. To be more specific, they focus on the development of herbal tea and its relationship with traditional Chinese medicine culture. The huge contribution herbal tea has made in preventing and treating illnesses is also recognized. Twenty-one studies are done from the perspective of pharmacology. The conclusions are as follows: according to pharmacological experiments, herbal tea is nontoxic; as for its heavy metal content, no scientific measurement can be made because there is no specific reference standard on it. However, according to the standard for urban drinking water quality, the heavy metal content of herbal tea from some businesses might be excessive. There are also some studies analyzing the business model of Wong Lo Kat, the leading herbal tea producer in China. In most of these studies, conclusions are made based on an analysis of Wang Lo Kat's slogan "Afraid of excessive internal heat? Drink Wong Lo Kat!" The success of Wong Lo Kat is attributed to its accurate market positioning and heavy investment in advertisement. However, this cannot explain why some other herbal tea businesses, which also have an accurate market positioning and heavy investment in advertisement, are quickly eliminated from the market after a fast

expansion. On the basis of a systematic study on Wong Lo Kat, a conclusion has been achieved as follows: the 180 years history of Wong Lo Kat is an inherent advantage of its rapid development; an accurate market positioning is a prerequisite to its success; and brand building is a determinant of Wong Lo Kat's high market share, which is about 90%.

In summary, the current studies on industrial innovation mainly focus on technological innovation at the macro level. They primarily reflect the innovative features of the industry or the industrial structure. However, no systematic research has been conducted on the herbal tea business from the perspective of the industry. As a result, there is no literature on herbal tea industry innovation. Therefore, in the next section, literature on traditional Chinese medicine industry innovation is chosen to be reviewed.

## **2.2 Innovation of the Traditional Chinese Medicine Industry**

In recent years, many Chinese scholars put forward the concept of industrial innovation from different perspectives. From a theoretical perspective, Lin and Li (2003) argue that only by giving full play to the comparative advantages, will it be possible for businesses and industries to sharpen their competitive edges. Lu and Feng (2004) contend that innovation is fundamental to the development of an industry and that expertise learning and capacity building at the organizational level are the source of corporate competitiveness. With Luming Group as a case, Yun and Liu (2006) believe that the formation of innovation strategies is possible only when innovation raises competitiveness of a business and that historical pressure and random events may lead to phenomena of "stagnation" and "breakthrough" in corporate innovation. Through an analysis of Chinese laser disc player industry, Lu and Mu (2003) find that in countries with relatively backward technology, businesses are able to gain competitive edge in an open market due to their innovation of products according to local market demands as well as their efforts in capacity building. It is also stressed that an innovation system of a business is fundamental for it to realize innovation.

Through an analysis of the North China Pharmaceutical Group, Wei and Wang (1999) argue that a corporate innovation system is composed of the following four sub-systems: entrepreneurship and corporate culture, corporate research and development system, personnel training and development system, as well as fund raising and operation. However, the establishment of a corporate innovation system is a dynamic process, not a simple addition of different elements. Li and Qiao (2002) believe that a business can build a corporate innovation system by reforming production factors, production conditions and means of resource allocation. In addition, the reform can provide the business with all the conditions, standards, processes and methods it need to be successful. Li and Liu (2007) divide innovation system into corporate innovation system, industrial innovation system, regional innovation system and national innovation system. They point out that technological innovation of businesses is affected not only by industrial innovation system and regional innovation system, but also by national innovation system. Cao, Wang, Zhang, & Du (2005) argue that in the high-technology transformation of traditional industries factors such as innovation capability, innovation practice, innovation system and competitive edge of the government, the subject of innovation and resources should be combined to achieve integrated innovation and a competitive edge.

### **2.3 Literature Review of Innovation Theory**

Innovation is a rather broad concept. It is coined by Joseph Schumpeter, an Austrian economist, who defines innovation as the setting up of a new production function. Simply put, innovation is a re-combination of production factors and production conditions, including introducing new products and new production methods, opening up new markets, exploring new sources of raw materials and applying a new organizational structure (Schumpeter, 1939). In his book *The Theory of Economic Development*, Schumpeter proposes two models to achieve innovation. In the first model, the role of entrepreneurs is emphasized. In the second model, the

role of large monopolized enterprises is emphasized. As the first scholar studying innovation, Schumpeter focuses on corporate innovation in technology. The topics of subsequent follow-up studies extend to various fields such as organizational innovation. However, the majority of research findings are concentrated in technological innovation.

According to Christopher Freeman (1974), a British economist, industrial innovation includes technological innovation, product innovation, management innovation, process innovation and marketing innovation. From the perspective of evolution, he carries out an empirical study of many industries including electricity, iron and steel, petroleum, chemistry as well as automobile and computers, concluding that innovation varies from industry to industry. For instance, the electronic instrument industry focuses on product innovation while the electricity industry focuses on market innovation. He also points out that industrial innovation is a systematic concept and that an innovation system is the key to the success of an industry.

### **2.3.1 The Forming Process of Innovation**

To study innovation, a basic problem to be solved is to explain how innovation takes place. Therefore, the forming process of innovation is the focus of research. Innovation is not an accident. Schumpeter stresses in his seminal research that there are three characteristics in the forming process of innovation: First, many innovation plans are intrinsically uncertain; Second, innovation must be carried out in a fast way so as to avoid being surpassed by latecomers; Third, there are resistances against innovation at all social levels. He believes that innovation is the result of continuous struggle between open-minded entrepreneurs and social tradition convention during a certain period of time. Actually innovation is systematic. The innovation of an enterprise depends on many factors, especially on external resources. As a result, a single innovation activity often includes a number of interrelated innovation processes. In addition, a majority of innovations undergo drastic changes in their life cycle and



as time passes by, these innovations can completely change their economic significance.

Companies are motivated to innovate by profit seeking. By launching innovative products to the market, companies can reap more profits. Continuous innovation of a company can strengthen its innovation capacity and benefit its sustainability and expansion in the long run.

### **2.3.2 Definition of Industrial Innovation**

The highest level of corporate innovation capacity is industrial innovation capacity. Companies with a long history generally enjoy relatively stronger capacity of industrial innovation. The industrial innovation capacity is an integration of all the other corporate innovation capabilities. Only when a company has strong industrial innovation capacity can it have potential for sustainable growth (Lu, 2003).

Zhao (2001) interprets industrial innovation from the perspective of regional development, contending that technological innovation, which is fundamental to industrial innovation, provides technological support for the reform of business model and economic growth model. In addition, innovation of production factors, which include both basic and advanced production factors, is the main form of industrial innovation. Advanced production factors, with a diversified composition, are the key to the formation of competitive advantage.

Shi and Shang (2001) hold that industrial innovation is a series of sequential market-oriented activities, including emergence of a new idea, capture of technology, mass production and industrialization, aiming to enhance the industrial competitiveness.

Lu (2002) argues that industrial innovation, with industrial upgrading as the goal, helps the declining industries carry out effective investment contraction and integration or transfer of resources.

At present, there is not yet an authoritative definition of industrial innovation. This is mainly because innovators, innovation sources, policies and systems in

different industries are not the same. Many Chinese scholars believe that industrial innovation means reintegrating and systematizing the key production factors of the industry and other related industries. Industrial innovation includes organization innovation and industrial structure innovation. Based on theories of Industrial Economics, existing studies of industrial innovation mainly focus on industrial organization and industrial structure.

Although the research perspectives and research objects of industrial innovation vary among scholars, it is agreed that the ultimate goal of innovation is to sharpen competitiveness and competitive advantage of an industry. Therefore, the competitiveness and competitive advantage of an industry can never be ignored when industrial innovation is mentioned. In addition, to companies, competitiveness means corporate competence. To put it simply, the indicator of profit-making is important in studies of both industries and companies. Innovation activities alone cannot account for the development of an industry or a company. Only by understanding changes of industrial competitiveness and corporate capabilities, can a company judge the profits reaped from innovation activities. In addition, the evolution of industrial competitiveness and corporate capability is a dynamic process. Therefore, industrial competitiveness and the mechanism of industrial evolution is an important part of industrial innovation. As a result, studies on industrial evolution theory and industrial competitiveness are reviewed in this chapter. These studies serve as the theoretical foundation for research on industrial innovation as well as this thesis.

### **2.3.3 Industrial Innovation System**

Innovation is rather a broad concept with diversified processes. A single innovation activity of an industry or a company cannot explain their success in innovation because industrial innovation is a systematic process. Bresch and Malerba (1997) hold that industrial innovation system is a process in which companies actively develop and manufacture products as well as create and apply industrial technology. Li (2009) maintains that industrial innovation system is a network system, with

corporate activities as its center, knowledge development as its basis, market demand as its driving force, policy regulation as its guide, sound internal and external environments as its guarantee, supply of innovation technology as its core, and realization of industrial innovation as its goal. In fact, industrial innovation system is an evolving network system. Through constant resource integration in the evolution of industry, both technologies used in the industry and relationship among different production factors experience changes. It is also a process in which production factors are constantly combined in innovative ways.

Industrial innovation is a process of achieving organic integration of different production factors and finally realizing industrial innovation through diverse ways of combination. During this process, companies are still the major participants in the innovation system and the government also has a great influence on it. This is especially true in China, because changes of government policy play a leading role in industrial development.

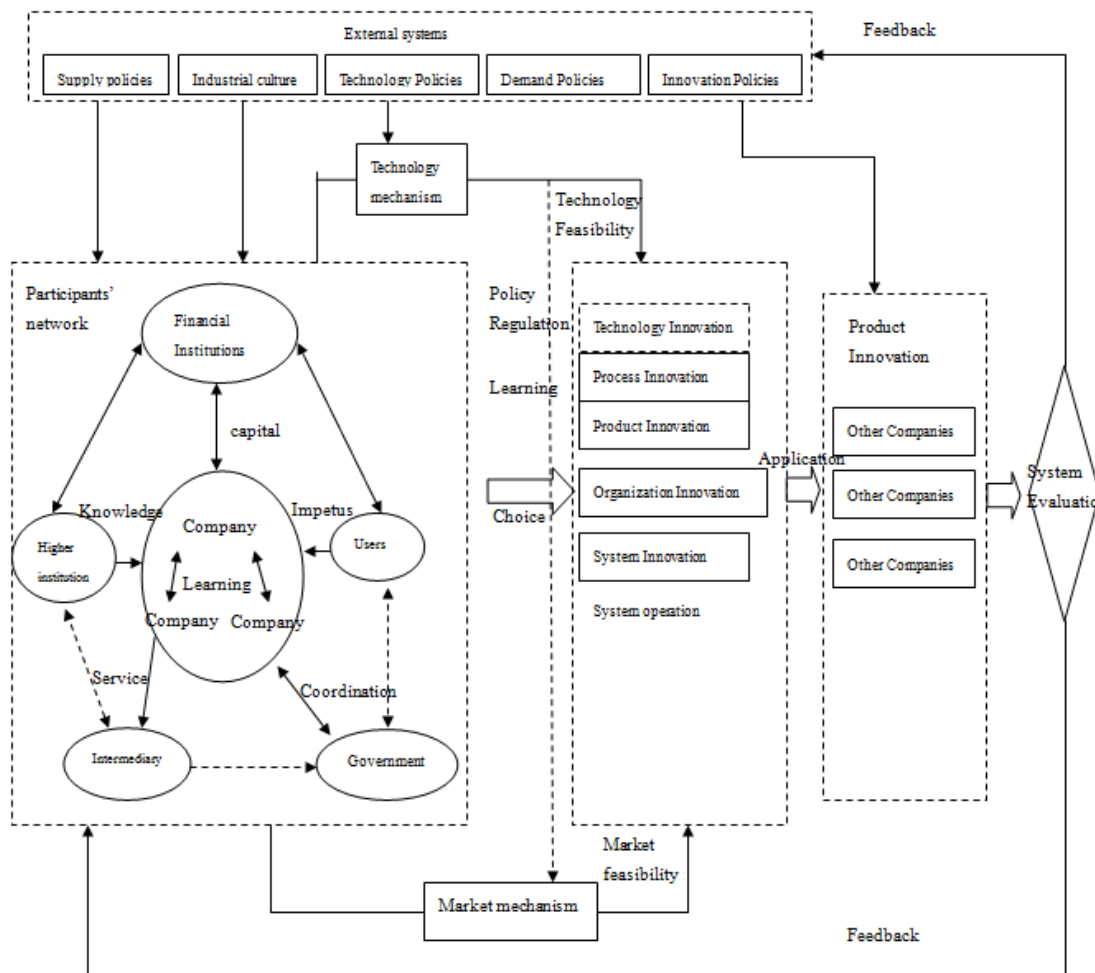
The dependence level on technology varies from industry to industry. The nature of different industries is affected by the basic technology they use. As the source of basic technology, research institutes and universities are conducive to industrial innovation. Moreover, industrial financial institutions, intermediary agencies and government all play a supportive role in industrial innovation.

Porter (1997) maintains that external needs greatly influence the development strategy and corporate structure of a company. When combined with basic knowledge and technology, external needs can have deeper influence on corporate behavior and corporate structure. In addition, external needs are the main drivers of innovation as well as adjustment of innovation activities and production activities.

An industrial innovation system is a prerequisite for industries to realize innovation. Currently, research in this field at both home and abroad mainly focuses on national innovation system and industrial technology innovation system. The industrial innovation system structure model put forward by Li (2009) fully demonstrates the relations between different factors of industrial innovation (see Figure 2-1). As industrial innovation changes constantly, it is necessary to identify the

structure and changes of the industrial innovation system, which will help to build an industrial innovation system with Chinese characteristics.

Figure 2-1 Model of an Industrial Innovation System



Data Resource: System structural mode of industrial innovation. Reformation & Strategy, Li (2009).

### 2.3.4 Evolutionary Mechanisms of Industrial Innovation

In his book *The Wealth of Nations*, Adam Smith (1776) emphasizes that the division of labor and specialization of production are constrained by market growth and market size. He says that the way of using capital is an important factor that influences industry growth. Meanwhile the development of communications and transportation advances the division of labor. Bain (1959) puts forward the SCP (Structure-Conduct-Performance) analysis paradigm after his contradictory analysis

of Smith’s theory. He holds that firms are not altogether homogeneous, differing from each other in terms of size and product, and that the size difference between firms within the industry will lead to monopoly. Besides, different industries demand different economies of scale, so their characteristics of market structure are different. And once a firm forms a monopoly based on economies of scale, it will make the best of its monopoly and conspire with other monopolists, so as to raise the prices of products to ultimately obtain super profits. Mechanisms of industry evolution, which are related to monopoly, market size and other aspects, are raised by a number of scholars. These mechanisms are briefly summarized in the following table (Table 2-2).

Table 2-2 Summarization of the Literature Review of Theories on Mechanisms of Industry Evolution

Scholars/Schools	Summaries
Adam Smith, 1776	“The division of labor is limited by the extent of the market”, which means the division of labor and specialization of production are constrained by market growth and market size.
Bain, 1959	Firms are not altogether homogeneous, differing from each other in terms of size and product, and the size difference between firms within the industry will lead to monopoly.
Stigler, 1976	Continued competitive advantage of a firm, which is, as Bain says, built on monopoly, conspiracy and barriers to entry, does not exist. Stigler puts forward the Industry Life cycle Theory.
Institutional Economics (Wu & Jia, 2003)	Changes of the division of labor and institutional arrangement are one of the root causes of industry change.
Modern Evolutionary Economics (Wu & Jia, 2003)	Innovation is the fundamental driving force of the industrial economic development.

Source: The author

### **2.3.5 Literature Review of Industry Innovation System Theory**

With the development of innovation theory and the increasing needs for innovation, innovation mode now has become an important tool for people to understand and explain the rule and course of innovation. Malerba (2005) holds that innovation system consists of three parts, namely, knowledge and technology, actors and networks and institutions. He believes that, by observing the features of the three parts in different industries, a more effective innovation mechanism can be put forward and a comparison of competitiveness can also be carried out. Cusmano (2008) holds that industry innovation system provides a useful analysis framework for us to explain the co-evolutionary development of industries with different dimensions and it can also help the emerging manufacturing countries to learn from others' experience. The above two scholars once adopted experience comparison method to investigate the key dimensions of wine industry innovation systems in Italy, Chile and South Africa and they figured out the main factors that enable new manufacturers to catch up with others.

Li and Zeng (2006), two Chinese scholars, taking the study on the evolution of innovation system research approaches as the starting point, analyzed the development process from industrial paradigm to service paradigm from the perspective of industry innovation system. Base on the analysis, they built a service innovation system model for knowledge-intensive service activities. Besides, they also explored the role and effect of service innovation system in knowledge production, transmission and utilization in the high-level innovation system. Under the industry innovation system framework, Zhang (2003) analyzed the policy system, technology system, enterprise development and industrial connection in FiberHome Technologies Group, a leading enterprise in Optics Valley of China which as located in Wuhan. After an explanation of industry innovation system theory, Alita, Wang and Tian (2009) compared and analyzed the differences of the roles played by governments, enterprises, universities and science academies in Chinese and American medical industry innovation systems. They put forward that the medical

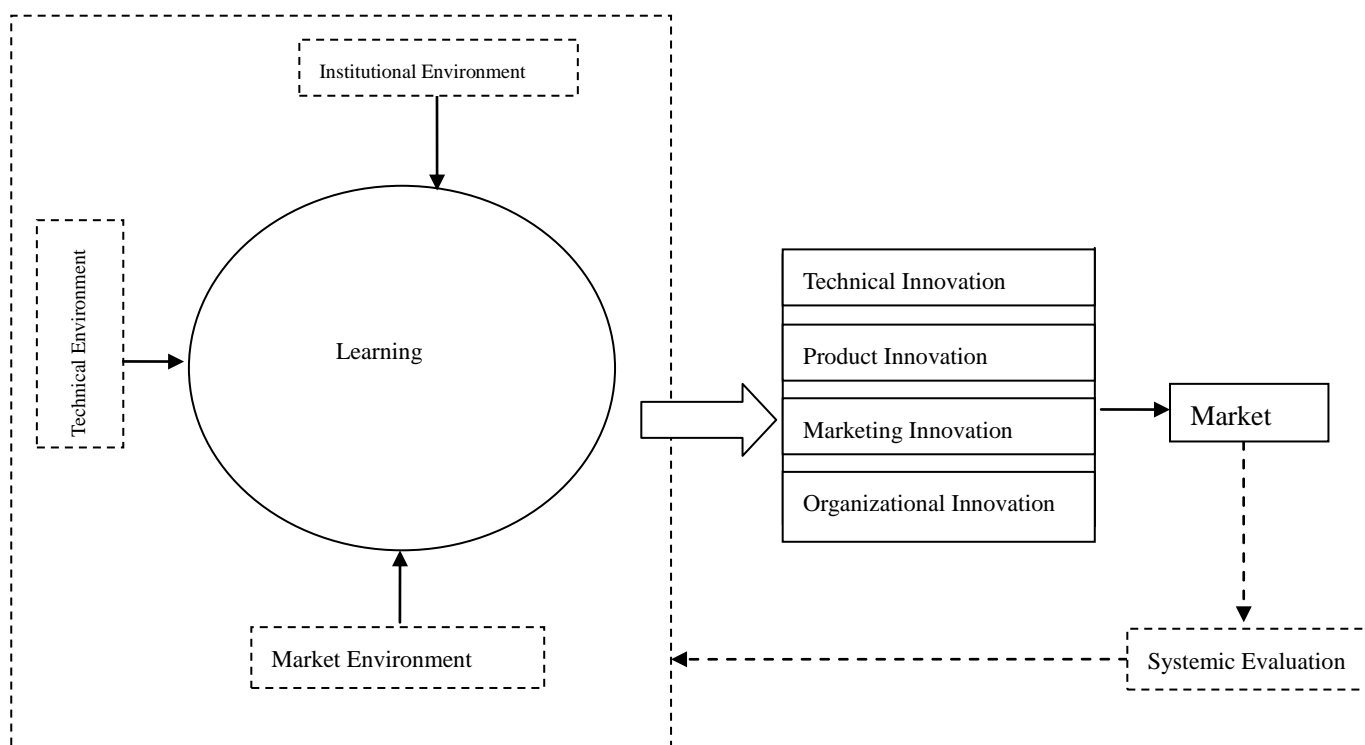
industry innovation system in China should be established and optimized. To be specific, the Chinese government should give more support for the medical industry; enterprises should improve their ability of independent innovation; universities and science academies should carry out reform of scientific research system and provide more suggestions for the establishment and optimization of Chinese medical industry innovation system.

After a comprehensive review of industry innovation system research, it can be seen that industry innovation system theory can provide a useful research approach and analysis framework to study industry innovation issues. Based on the studies carried out by various scholars, it is found that, in China, the environment of policy and system might have decisive effect on the development of industry. The main reason lies on the fact that markets of developed countries are totally free while Chinese market is influenced by policies to a large extent. Therefore, the policy environment must be taken into consideration in the research of Chinese industry competitiveness.

## **2.4 Summary**

The Innovation system of the Herbal Tea Industry remains largely unexplored. Hence, the analytical structure of Herbal Tea Industry Innovation System has not been put forward yet. Based on the industry innovation system model put forward by previous researchers, this thesis aims to work out an analytical model for Herbal Tea Industry Innovation System according to the current situation in China and characteristics of Herbal Tea Industry (see Figure 2-2).

Figure 2-2 Analytical Framework of Herbal Tea Industry Innovation System



Source: The author

It can be seen from the above figure that Herbal Tea Industry Innovation is a systemic factor and that technical environment and marketing environment are key elements affecting industry innovation. In Chinese market, policies and institutions have a great influence on enterprise innovation. Nevertheless, enterprises remain the major players and implementers of innovation within industry system. Mutual learning between different enterprises enhances their common progress in both technology and management. While enterprises make efforts to realize technical innovation, product innovation, marketing innovation and organizational innovation by coordinating all kinds of elements, the market determines whether the innovation is successful or not. Certainly, the innovation of enterprises, successful or not, would provides lessons for every participant in the innovation system, including enterprises, government and other supporting organizations. The innovation experience of participants can serve as a reference for adjustment of innovation strategy in the future.



## Chapter 3 Background Analysis of the Herbal Tea Industry

### 3.1 Definition

Herbal tea is a health product originated from folk medicine. It develops from some regions, then becomes popular nationwide and eventually enters into global market. Because of its special development history as well as the profound Chinese medicine culture, there are various definitions for herbal tea.

The popular definition of herbal tea among the folk is: a decoction made from medicine or ingredients that are cold and cool in nature and can clear heat, resolve toxin, diminish inflammation and eliminate dampness. The definition given in Guangdong Local Standards is: a beverage made of extraction from plant materials that are accredited as ingredients for herbal tea by Guangdong Food Cultural Heritage Accreditation Committee, with or without other auxiliary materials such as water and sugar (Guangdong Local Standards, 2006). However, this definition has been queried and opposed by people from all walks of life. In addition to the above-mentioned definitions, there are still many other versions. After a summary of the existing definitions, herbal tea is defined in this research as a botanical beverage which is made from traditional Chinese medicinal materials that are authorized by the Ministry of Health and other food additives and has the efficacies of clearing heat, resolving toxin, producing saliva, slaking thirst and eliminating dampness.

### 3.2 Classification of Herbal Tea

(1) Classification according to the approval number of herbal tea

Table 3-1 Classification of Herbal Tea According to Approval Number

No.	Category	Product Approval Number
1	Food	"Health Food"
2	Health Food	"National Health Food"
3	Medicine	"SFDA Approval"

(2) Classification according to dosage form

Table 3-2 Classification According to Dosage Form

No.	Category	Main Type
1	Liquid	Pop-top PET bottled, Tetra packed and composite membrane packed drinks
2	Semisolid	Extract, jelly and ice-cream
3	Solid	Granule, instant tea, effervescent granule, tea bag, lozenge, effervescent tablet and chewing gum.

Source: The author

(3) Classification according to the complexity of raw materials

Single-ingredient herbal tea and compound-ingredient herbal tea

### 3.3 Development History

Herbal tea was first recorded in Golden Prescriptions for Emergencies and Supplementary Golden Prescriptions which documents a dozen kinds of herbal tea. Therefore, it is regarded that the development of herbal tea germinated in Tang dynasty. It is after Song and Yuan dynasties that herbal tea began to be widely used. For example, the book Taiping Holy Prescriptions for Universal Relief said, "Mint tea can be used for the treatment of typhoid nasal obstruction and headache." What's more, there are also records about the use of tea for treatment for children in the imperial household of Yuan dynasty. Herbal tea for producing saliva and relieving sore throat prescribed by imperial physicians of Qing court marks the embryonic stage of herbal tea development. (Luo, Huang & Yang, 2006).

During Emperor Daoguang's reign, Wang Zebang, whose nickname was Kat, along with his son, operated an herbal tea stall in Tao Yuan Town, Heshan City, selling herbal tea made from a dozen kinds of herb such as Roughhaired Holly Root and Cherokee Rose Fruit. In 1828, the Wangs moved to Guangzhou and set up an herbal tea shop called Wong Lo Kat. They started selling herbal tea in bags in 1840. In 1870, Wang Hengyu, the third-generation descendant of Wang Zebang, entered into the market in Hongkong and set up an herbal tea shop there. In 1892, Yuan Jisun, together

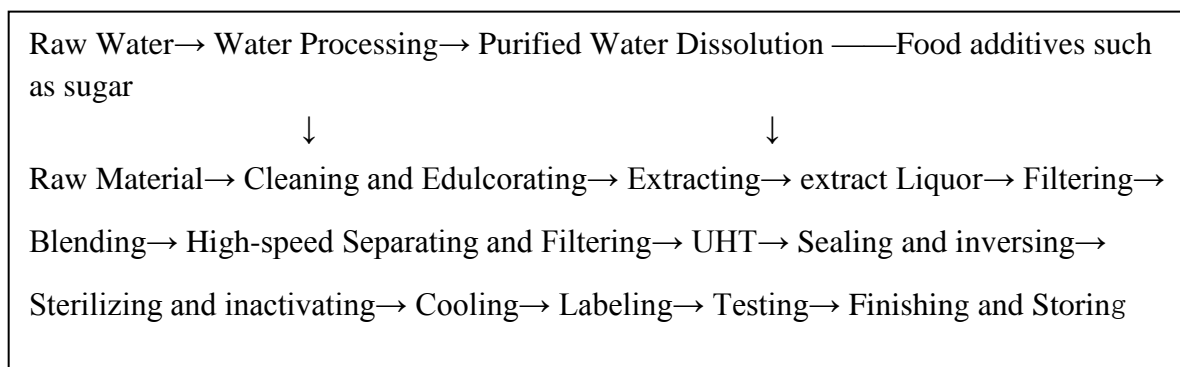
with his son, successfully developed Kam Wo Herbal Tea and put it on sale under the brand of Ze Liu Tang Yuen Kut Lam (He, 1999). Due to the special climate, water quality and geographical conditions in Lingnan Area, herbal tea gradually became popular among Lingnan people. With herbal tea, the local people could better adapt to the environment and improve the quality of life.

As the culture of herbal tea enters into people's life, the herbal tea industry is becoming increasingly prosperous. A wide variety of herbal tea can be seen in the market this year and it has become a part of daily life for Chinese people. In August 2005, herbal tea was listed in the Guangdong Food Cultural Heritage. In May 2006, herbal tea was included in the first list of national intangible cultural heritage. This means that the 18 brands and 54 secret prescriptions and terms owned by 21 herbal tea manufacturing enterprises in Guangdong, Hongkong and Macau will be permanently protected by Convention Concerning the Protection of the World Cultural Heritage and relevant laws in China. The successful application for world heritage can further promote the development of the herbal tea industry. According to statistics released by national authorities, the herbal tea market was worth more than 4.6 billion yuan in 2006, more than 10 billion yuan in 2007 and would exceed 20 billion yuan in 2008, presenting a trend of rapid growth (Tang, 2008). Other statistics shows that the total sales of Wong Lo Kat reached 180 million yuan in 2002, 600 million yuan in 2003, 1.5 billion yuan in 2004, more than 2.5 billion yuan in 2005, 3.5 billion yuan in 2006 and topped 5 billion yuan in 2007, exceeding that of Coca Cola and becoming "the first in national canned drink market in terms of sales"( Nanfang Daily, 2007).

Data released by GuangDong Food Profession Union in 2008 shows that the herbal tea market is expanding at an annual rate of 40%. It reached only 50 countries in 2007 but was expanded into 80 countries in 2008 (International Finance News, 2008). Herbal tea, a Chinese traditional beverage, is keeping pace with the global beverage giant, Coca Cola, and is entering into the global market with a rapid growth rate.

### 3.4 The Main Manufacturing Technique

Figure 3-1 Flow Chart of Herbal Tea Production



Source: The author

Quality requirements of manufacturing enterprises on herbal tea production mainly focus on sensory factors and microbiological indicators. The sensory factors include: color, smell, taste, sugar content, clarity, amount of precipitation and visible foreign matters. The microbiological indicators include: aerobic bacterial count, coliform content, mycete content, and saccharomycetes content. Pathogenic bacterium is not allowed to be found in herbal tea.

### 3.5 Safety Evaluation

Guandong herbal tea represents the inheritance and innovation of traditional Chinese medicine culture. It is the product of the integration between commerce and culture through the application of modern technology. As a cultural heritage with a history of more than one hundred years, herbal tea is regarded as "a health beverage with one hundred years of clinical trials" by many people. Therefore, it is trustworthy in safety. However, due to the lack of reference standards for herbal tea evaluation, there is still no direct and scientific evaluation data to demonstrate the safety of Guangdong herbal tea. But there are still some scholars conducting researches to try to test the safety of some Guangdong herbal tea. Fan et al. (2002) chose one kind of Guangdong herbal tea and tested its virulence according to Procedures and Methods for Toxicological Assessment on Food Safety. The result of urgent toxicity test

showed that LD50 was over 43.2g per kilogram of weight. Results of subchronic toxicity test and Ames test were both negative and prove that it is nontoxic. Furthermore, no mutagenic action was observed under the test conditions. Therefore, they reached a preliminary conclusion that the tested Guangdong herbal tea was harmless to human body and drinkable. In 2007, Wang, Xu, Yang & Liu (2008) chose 7 kinds of herbal tea and analyzed their content of nickel, cadmium, lead and copper. The result showed that all the 7 kinds of herbal tea had a certain amount of nickel, cadmium, lead and copper. Since China has not set any limitation standard for the content of heavy metals such as nickel, cadmium, lead and copper in herbal tea, the researchers consulted the Chinese Standard for Urban Drinking Water Quality. The result was that the copper content of the chosen 7 kinds of herbal tea met the standard, but the lead content of some kinds exceeded the limitation set in the Standard. Ye, Zhou, Chen & Gao (2008) chose a dozen kinds of Guangdong herbal tea to study and found that the total arsenic and inorganic arsenic in herbal tea was kept at a low level. Since there was no special hygienic standard for total arsenic and inorganic arsenic content in herbal tea, they took Hygienic Standard for Tea Drinks ( GB19296 -2003) as the reference and found that the total arsenic content of all the tested herbal tea was lower than 0.2mg/L, the maximum level set in the Hygienic Standard for Tea Drinks. Liu et al. (2006) once studied on the toxicity of Shaxi herbal tea and failed to detect its half lethal dose. In the research, the maximum dose was 765.29 times of that used in clinical treatment, but no tested animal was dead. On the contrary, all the animals' physiological signs were normal. After a long-term experiment, no obvious toxic reaction was observed in the tested animals, which showed that the Guangdong herbal tea was generally safe and non-toxic. However, Zhang (2006), who once worked in an outpatient clinic in 2004, met more than 600 patients who suffered spleen and stomach impairment because of incorrect use of herbal tea. Symptoms caused by spleen stomach impairment included abdominal pain, belching, abdominal distension, diarrhea, anorexia and tiredness.

Due to the possibility of excessive heavy metal existing in herbal tea and the lack of reference standards, a scientific and rational criterion for the safety of herbal tea

has not been put forward yet. What's more, though there is a great variety of herbal tea with all kinds of efficacies in the market, the various levels of quality pose great threat to the safety of herbal tea.

### **3.6 Institutional Environment**

In 2005, Wong Lo Kat was taken to the court for its safety problem, because self-heal, an ingredient used in its herbal tea, was not in the list of medicated food released by the Ministry of Health. The question whether the use of self-heal in Wong Lo Kat herbal tea was illegal then became a hot topic in the society. In the same year, the Ministry of Health approved the Application for Instructions about the Use of Sealheal in Ordinary Food in the document Approval of Relevant Issues of Wong Lo Kat. The stated reason was "if a medicine has been used as an additive in food for more than 30 consecutive years without any publicity of its efficacy before the Law on Food Hygiene came into force, then the food including the medicine as an additive can be sold." Since Wong Lo Kat herbal tea can date back to 1828, more than 100 years ago, it can be considered that the use of self-heal in herbal tea is not illegal (Chinese Tech-food, 2007). However, in fact, the number of varieties of ingredients used in canned herbal tea sold in the market or herbal tea sold in stalls far exceeds that of medicated food listed by the Ministry of Health. According to the preliminary statistics from a technical director of one company, about 300 kinds of Chinese herbal medicine are used in herbal tea products sold in Lingnan Area, but only 91 of them can be found in the list of medicated food released by the Ministry of Health. In spite of the fact that 114 kinds of medicine have been listed as health food by the Ministry of Health, there are still several dozens of medicine materials used in herbal tea left in the blank space. The question whether the herbal tea containing materials in the blank space is legal and safe has been discussed for a long time in the society.

In August 2005, herbal tea was listed in Guangdong Food Cultural Heritage. Since then, the herbal tea industry started to be recognized and supported by the government. In May 2006, herbal tea was included in the first list of national

intangible cultural heritage. The 18 herbal tea brands, 54 secret prescriptions and terms and 21 herbal tea manufacturing enterprises in Guangdong, Hongkong and Macau began to be protected as national intangible cultural heritage (Weng, 2006). This means that the 18 brands and 54 secret prescriptions and terms owned by 21 herbal tea manufacturing enterprises in Guangdong, Hongkong and Macau are permanently protected by Convention Concerning the Protection of the World Cultural Heritage and relevant laws in China.

In 2007, the Administration of Quality and Technology Supervision of Guangdong Province released Standard for Botanical Beverage (Including Herbal Tea), which announces 28 Chinese herbal medicines that can be used in herbal tea, including Chinese yam, haw, radix polygonati officinalis, white lucid ganoderma, liquorice, lilium brownii, semen cassiae, phaseolus calcaratus, pericarpium citri reticulatae, malt, kundou, momordica grosvenori, honeysuckle, jasmine, smen serculiae lchnophaeae, poria cocos, elsholtzia, folium mori, patycodon grandiflorum, lophatherum gracile, fermented soybean, chrysanthemum, folia perillae acutae, perilla stem, the root of kudzu vine, flos sophorae, dandelion and mint. The Standard also stipulates that if those raw materials and ingredients for food cultural heritages meet the requirement of Chinese Pharmacopoeia, Departmental Standard for Medicinal Matierals and Standard for Chinese Herbal Materials in Guangdong Province, then they are allowed to be used (Chinese Tech-food, 2008 ).

Before 2009, there were no relevant laws and regulations that could provide a clear market positioning for herbal tea. Many customers regarded it as functional drink while others regarded it as botanical drink. Hence, the lack of market positioning resulted in insufficient market supervision. In 2009, the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China issued the General Rule for Beverage, which canceled the category of "functional beverage" and classified it as beverage for special uses. What's more, the general rule sorted herbal tea as other botanical beverage under the category of botanical beverage. In this way, a clear market positioning of herbal tea was formed. However, the technical index for botanical beverage in the general rule still remains

"undetermined", posing difficulties on the supervision of herbal tea market.

### **3.7 Summary**

Nothing can develop without cultural foundation. The primary reason why Chinese silk and ceramics are popular in the world lies in the Chinese culture carried by them. Because of culture, a commodity can be endowed with unique charm. Furthermore, a commodity, besides its use value, will also be given another kind of important value by culture. When a product has cultural identities, its influence will become as profound as the culture. Guangdong herbal tea is an innovative product which represents the absorption, integration and innovation of traditional Chinese medicine culture and the combination of commercial factors with cultural factors. The development of Guangdong herbal tea bears great resemblance to that of Coca Cola. To be specific, both of them were medicinal drinks at the very beginning. For example, Wong Lo Kat was used to reduce heat while Coca Cola was used to treat nerve headache. Later, both of them were redefined as drinks and went out of the category of medicine, ushering in a new development era. The Lingnan Area, where traditional Chinese medicine culture is deeply rooted, witnessed the revival of such an industry with cultural heritages. This is why Guangdong herbal tea industry is flourishing. However, Guangdong herbal tea industry has undergone a long development phase. Before 2002, the sales of herbal tea in the whole nation were far from satisfying. However, the year of 2002 marked a rapid growth of sales volume. After the gradual adaptation of herbal tea culture to other regions, Guangdong herbal tea now steps on the same stage with the world beverage giant, Coca Cola. Guangdong herbal tea introduces traditional Chinese medicine culture to the world. What's more, thanks to the rapid development of Chinese economy, Chinese brands, Chinese culture and Chinese elements are drawing more and more attention in the world, bringing great hope for the entry of Guangdong herbal tea into the global market. According to statistics of 2007, the year-on-year growth of Guangdong herbal tea was 25%, with the total sales reaching 5 million tons. Some experts expected that the sales of herbal



tea beverage would exceed that of Coca Cola in the world in 2010 (Yang, 2009). Since herbal tea is an innovative product carrying profound traditional Chinese medicine culture, its entry into the global market will definitely lay the solid foundation for the internationalization development of traditional Chinese medicine.

However, there are still some obstacles for the development of herbal tea. Herbal tea, which can be regarded as either food or medicine, is mostly produced with the product approval number of "health food". But the particularity of its production materials results in the lack of market supervision standards. If it is supervised according to drug standards, some department stores and supermarkets will not be allowed to sell herbal tea because they have no drug operation qualification. If it is supervised according to food standards, many traditional recipes will become illegal since some herbal tea sold in the market contains seashell which is not included in the List of Medicated Food issued by the Ministry of Health. At present, the lack of a comprehensive quality standard and supervisory policy for the herbal tea industry and insufficient scientific research on herbal tea remain the main obstacles for the entry of herbal tea into global market. The lack of a comprehensive supervisory system also once led to disputes and queries. Therefore, strengthening supervision on the quality and safety of herbal tea, improving research on the scientific basis of herbal tea and formulating appropriate international herbal tea standards are of great importance for the development of herbal tea.



## **Chapter 4 Herbal Tea Industrial Structure**

At present, the national government is making more and more efforts to promote industry development. Both government and enterprises hope to improve the competitiveness of Chinese industries through innovation in policies, human resources, materials and techniques. The analysis of industrial structure is aimed to summarize the current industry situation and predict the trend of development in the future. Through sorting and analysis of basic information, this research tries to find out the current development and strength of the herbal tea industry and formulate innovation strategies for the future on the basis of the current competitive strength and the elements of innovation of the industry.

### **4.1 Overview of Herbal Tea Enterprises**

The market opportunity of herbal tea industry has attracted more and more enterprises. Meanwhile, because of its long history of development, herbal tea has evolved into various varieties with regional characteristics. Therefore, before entering into industrialized production, herbal tea has become diversified and taken on different features in different regions. Due to the special development history and cultural background of herbal tea, there emerges many time-honored brands in herbal tea industry, including: Wong Lo Kat, Kam-Wo Tea, Twenty-Four Flavor Herbal Tea, Noni Tea, Five Flowers Tea, Qixing Tea, Midday Tea, Zhanjing Tea for Preventing Cold and Cough, Shaxi Herbal Tea, Shiqi Herbal tea, Luofushan Herbal Tea . With the industrialization of herbal tea, a large number of enterprises has entered into the market, producing numerous brands of herbal tea.

In May, 2006, herbal tea was included in the first list of National Intangible Cultural Heritage. Further more, the 18 herbal tea brands, 54 secret prescriptions and terms and 21 herbal tea manufacturing enterprises in Guangdong, Hongkong and Macau began to be protected as National Intangible Cultural Heritage (Chinese

Tech-food, 2008). This means that those 21 herbal tea manufacturing enterprises in Guangdong Province, Hong Kong SAR and Macao SAR and their 18 brands, 54 secret recipes and terms are under permanent protection of Convention Concerning the Protection of the World Cultural Heritage and relevant laws in China. However, according to some relevant regulations, products made by the enterprises that failed to be on the list are categorized as "herbal beverage" or "plant extract beverage". Besides, these enterprises are forbidden to promote their products as heat-clearing and toxin-resolving beverages. This issue has been put on the spotlight and given rise to dispute. This research makes no judgment on whether the enterprises that are not under the protection of National Intangible Cultural Heritage should continue to name their products as "herbal tea". Therefore, only the 21 enterprises on the list of National Intangible Cultural Heritage and the 18 brands are listed in the following table.

Table 4-1 Summary Table of Companies and Brands under the Protection of  
National Intangible Cultural Heritage

Manufacturing Enterprises:	Brands:
Guangzhou Yanghe Pharmaceutical Technology Co., Ltd.	Denglao
Guangzhou Yanghetang Denglao Herbal Tea Co.,Ltd.	Denglao
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	Wong Lo Kat
Guangdong JDB Drink&Food Co.,Ltd.	Wong Lo Kat
Guangzhou Xiangxue Pharmaceutical Co.,Ltd.	Shangqingyin
Guangdong Jianshengtang Health-Care Products Co., Ltd.	Jianshengtang
Wong Chun Loong Traditional Chinese Herbal Tea Co.,Ltd.	Wong Chun Loong
Yingde Town Quanxiang Herbal Tea Co., Ltd	Xuqixiu
Guangdong Yihetang Pharmaceutical Co.,Ltd.	Shaxi
Zhongshan Jiale Beverage Co., Ltd.	Shaxi
Dongguan Chunhetang Food Co.,Ltd.	Chunhetang
Guangzhou Jinhulu Tea Co., Ltd.	Jinhulu
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co. Ltd.(HWBYS)	Baiyunshan(Kouyanqing)
Guangzhou Baiyunshan Xingqun Pharmaceutical Co.,Ltd.	Xiasangju
Shenzhen Baoqingtang Food &Beverage Co., Ltd.	Baoqingtang
Shantou JiShiJia Food Co., Ltd.	Laozhongyi
Guangzhou Runxintang Beverage Co.,Ltd	Runxintang
Lishi Baicao (Zhuhai) Co. Ltd.	Lishi
Guangzhou Qingxintang Herbal Tea Co. Ltd.	Qinxintang
Xinglinchun Chinese Herb Tea Co.,Ltd	Xinlinchun
Foshan Shunde Dongfang Canned Food Co. Ltd.	Ganliang

Source: The author

After integrating the data about herbal tea producers, we discover that most herbal tea producers are located in the Lingnan Region especially in Guangdong Province which boasts the largest number of such producers. Besides, the herbal tea producers fall into two categories: pharmaceutical companies and beverage companies. See Table 4-2.

Table 4-2 The Main Products for Manufacturing Enterprises

Manufacturing Enterprises:	Main Products
Guangzhou Yanghe Pharmaceutical Technology Co., Ltd.	Medicines, health products, herbal tea stores
Guangzhou Yanghetang Denglao Herbal Tea Co.,Ltd.	Beverage and herbal tea stores
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	Medicine and beverage
Guangdong JDB Drink&Food Co.,Ltd.	Beverage
Guangzhou Xiangxue Pharmaceutical Co., Ltd.	Medicine
Guangdong Jianshengtang Health-Care Products Co., Ltd.	Food and health products
Wong Chun Loong Traditional Chinese Herbal Tea Co.,Ltd.	Beverage and health products
Yingde Town Quanxiang Herbal Tea Co., Ltd	Beverage, health products, herbal tea stores
Guangdong Yihetang Pharmaceutical Co.,Ltd.	Medicine
Zhongshan Jiale Beverage Co., Ltd.	Beverage
Dongguan Chunhetang Food Co.,Ltd.	Food
Guangzhou Jinhulu Tea Co., Ltd.	Beverage and herbal tea stores
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co. Ltd.(HWBYS)	Medicine
Guangzhou Baiyunshan Xingqun Pharmaceutical Co.,Ltd.	Medicine
Shenzhen Baoqingtang Food &Beverage Co., Ltd.	Food and Beverage
Shantou JiShiJia Food Co., Ltd.	Food
Guangzhou Runxintang Beverage Co.,Ltd	Beverage
Lishi Baicao (Zhuhai) Co. Ltd.	Medicine
Guangzhou Qingxintang Herbal Tea Co. Ltd.	Herbal tea stores
Xinglinchun Chinese Herb Tea Co.,Ltd	Beverage
Foshan Shunde Dongfang Canned Food Co. Ltd.	Food

Source: The author

## 4.2 Factors of Production

After field research in the herbal tea market, it is found that the ingredients of herbal tea mainly include: water, white sugar (or sucrose), rock sugar, honeysuckle, chrysanthemum, prunella vulgaris, mother chrysanthemum, dandelion, mulberry

leaves, cogongrass rhizome, licorice, mesona chinensis, microcos paniculata, lophatherum gracile, roughhaired holly, roughhaired holly root, Indian adenosma, spanishneedles herb, desmodium, cortex ilicis rotundae, wuzhijin, sophora flower, kapok, flower of kudzu vine, frangipani, momordica grosvenori, smoked plum, hawthorn, cogongrass, pear juice, chrysanthemum morifolium, maltodextrin, honey, caulis lonicerae, radix isatidis, abrus herb, screwtree root, polygonum chinense, herba hyperici japonica and capillary wormwood, .

In 2007, the quality supervision department in Guangdong Province has issued Standard for Botanical Beverage (Including Herbal Tea) (Draft). This draft makes clear 28 kinds of traditional Chinese medicinal herbs that are allowed to be used in herbal tea, including Chinese yam, hawthorn, radix polygonati officinalis, the root of dahurain angelica, licorice, lily, cassia seed, vigna umbellata, dried tangerine peel, malt, kundou, momordica grosvenori, honeysuckle, cape jasmine, scaphium scaphigerum, tuckahoe, elscholtzia, mulberry leaves, platycodon grandiflorum, lophatherum gracile, semen sojae praeparatum, chrysanthemum, perilla leaves, perilla stem, the root of kudzu vine, sophora flower, dandelion and mint. Meanwhile, the Standard also stipulates that other approved recipes for food which have been listed as cultural heritage can also be used provided that such recipes complies with the Chinese Pharmacopoeia, Departmental Standard for Medicinal Materials and Standard for Chinese Herbal Materials in Guangdong Province.(Chinese Tech-food, 2007). However, according to The Circular of the Ministry of Health on Further Standardizing the Management of Health Food Ingredients, self-heal is not approved as medicated food by the Ministry of Health in China. Therefore, it has been a controversial issue that whether Wong Lo Kat breaks the law by adding selfheal in its herbal tea. In 2005, the Ministry of Health approved the Application for Instructions about the Use of Seal-heal in Ordinary Food in the document Approval of Relevant Issues of Wong Lo Kat. The stated reason was "if a medicine has been used as an additive in food for more than 30 consecutive years without any publicity of its efficacy before the Law on Food Hygiene came into force, then the food containing the medicine as an additive can be sold." Therefore, some critics hold that, since

Wong Lo Kat herbal tea has more than 100 years history, starting from 1828, the adding of selfheal in this beverage does not break the law ([www. medicine people.com.cn](http://www.medicinepeople.com.cn)).

Nowadays, the herbal tea manufacturing enterprises purchase the traditional Chinese medicinal herbs through two channels: purchasing from pharmaceutical companies and other intermediaries or establishing their own planting bases to grow medicinal herbs. With the economic development in China, logistics industry has become more developed. According to statistics, the number of pharmaceutical wholesalers has reached more than 13,000. Logistics enable herbal tea manufacturing enterprises to ensure stable source of raw materials, to reduce errors made in sorting herbs as well as to efficiently store and distribute herbs, so that the cost of raw materials can be reduced. What's more, because of the need for various kinds of traditional Chinese medicinal herbs and the need for geo-authentic habitats, it is an inevitable choice for herbal tea manufacturing enterprises to depend on logistics intermediaries to guarantee the supply of raw materials. In recent years, enterprises dealing with traditional Chinese medicine have paid more attention on securing traditional Chinese medicine resources. The pharmaceutical enterprises, especially, which occupy the major part of the market, attach great importance to the establishment of planting bases in order to ensure stable supply of quality raw materials. More than 90 production bases of Chinese medicinal materials have been established in Guangdong Province. Although different enterprises adopt different models in establishing planting bases, it is a prominent trend that the number of such bases is growing. Besides, many enterprises have already broken geographical limitations to establish planting bases nationwide. For example, Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co., Ltd.(HWBYS) has established a Good Agricultural Practices(GAP) base in Anhui Province to grow isatis root; Livzon Pharmaceutical Group Inc. has established GAP bases in Shanxi Province and Gansu Province to grow astragalus and codonopsis pilosula respectively; Guangzhou Wanglaoji Pharmaceutical Co., Ltd. has established GAP bases to grow caulis spatholobi and roughhaired holly root; Guangzhou Baiyunshan Jingxiutang



Pharmaceutical Co., Ltd. has established a GAP base to grow glabrous *Sarcandra* .

### **4.3 Conditions of Demand**

#### **4.3.1 Major Consumers**

Herbal tea is developed by the general public in the process of making dietary supplements. People in Lingnan Area suffer from high temperature and heavy rainfall all the year round. In order to prevent pathogenic dampness and other diseases, they created herbal tea. Therefore, most herbal tea has such efficacies as clearing heat, resolving toxin, diminishing inflammation and accelerating drainage of wastes from our body. Because of the unique geography and climate of the Lingnan Area, the local people have fostered the habit to drink herbal tea. In this area, herbal tea stalls have formed beautiful scenery. When feeling uncomfortable, the local people would drink herbal tea to prevent disease. Thus, herbal tea has already become a must in their daily life. The local people regardless of age and gender often consume herbal tea.

With the progress of our society especially the development of transportation, the climate change and frequent outbreak of epidemic diseases, herbal tea has been sold nationwide and is now entering the global market. Herbal tea is not regarded as a traditional Chinese medicine any more. Instead, it has become a new-type beverage in people's daily life. When getting thirsty, people will buy herbal tea to drink and when getting inflamed, they will also resort to herbal tea. It seems that herbal tea has become a natural choice, no matter whether it is suitable for drinking or not. In fact, it has already been taken as a beverage that can suit people's multiple needs.

Of course, there are many factors, such as price and efficacy that can affect customers' behavior when they purchase herbal tea. Generally speaking, the current price of herbal tea is higher than that of other common beverage. Therefore, its major customers are those who have been out of poverty. With regard to age, children are not included among the target customers, since the price is high and it is not clear whether herbal tea is suitable for children to drink because it is made of traditional Chinese medicinal herbs. The elderly do not often drink herbal tea because it is

regarded that frequent drinking of herbal tea will do damage to their body since the old aged people have already lacked energy. Therefore, it is the youth and middle-aged people who are the main customers of herbal tea. Herbal tea can be seen in different occasions. When eating hot pot or other hot food, people would habitually drink herbal tea. In recent years, there are also slogans that recommend people to drink herbal tea when staying up or doing sports. All these slogans are sending such a message: the market of herbal tea is expanding. However, its major consumers are and will be concentrated in the youth and middle-aged people.

#### **4.3.2 Market Prospect**

The global market of soft drinks is growing rapidly in recent years, with an annual growth of 2.5%-5%. What is worth mentioning is the constantly increasing production and sales volume of functional drinks. According to statistics, the sales volume of sports drinks and energy drinks has respectively increased by about 50% and over 100% from 1998 to 2006. (Canadean, 2006). Those developed countries, such as America, Japan, Australia and several European countries, boast the largest market of functional drinks with the fastest growth of sales, which maintains double-digit growth since 1998 (Wen, 2007). Thus, the growth potential of functional drinks is tremendous throughout the world.

The beverage market in China has also been expanding rapidly since the implementation of reform and opening up policy. According to statistics, the production of beverages has soared from fewer than 300,000 tons in 1980 to 3300,000 tons in 1990. In 2000, it has reached 14,900,000 tons. In just 20 years, it has increased by more than 50 times (at constant prices), with an average annual growth of 21.8%. In 2001, the annual production of beverage reached 16,700,000 tons, with an increase of 11.94% compared with that of 2000 (Chinese Tech-food, 2009). In 2002, beverage sales volume in China was 80 billion yuan and in 2009 the output in this industry totaled 730.1 billion yuan(Chinese Food Industry, 2010). Annual production in Chinese beverage industry has maintained a double-digit growth. Meanwhile, the

scale of the beverage market in China has been expanding by more than 20% every year. Beverage industry has ranked among the industries that register the most rapid growth in China.

Over the past years, Chinese beverage production is still on the rise and the market demand is also growing. At the same time, functional drinks have also achieved a rapid development in this industry. It is expected that functional drinks will reap a larger share from the soda market. As a functional drink, herbal tea has special efficacies. It represents the integration of Chinese culture and traditional Chinese medicine. "Getting inflamed", "moist heat" and other terms in traditional Chinese medicine have been familiar to the Chinese. As traditional Chinese medicine is becoming more and more popular, the number of herbal tea customers will become larger and larger. In recent years, herbal tea has successfully evolved from a traditional medicinal tea into a new-type beverage in people's daily life. Now, many people drink herbal tea not only because of its efficacies such as clearing heat, detoxication, reducing pathogenic fire and eliminating dampness, but also because of its function as "a beverage to quench thirst". The reason why herbal tea is regarded as a new-type beverage is that it can meet consumers' multiple needs mentioned above. In summary, herbal tea market has tremendous potential to grow.

#### **4.4 Competition Environment**

The market potential of herbal tea market has attracted a large number of enterprises to engage in this industry. According to statistics, until October 2008, the number of beverage manufacturing enterprises with annual revenue of 20 million yuan or more from their main business operations in China was 1372, with an increase of 226 compared with that of the previous year (The Developing Trend of China's Beverage Market in 2009, 2009). Currently, due to the lack of a standardized definition and category of herbal tea, the type of a herbal tea manufacturing enterprise is impossible to define precisely. Therefore, there are no statistics about the number of herbal tea manufacturing enterprises in China. However, we can find out that the number of herbal tea brands in supermarket has been on the rise after many

large-scale companies declared to engage in the herbal tea industry, such as GlaxoSmithKline (GSK). It is clear that more and more companies have entered the herbal tea industry and the competition has become fiercer.

It is an inevitable trend in the herbal tea industry that competition is becoming increasingly fierce with the expanding market. For an enterprise, its long-term development cannot depend on a single product, since each product has its own product life cycle. Therefore, enterprises should abandon uncompetitive products without hesitation and launch innovative products with market potential. In short, product innovation has become an essential requirement for an enterprise to survive and develop. In recent years, the success of Wong Lo Kat revealed the prospect of innovation in beverage industry to many other companies. Therefore, within several years, many enterprises have entered into this industry and made innovation for a better development. In a short period, various kinds of beverage have appeared on the shelves in supermarkets and restaurants. Beverage enterprises are optimistic about the prospect for functional drinks and making great efforts to carry out innovation. Hence, many new functional drinks emerge, such as Mizone by Robust Co.,Ltd., Qili taurine vitamin drink by Wahaha Co.,Ltd., Screaming by YST Co.,Ltd., Nestea by Nestle Co.,Ltd., X-Sports by Tingyi (Cayman Islands) Holding Corp, He&She by Huiyuan Group Co., Ltd, and Tineng by Uni-president China Holdings Ltd.,. The beverage market in China is prosperous. After an analysis of secondary data and several field interviews, the features of internal competition in the herbal tea industry can be summarized into the following aspects:

1. Bilateral competition between two enterprises in the past has become multilateral competition among groups of enterprises. It can be seen from the fact that many companies now cooperate with each other to protect their market share. There are some typical cases. Guangzhou Wong Lo Kat Pharmaceutical Company, which is affiliated with the Guangzhou Pharmaceuticals Corporation, signed a cooperation agreement with Hong Kong JDB Group in 1995, based on which these two company decided to jointly manage the brand of Wong Lo Kat Herbal Tea. In the case of Guangdong New South Group, it established Guangzhou Limited Chain

Company of Yanghetang Denglao Herbal Tea and Guangzhou Limited Company of Yanghetang Medical Science and Technology in 2004, when it starts entering into the herbal tea industry. The brand of Denlao Herbal Tea was co-managed by these two companies through different sales channels.

2. Product competition among enterprises has become brand competition. It can be perceived from the fact that although it is well known that many enterprises in herbal tea industry are losing money, the number of enterprises that are ready to enter this industry is still increasing. Some large-scale enterprises continue to put a large sum of money on advertisement and marketing for their herbal tea, so as to develop their brands through products. Under such situation, many companies blindly crammed into this industry. Such a question is included in our field interviews: Since it is known that the herbal tea business is losing money, why do you insist on getting into it? The market manager from Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co. Ltd (HWBYS) answered that it was because the company aims to modernize and globalize traditional Chinese medicine and to expand its brand at the same time.

3. In a homogenous market, competition over product innovation has become increasingly fierce. Now we are ushering in a time featuring economic globalization and information explosion. More and more enterprises have entered the arena, providing more innovative products for consumers. In this way, the product life cycle has become shorter and shorter and the upgrade of products is stepping up its pace. The rapid change of market are compelling enterprises to speed up the transfer of their innovation. What's more, enterprises also need to make innovation from the perspective of consumers. Therefore, enterprises must get more sensitive to the market. In our field interviews, a company's leader said that "We have to carry out innovation at all costs."

4. In order to enlarge the market shares, more and more enterprises are taking the terminal market as their important sales channel. It can be seen from the fact that some enterprises have secured the exclusive rights to sell their herbal tea in some restaurants and bars. Thus such restaurants and bars only provide one or two kinds of

herbal tea. "In the current market, the competition over terminal market is getting tougher and tougher. It is a horrible phenomenon for enterprises as well as for sales staff." said a director of marketing department of a herbal tea enterprise.

## **Chapter 5 Case Study**

If macro suggestions for industry innovation are put forward simply based on the general development and status quo of herbal tea industry, then suggestions proposed through this research would be more formal than practical. Presently, there is a lack of solid theoretical foundations for industrial innovation. Since innovation in the Chinese herbal tea industry is a new topic, study on the micro process of innovation in the herbal tea industry is rather limited in quantity currently. In general, case studies are the preferred strategy when "how" or "why" questions are being posed, when the Investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context. (Yin, 2003). Case study is deemed as an appropriate method for conducting explanatory and exploratory research on innovation in enterprises in China. As a result, it is necessary to study innovation in the herbal tea industry by means of case study.

### **5.1 Methods and Basis for Case Selection**

There are disputes concerning the definition of herbal tea as well as herbal tea enterprises within the industry. Currently, enterprises that produce herbal tea often cover a variety of products. Most of them do not take herbal tea as their major product. Besides, within the herbal tea industry, it is often seen that herbal tea of a certain brand is operated jointly by several enterprises. All the above factors pose a challenge for cases selection: if the selected enterprises do not specialize in herbal tea, it is of no significance to analyze the evolution of the herbal tea industry through studying the development of such enterprises. To avoid such a problem, cases are selected based on types of brands rather than enterprises. What's more, instead of following the regular study process from enterprises to products, this study is to analyze innovation in enterprises by focusing on development of herbal tea products first.

As for study cases, Wong Lo Kat, Deng Lao and Wong Chun Loong were selected. These three brands enjoy a large market share, are highly innovative, contributed to the rapid expansion of producing enterprises and have become leaders

in the herbal tea market. Through a short period of development, the enterprises owning such brands have built up a sound image through brand promotion and become stars within the industry. Since their development is typical, it is convincing to explore the innovation path in the herbal tea industry by studying enterprises owning such brands.

## **5.2 Case One: Wong Lo Kat**

### **5.2.1 Introduction**

Wong Lo Kat has become legendary in the beverage industry by making great achievements for several successive years: its sales volume was over 600 million yuan in 2003; it reached 4 billion yuan in 2006 and made approximately 12 billion yuan in 2008. In China, its sales volume has already exceeded that of Coca Cola, the beverage giant. While propelling the rise of Chinese herbal tea industry, Wong Lo Kat maintains a leading role in terms of sales volume in the industry. Its development has won extensive attention from all walks of life.

There are two contradictory viewpoints concerning the management of traditional brands like Wong Lo Kat, namely, management in an innovative or a reminiscent manner. He Jiaxun and others think that the key for revival and development of traditional enterprises is to alter negative attitudes of consumers with high sense of innovativeness and low sense of reminiscence (He, Qin, Yang & Wang, 2007). Wong Lo Kat successfully achieves a balance between innovation and reminiscence and advances with constant brand innovation. According to Li and Zhang (2007), the key to Wong Lo Kat's rapid development is a successful brand positioning. But Guo (2004) holds that it is because Wong Lo Kat clearly identifies its own characteristics and finds out meritorious platforms for the development of such characteristics that it can succeed in brand positioning and realize a rapid growth. And Huang (2005) attributes the success of Wong Lo Kat to its diversified development strategy and its positive exploration of market. And Huang (2007) believes that SARS in 2003 actually accelerated the development of Wong Lo Kat while factors



contributing to its success are its taste and reasonable price. Instead of analyzing brand management of Wong Lo Kat in a highly systematic way, other researches mainly focus simply on brand positioning of Wong Lo Kat while recognizing its success. But in fact, brand positioning is not the single reason for Wong Lo Kat's success.

Brand recognition and brand image are the two facets of product success. Brand recognition is influenced by brand trademark, language and symbol, conveying value, interests and characteristics of a brand; while brand image is the consumer's subjective perception of a brand, including his/her understanding, assessment, attitude towards a brand (Long, Sha & Wang, 2009). Excellent brands often represent remarkable quality and services. With low risks, such brands are preferred by consumers. Thus the transaction price of such brands is higher than that of others (Kamakura & Russell, 1989). When Aaker, an expert in branding, elaborates on brand value, he emphasizes that brands should be connected with consumers for that a brand without recognition from consumers is nothing but a sign and a name (Li, 2008). This research aims to study brand positioning and brand expansion strategies of Wong Lo Kat through its product features, as well as to delve into reasons why Wong Lo Kat remains the market leader from perspective of both products and consumers.

### **5.2.2 Manufacturers**

There are two kinds of herbal tea products under the brand of Wong Lo Kat: red canned and Tetra Pak paper packaged. The two products are produced by The JDB Group of Hong Kong and Guangzhou Wanglaoji Pharmaceutical Co., Ltd. under Guangzhou Pharmaceuticals Corporation, respectively.

Hong Kong JDB Group is a large-scale enterprise which specializes in the production and selling of beverage. According to the staff from the marketing department of JDB Group, now it has established 9 manufacturers in Chinese Mainland, with its sales volume of herbal tea exceeding 20 billion yuan in 2013. Guangzhou Wong Lo Kat Pharmaceutical Co., Ltd., established in 1828, is a

subsidiary company of Guangzhou Pharmaceuticals Corporation. It was formerly known as Wong Lo Kat Collaborative Pharmaceutical Factory and renamed as Guangzhou Wong Lo Kat Pharmaceutical Co., Ltd. in 2004. In 2005, it became a sino-foreign joint venture company with HongKong Tongxing pharmaceutical company, with medicine and health food as its main products. During the field research in September 2014, the director of marketing department of the company told the researcher that their sales volume of herbal tea reached about 4 billion yuan in 2014.

In 1995, Guangzhou Pharmaceuticals Corporation leased the use right of the brand Wong Lo Kat to Hong Kong JDB Group, which initially focused on medical products. In December 1999, Hong Kong JDB Group founded a sole-funded company in Changan County, Dongguan City, Guangdong. After 2003, because of Wong Lo Kat's excellent performance in the market, Hong Kong JDB Group transformed its direction of development and completed structural upgrading by virtue of Wong Lo Kat herbal tea. Meanwhile, Guangzhou Wanglaoji Pharmaceutical Co., Ltd. also made large profits and achieved a leap-forward development by means of the brand Wong Lo Kat, which was developed and promoted by Hong Kong JDB Group.

### **5.2.3 Characteristics of Products**

83% of information received by consumers is got by eye sight, 11% hearing, 3.5% touching while others are got through smelling and tasting (Zhu, 2002). Therefore, elements including product name and package will indirectly lay influence on brand image and further on behaviors of consumers. As a unique sign for consumers to identify certain products, brand reflects characteristics of products. As a result, this research will conduct a systematic research on brand by starting from characteristics of products.

#### **(1) Brand name**

With a history of over 100 years, Wong Lo Kat is a herbal tea brand with the longest history, enjoying the title of "king of herbal tea". Because of the inseparable

relation between herbal tea culture and traditional Chinese medicine culture, a brand with a longer history is more popular among consumers. Thus the brand name Wong Lo Kat is bestowed with inherent advantages.

#### (2) Package

For the red canned product of Wong Lo Kat, it takes red, a traditionally auspicious color in China, as the background color; and the three characters of “Wong Lo Kat” are printed in striking black, highlighting traditional flavors of the product. And for the Tetra Pak paper packaged product of Wong Lo Kat, the background color of green is to highlight the naturalness of its raw materials; and the striking characters of “Wong Lo Kat” in black are aimed at displaying the style of package of being classic, simple and high-end. The two types of package fully comply with the background of herbal tea culture.

#### (3) Taste

Traditional Chinese herbal tea is medicine soup made with traditional Chinese herbal medicines. It can remove heat inside the body effectively but tastes bitter, which is unbearable for many people. Traditional Chinese herbal tea is positioned as medicine rather than beverage and thus cannot be drunk frequently. However, if a beverage tastes nothing like medicine, consumers will not regard it as herbal tea. For instance, Want Want Jiang Huo Qi, a beverage product which tastes sweet and has the fragrance of spearmint. It contradicted with cultural connotations of herbal tea and thus was eliminated out of the market. The red canned Wong Lo Kat tastes a little sweet with a slight flavor of medicines while the Tetra Pak paper packaged one tastes a little more bitter than the red canned one. The taste of the Tetra Pak paper packaged Wong Lo Kat interacts with the classic color of its package. Though being close to that of ordinary drinks, tastes of the two types of Wong Lo Kat are different because of a slight flavor of medicine, which helps maintain their identity as herbal tea. With a slight flavor of medicine yet far from tasting bitter, Wong Lo Kat successfully meets requirements of consumers.

#### (4) Price

According to researches, price lays a direct influence on the expansion of brands

(Taylor & William, 2002). Wong Lo Kat belongs to the category of healthy drinks, and its price is relatively high in the beverage industry. It is commonly seen that price of energy drinks is relatively high. Within the herbal tea industry, price of red canned Wong Lo Kat is a little higher than its competitors'. But generally speaking, the gap only ranges from 0.3 to 0.5 yuan. It is commonly understood by consumers that a high price means high quality. As a result, the price gap between that of Wong Lo Kat and other brands highlights its quality and is thus deemed acceptable for most consumers. On the other hand, targeting at the Chinese mainland market, the Tetra Pak paper packaged Wong Lo Kat produced by Guangzhou Pharmaceuticals Corporation costs only around 2 yuan, which is a rather competitive price.

#### **5.2.4 Product positioning**

Product positioning is a process of figuring out a balance between products and consumers. In a single market, functions and benefits of products often gain popularity among consumers. However, in a highly homogenous market, it's difficult for products to be differentiated. As a result, product positioning can only be conducted on the basis of potential needs of consumers. The problem lies in that once positioned as tea drink, Wong Lo Kat will face competition in the beverage industry from a variety of brands that have already maintained an absolute leading role, such as Coca Cola, Pepsi Cola, Master Kong and Uni-president. But if Wong Lo Kat is positioned as a "medicinal tea", it is difficult to break geographical restrictions and solve the bottleneck problem of sales volume since it is commonly understood by consumers that medicines, including medicinal tea cannot be drunk frequently.

In 2002, in spite of the scale of red canned Wong Lo Kat, Wong Lo Kat still remained a regional brand. The advertising slogan of Wong Lo Kat is "For the health of your family, Wong Lo Kat is forever by your side". Under such a slogan, Wong Lo Kat did not free itself from the image of medicinal tea, nor did it differentiate itself from ordinary drinks. The ambiguous positioning resulted in a blurred understanding about the brand among consumers. Thus its advertising did not turn out to be fruitful.

During the outbreak of SARS in 2003, Wong Lo Kat won the bidding for advertising in CCTV at prime time. Meanwhile, by involving major media in Guangdong and in south Zhejiang, Wong Lo Kat invested over 40 million yuan in brand-building. In its advertisement, the slogan “Afraid of excessive internal heat? Drink Wong Lo Kat!” was adopted comprehensively. In 2003, the red canned Wong Lo Kat experienced an increase by four times in terms of sales volume and was promoted to the whole country. With profits gained by means of advertising, The JDB Group continued to increase investment in advertisement and maintain the theme of “Afraid of excessive internal heat? Drink Wong Lo Kat!”. In this way, The JDB Group achieved a continuous and rapid growth of sales volume.

For one thing, the word “afraid” in the slogan highlights the importance of prevention, frees Wong Lo Kat from the image of being “medicinal tea” and positions it as a type of drink. For another, it emphasizes the function of internal heat prevention, maintaining Wong Lo Kat’s role of herbal tea. Such a brand promotion successfully positions Wong Lo Kat as a type of drink, which is different from ordinary drinks. Thus direct competition with Coca Cola, Pepsi Cola and Uni-Present is avoided. Further more, it explores a new market for drinks that can prevent from excessive internal heat. At the same time, as the concept of heat clearing and toxin removal in traditional Chinese medicine was popular among the public in China, people used to clear heat by taking medicines like Niu Huang Jie Du Pian (Detoxicating Tablet of Bezoar) would resort to such a type of herbal tea, which has no toxic and side effects and is easily accessible at a reasonable price.

Uniqueness and distinguishing features are the soul of brand. Success of a brand is dependent on an accurate positioning, which serves as the foundation for the success of a brand. By identifying its characteristics, Wong Lo Kat creates a new type of drink and highlights distinguishing features of its own. Many scholars believe that it is because of a successful brand positioning that Wong Lo Kat enjoys a rapid development. Still, they fail to explain why a multitude of brands manage to achieve a short-term popularity through an accurate brand positioning and huge investment in advertising but are soon driven out of the market. So the success of Wong Lo Kat

cannot simply be attributed to positioning decided in a short term.

### **5.2.5 Brand expansion**

Brand value should be accumulated through a long process. Instead of being the major reason for Wong Lo Kat's success, a successful brand positioning only offers a basis for its rapid development in the market. Instead, brand communication and brand culture extension constantly add to the value of the brand and contribute to an effective linkage between the brand and the market.

#### **Brand communication**

The slogan of "Afraid of excessive internal heat? Drink Wong Lo Kat!" gained nationwide popularity in 2003. Settings of the advertisement are eating hotspots, watching football matches overnight, having a barbecue, eating fried chips and enjoying sunbath in the summer. Thus a young, joyful, healthy, relaxing and lively atmosphere is built to promote the brand in a direct and positive way, creating a distinctive association in consumers' minds, and attracting as well as educating consumers by highlighting differences between traditional herbal tea and ordinary beverage. With an increasing market share gained through advertisement investment, the JDB Group continued to increase investment in advertising. In 2002, investment volume in advertising of The JDB Group was 10 million yuan . And the figure was up to more than 40 million yuan in 2003. By comparison, investment in advertising and promotion of The JDB Group was over 100 million yuan and 200 million yuan in 2005 and 2006 respectively. In 2007, the number reached 420 million yuan , making it the biggest advertisement investor of CCTV. With such efforts, printed advertisements of Wong Lo Kat can be seen in supermarkets and restaurants. It has also explored a variety of new ways of promotion. Wong Lao Kat has designed all its promotional activities centering on the theme of "Afraid of excessive internal heat? Drink Wong Lo Kat!" and included lottery scratch cards and lucky draws in promotion. It never promotes by reducing price since price reduction tends to result in a low quality of product and service and thus decrease consumer loyalty.

It is simplistic to attribute the continuous growth of Wong Lo Kat to The JDB Group's constant investment in brand building. According to researches, once investment in advertising is doubled, the market share will only up 3.5%. It shows that benefits cannot be generated simply by increasing investment on advertising (Lv 2008). What does Wong Lo Kat do? On the one hand, direct brand extension is a part of its brand building. In 2004, the TV series Lingnan Yao Xia was broadcasted on CCTV, promoting culture of Wong Lo Kat to a new high, maintaining loyalty of potential consumers and attracting new ones. On the other hand, significant changes have taken place in Wong Lo Kat's advertisement. Its settings have changed from eating hotpots, watching football games overnight, eating fried chips, having a barbecue and enjoying sunbath in the summer to exercising, receiving guests during the New Year Festival, sending gifts, drinking Wong Lo Kat at bars in the evening and drinking Wong Lo Kat when staying overnight. However, in spite of changes of settings, the theme of its advertisement remains unchanged, namely "Afraid of excessive internal heat? Drink Wong Lo Kat!". Its market expansion is conducted under the same theme. Besides, Wong Lo Kat always advocates a single product spirit regardless of the way of brand communication. Namely, the appeal point of Wong Lo Kat, depicted as a type of drink that prevents from excessive internal heat, remains the same in TV commercials, print advertisements and on-line advertisements. In various kinds of brand extension activities, the same brand spirit is reinforced with repetition. And different settings are utilized to expand coverage of the product in the market.

#### Extension of brand culture

In recent years, many brands follow the example of Wong Lo Kat, investing tremendously in advertising and other ways of promotion. For instance, Deng Lao and He Qi Zheng advertise on CCTV with a high cost. However, Wong Lo Kat's market share remains unchallenged. So it can be concluded that investment in advertising is not sufficient to guarantee brand success. Loyalty of consumers to a brand is decided by rational as well as emotional functions rather than simple attraction of products. When buying products under certain brands, consumers pay attention to both product quality and spiritual enjoyments brought about by brand culture. That is the reason

why well-known brands like Coca Cola, Gillette, Toyota, LV and Nokia remain winners in the market place. Generally speaking, development of well-known brands is supported by a profound brand culture, which shapes connotations of a brand. And brand connotations can be turned into market performance by arousing resonance with consumer feelings. However, many brands who gained recognition through huge investment in initial promotion were driven out of the market after a short-term success, since they failed to attach importance to brand maintenance.

For Wong Lo Kat, its long history offers a solid cultural foundation and intrinsic advantages for its development as the No.1 herbal tea brand. Under such advantages, Wong Lo Kat constantly accumulates and expands its brand culture, keeping adding in new contents. For example, Wong Lo Kat introduces culture of herbal tea in communities, publicizes health-related knowledge, sets up member clubs, establishes cooperative relations with hotels, and hires Lv Qin and Xu Yinchuan, Chinese chess masters as spokespersons. During its culture extension, a major event took place in 2004. Wong Lo Kat started to be sold in KFC restaurants, building its brand image by cooperating with KFC. Moreover, in 2007, Wong Lo Kat, together with Sina, held an activity named “a wish-sending journey by people from the 56 ethnic groups” for Beijing Olympic Games. Altogether over 300 campaigns were held in more than 100 cities in China. At the same time, by expressing best wishes for Beijing and the Olympic Games together with internet users, Wong Lo Kat added in new connotations to its brand culture by getting involved in the Olympic dream of Chinese people. In 2008, at the donation party held on the third day after the earthquake of May 12, the JDB Group donated 100 million yuan, making a record high in terms of amount of a single donation. By doing so, it shows its resolution of fighting disasters together with all Chinese people and is highly praised by the public. After that, news about Wong Lo Kat spread rapidly on various online forums, blogs and websites. And key words of “Wong Lo Kat” plus “donation for earthquake” were searched for more than 980,000 times within several days. All such attention Wong Lo Kat got from the public cannot be obtained through direct advertisement investment. By taking advantage of a good timing, Wong Lo Kat accumulated value for its brand development through a

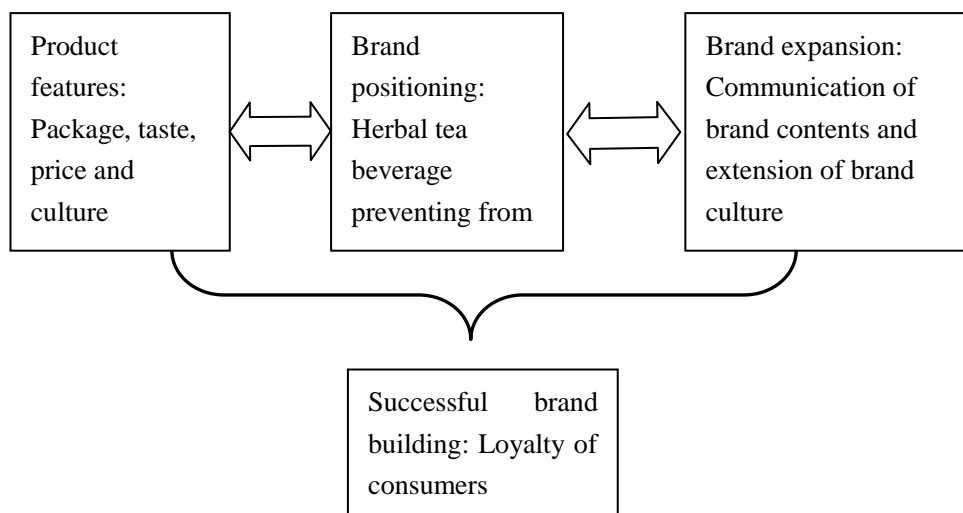


series of actions.

### 5.2.6 Discussion

Brand recognition, per se, does not guarantee market success. However, it can yield a financial return when combined with consumer sense of trust and loyalty. Through the above analysis, the reason of Wong Lo Kat's success can be demonstrated in Figure 5-1. Brand building starts with brand positioning. In the first place, a product should be positioned according to its quality. And then a brand should be positioned on the basis of product features. Products can only be priced reasonably through reasonable positioning. However, brand positioning is only a starting point in the path of brand building rather than the determinant. Instead of explaining why a brand enjoys constant and rapid growth, a correct brand positioning only offers the basis for the rapid development of a brand.

Figure 5-1 Brand building process of Wong Lo Kat



Source: The author

Facts prove that brands can only enjoy constant development and occupy a large market share with an accurate brand positioning followed by a strong brand extension. Accumulation of brand value has to go through a dynamic evolving process and cannot be completed within a short period of time. As brand building is not only

affected by brand management measures but also influenced by market and external environment, a blind increase of investment in advertisement would not give rise to persistent development of a brand. It can be fully proven by the case that Wong Lo Kat's brand expansion and value accumulation are accelerated by unexpected public incidents like SARS epidemic. As a result, though marketing measures can be copied, it is impossible to replicate value of a brand, not to mention replication within a short period of time.

What is more, the brand building process of Wong Lo Kat indicates that culture connotations of a brand can be diversified while its product spirit should be unified. During brand building, relations between product spirit and brand culture should be clarified first. Building of culture connotations for a brand is to strengthen product spirit. And brand promotion is to make products more attractive and convincing through reinforcing product spirit, creating core competitive edges for products. That explains why Wong Lo Kat has become a leader in herbal tea market in recent years.

## **5.3 Case Two: Denglao Herbal Tea**

### **5.3.1 Introduction**

The February of 2003 witnessed the peak period of incidence of SARS and a heated debate on what was the pathogen of SARS went on in Western Medicine circle. The then 87-year-old professor Deng Tietao, received 58 patients of SARS in the First Affiliated Hospital of Guangzhou University of Chinese Medicine and treated them with Chinese therapy. He presented the three-zeros performance, namely zero transfer to other hospitals, zero death of patients and zero infection of medical staff because all of them took Chinese medicines as precaution.

In April 2003, the China Central Television made public a prescription recommended by Deng Tietao to prevent SARS. The prescription was based on the formula of Denglao Herbal Tea with several other medicines added to it. Later at the critical moment, selfless Mr. Deng contributed the key formula of

Denglao Herbal Tea to one of his students, Zhu Layi, President of the Guangdong New South Group, expecting and encouraging him to carry forward the traditional Chinese medicine and bring benefit to the country.

In 2004, the Guangdong New South Group established Guangzhou Limited Chain Company of Yanghetang Denglao Herbal Tea and Guangzhou Limited Company of Yanghetang Medical Science and Technology, starting operating the brand Denglao Herbal Tea. Since then, Denglao Herbal Tea went into the business world. Guangzhou Limited Chain Company of Yanghetang Denglao Herbal Tea mainly takes the responsibility to develop the chain of franchised stores while Guangzhou Limited Company of Yanghetang Medical Science and Technology is mainly in charge of the R & D of Denglao Herbal Tea and manufacturing and selling of packed herbal tea. In 2006, Denglao Herbal Tea was listed in the National Intangible Cultural Heritage Catalog. Companies manufacturing the herbal tea and the formula of the products have been put under protection accordingly. After development of several years, Denglao Herbal Tea now has nearly 900 franchised stores and has gained tremendous market shares of packed herbal tea. It has been one of the top ten brands in herbal tea industry since 2008. Due to continuous innovation of the New South Group, Denglao Herbal Tea has become a dazzling star in the herbal tea industry with the rapid development in less than ten years.

### **5.3.2 Manufacturer**

Guangzhou Limited Chain Company of Yanghetang Denglao Herbal Tea and Guangzhou Limited Company of Yanghetang Medical Science and Technology are owners of the brand of Denglao Herbal Tea and are subsidiary companies of the Guangdong New South Group. Guangzhou Limited Company of Yanghetang Medical Science and Technology is mainly in charge of the R & D, manufacturing and selling of Denglao Herbal Tea while Guangzhou Limited

Chain Company of Yanghetang Denglao Herbal Tea mainly takes the responsibility to develop the chain of franchised stores.

According to a senior executive of Guangdong New South Group, staff turnover rate in the two companies is high. With about 900 staff totally, Guangzhou Limited Chain Company of Yanghetang Denglao Herbal Tea now has established more than 1000 chain stores throughout China. The total sales of the two companies that manage the brand of Denglao Herbal Tea has reached about 500 million yuan in 2014.

The two companies are organized and managed in the modern way of operating enterprises. Dependent on the research capability of Guangzhou University of Chinese Medicine and a number of Chinese medicine experts including Mr. Deng, the two companies are in charge of translating technologies into products. With continuous cooperation and innovation, the two companies have earned various awards for Denglao Herbal Tea and laid a solid foundation for the brand development.

Table 5-1 Awards for the Brand of Denglao Herbal Tea

<b>Awards</b>	<b>Year</b>
Member of Guangdong Herbal Tea Association	2005
National Intangible Cultural Heritage	2006
Model Unit of Food Safety in the Food Safety Year of China	2008
Most Welcome Product in China Food Expo	2008
Cooperative Partner of the Innovation Project of Science and Technology by Guangdong Association of Young Scientists	2008
Enterprise of Credit Rating A of Food Safety in Guangdong	2008
Outstanding Contributor to the Earthquake Relief of Wenchuan, Sichuan	2008
The Most Influential Brand in Herbal Tea Industry since Reform and Opening-up 3 Decades ago and Excellent Case of Industrial Science Innovation in Guangdong Food Industry	2008
Top Ten Favorite Brands in China Herbal Tea Industry	2008
Governing Unit of Guangzhou Association of Chain Operation	2008
The First Enterprise to Establish a Herbal Tea Research Institute in China	2008
The Most Reliable Brand of Healthcare in Pan-Pearl River Region of 2009	2009

Source: website of Guangzhou Limited Company of Yanghetang Medical Science and Technology: <http://www.denglao.cn>.)

### 5.3.3 Product Characteristics

Denglao Herbal Tea is made of plants without any use of pigment or essence. The products are carefully made with modern techniques on the basis of the formula from Professor Deng Tietao in line with the human body system of five organs and different climates. Of course, factors like names, package, taste and prices of products

will have direct or indirect influence on the image of products and thus have impact on consumer behavior.

#### (1) Brand Name

Denglao is a respectful address to the leading authority Professor Deng Tietao by the public. Using this address will highlight the fact that the formula from the renown doctor has outstanding effects. Though some consumers may not know Professor Deng well, it's a common regard that one person whose name is used as a trademark must be of great achievements in his or her profession. So the address, Denglao, will add magic colors to the products and help attract consumers. Therefore, the two Chinese Characters, Denglao, are beneficial to the building of the brand.

#### (2) Package

The package of Denglao Herbal Tea, featuring refreshing and traditional colors, with the image of Professor Deng and his article on herbal tea printed on it, can highlight the fact that the products are based on the renowned formula from a renowned doctor and the professionalism of the products.

#### (3) Taste

Canned Denglao Herbal Tea has similar taste to the red-canned Wong Lo Kat, which has no strong bitter taste of traditional Chinese medicines and is slightly sweet with a light herbal medicine flavor. Compared with the red-canned Wong Lo Kat Herbal Tea, Denglao Herbal Tea is less sweet. Due to different ingredients, its herbal medicine flavor is not exactly the same with and is slightly strong than that of Wong Lo Kat Herbal Tea. Of course the taste of Denglao Herbal Tea is close to beverages while remaining different from typical drinks. The combination of slightly sweet taste and slight herbal medicine flavor has freed the Herbal Tea from the positioning of a medicine and kept the identity of traditional herbal tea, satisfying dual demands of consumers.

#### (4) Price

Compared with other canned herbal teas in the market, Denglao is one of the most expensive. Its price in supermarkets is about 5 yuan, 1.5 yuan higher than that of the red-canned Wong Lo Kat. Of course, the high price should be partly owed to the

price rise of herbal medicines. The Denglao Herbal Tea is the most bitter among all canned herbal tea products and the high price also helps contribute to the image of professionalism in the highly homogeneous market. However, modern consumers are not necessarily concerned about the curative effect of herbal tea and they choose herbal tea usually for precaution of ailments or just as a kind of drink. Therefore, the excessively high price could be one of the reasons for the hindrance of its development.

#### **5.3.4 Product Positioning**

The company website of Denglao Herbal Tea stresses that the formula is 100% natural with no additives. It's claimed that the prescription is put forth by Professor Deng with 70-year experience of medicine practice and healthcare, targeted at the health status of modern people and that the products are manufactured in sterile environment, safe for drinking and remarkable for the curative effect. Considering the characteristics, the product has been positioned to be a purely natural healthy drink.

The slogan of Denglao Herbal Tea goes like this: Denglao Herbal Tea, the source of health. Clear heat without being harmful to the body; detoxify to ease the burden on the body. The slogan places an emphasis on the professionalism and curative effect of the Herbal Tea while the enterprise positions the product to be a purely natural healthy drink that is suitable for people with some health problems or in sub-health that has the demand to nurse the health and people who are healthy and want precaution. There is contradiction between the slogan and the positioning. The emphasis on professionalism and curative effect makes it hard for the product to be accepted as anything other than a medicine that could not be taken frequently. This has hindered its expansion in the market.

#### **5.3.5 Brand Expansion**

The brand of Denglao Herbal Tea belongs to Guangzhou Limited Chain Company of Yanghetang Denglao Herbal Tea and Guangzhou Limited Company

of Yanghetang Medical Science and Technology. Guangzhou Limited Chain Company of Yanghetang Denglao Herbal Tea is responsible to develop the chain of franchised stores and Guangzhou Limited Company of Yanghetang Medical Science and Technology is in charge of R & D, manufacturing and selling of packed herbal tea. The difference of Denglao Herbal Tea from other brands is that the New South Group hopes to develop the market of packed herbal tea by first developing the chain of franchised stores. The group hopes to increase the awareness and build the brand effect by building the network of franchised herbal tea stores. At the same time, the capital strength and ability of scientific innovation will be utilized to broaden the market of packed herbal tea. The two companies will make joint efforts to build the brand effect and open up the herbal tea market (<http://gd.sohu.com/s2009/interview-denglaoliangcha>) . Therefore, the group has established two companies to co-operate the brand of Denglao Herbal Tea. The two companies are expected to occupy with joint efforts two different herbal tea markets, namely the packed herbal tea and freshly made herbal tea sold in stores.

The strategy of fighting in two battlefields at the same time has been faced with problems in its implementation. How should the canned herbal tea address the challenges posed by the No.1 contender Wong Lo Kat in the market? How should the herbal tea stores compete with the No.1 in franchise chain Huang Zhenlong? In the initial phase, Denglao Herbal Tea enjoyed rapid development due to the great capital support from New South Group and gained the third place in the market. However, the competitiveness of packed Denglao herbal tea could not counteract that of the market leader Wong Lo Kat. After the rapid development, packed Denglao herbal tea was faced with the bottleneck. When the group found the bottleneck hard to go through, it made a shift of strategy, giving priority to the development of franchised stores selling herbal tea. Though the brand did not advertise in the China Central Television, Denglao herbal tea stores gained rapid development in Lingnan area. In 2004, the first Denglao herbal tea store opened in Zhuhai; there are nearly 900 stores now. Denglao Herbal Tea has become a herbal tea brand known to every household in



Guangdong Province, Hong Kong and Macau.

### **5.3.6 Discussion**

Denglao Herbal Tea has gained great achievements in less than a decade. Though it is a regional brand at present, it has become a relatively strong brand in the herbal tea industry in a short period. How can the brand overcome the bottleneck at present? Some people comment that the biggest problem is that Denglao Herbal Tea does not have a real focus. It is fighting two wars at the same time against Wong Lo Kat with canned herbal tea and against Huang Zhenlong with franchised stores. Despite the fact that with the financing support by Zhu brothers the brand once ranked top three in both battlefields, this achievement did not last long. The main obstacle in the future development of Denglao Herbal Tea is the relationship between family-governing and professional managers (<http://www.brandcn.com>).

Actually the strategy of two wars at the same time did not create contradiction between the two. The rapid development of franchised stores has instead laid a solid foundation for the future development of the brand. The bottleneck is caused mainly because franchised herbal tea stores are very region-specific and the lack of market demand makes it hard for brand to enter other regions. However, canned Wong Lo Kat has opened up markets throughout the country and entered international markets. It's proved that packed herbal tea has become a new type of drink finding its place in numerous households. Denglao Herbal Tea should gain its further development by competing in the market of packed herbal tea.

## **5.4 Case Three: Baiyunshan Herbal Tea**

### **5.4.1 Introduction**

The amazing market performance of Wong Lo Kat has attracted many enterprises to enter the herbal tea industry. In 2004, Baiyunshan Pharmaceutical Company launched its herbal tea product: Kouyan-e-qing. But this product did not

perform well in the market from 2004 to 2007. In May 2005, Baiyunshan Pharmaceutical Company and Hutchison Whampoa (China) established a joint venture Baiyunshan Hutchison Whampoa Chinese Medicine Company. In 2007, the product Kouyan-e-qing was renamed Baiyunshan Herbal Tea by the joint venture and again entered the market. The management of the company revealed that the launching of the beverage herbal tea by Baiyunshan Hutchison Whampoa Chinese Medicine Company was intended to make full use of the brand Baiyunshan which has been recognized by the market to promote herbal tea products. At the very beginning, the fame of the brand laid a solid foundation for the future market promotion of Baiyunshan Herbal Tea. Herbal tea is a type of food enjoying larger markets than medicines. So once the market of Baiyunshan Herbal Tea enters the stable phase, the Herbal Tea will further promote the development of the brand. Therefore, the launching of Baiyunshan Herbal Tea will bring about multi-dimensional benefits and accelerate the enterprise's upgrading of structure.

However, after promotion for more than 2 years, the sales have stagnated after a rapid but transient expansion. Though Baiyunshan Herbal Tea ranks among the top competitors in market scale, it has always been a product causing financial loss for the enterprise. In on-the-spot visits, when asked why they continued herbal tea business at the price of loss, the management of market department replied that the developing of herbal tea was aimed at achieving enterprise development by making Chinese medicines modern, international, popular and perceived scientifically and by promoting the Chinese medicine culture with herbal tea.

#### **5.4.2 Manufacturer**

Baiyunshan Hutchison Whampoa Chinese Medicine Company is a joint venture established by Baiyunshan Pharmaceutical Company and Hutchison Whampoa (China) of Mr. Li Ka-Shing in May 2005. R & D and manufacturing of Chinese Medicines are the main business of the company. With "Caring Baiyunshan, Public Baiyunshan" as the idea of development, the company has won lots of government awards. The joint

venture has a strong selling network especially within China. The company also has cooperated with Hutchison Whampoa Watsons Group, PARKnSHOP and more than 5,000 retail terminals in Europe. Herbal tea is one of the products intended to boost the comprehensive development of the company. During our field visit to the company, the director of marketing department of the company told us that they had 1212 staff totally and their total sales in 2014 was about 2.6 billion yuan , with the sales of herbal tea reaching about 300 million yuan.

### **5.4.3 Product Characteristics**

Baiyunshan Herbal Tea is a product of technological and process innovation based on a former Chinese medicine granule product of the company, Kouyan-e-qing. The formula, which nourishes yin, promotes the secretion of saliva and body fluid, and clears heat without being harmful to the body, is from the renowned dental expert, Professor Huang Mingkai. At present, Baiyunshan Herbal Tea has been developed into a set of 8 products including lemon-flavored herbal tea, tinned lemon-flavored herbal tea in iron can, dark plum-flavored herbal tea in bottle, dark plum-flavored herbal tea in iron can, originally flavored herbal tea in iron can, Tetra packed originally flavored herbal tea in and coke in aluminum can.

#### **(1) Brand Name**

Baiyunshan is a renowned Guangdong brand of Chinese medicines and has high awareness in the market. On 3<sup>rd</sup> September 2007, the 13<sup>th</sup> annual report of the most valuable Chinese brands chart by Ruifu Global was issued and the brand value of Baiyunshan was 9.009 billion yuan. Though Baiyunshan is a renowned brand, consumers' loyalty to the brand is usually based on its Chinese medicine products. Herbal tea, a drink in the market that uses the brand name of Baiyunshan, may confuse consumers in their choosing and purchasing.

#### **(2) Packaging**

There are three kinds of packages of Baiyunshan Herbal Tea, namely bottle, can and Tetra Pak. All of them have the following characteristics: emphasis on the brand

name Baiyunshan, vivid color as packages of other common drinks to be fashionable and emphasis on natural plant ingredients.

### (3) Taste

There are two kinds of tastes of Baiyunshan Herbal Tea, original taste and fruit flavors. The originally flavored Baiyunshan Herbal Tea tastes a little sweet with a slight flavor of Chinese medicines, a similar taste, to Denglao Herbal Tea and Wong Lo Kat. The fruit-flavored herbal tea includes products with lemon flavor, dark plum flavor and coke flavor, which are made by adding ingredients of fruit flavors. In the slight taste of Chinese medicines, there is a sweet taste and the flavor of lemon, dark plum or coke. The adding of fruit flavors may lighten the medicine taste, compared with the version with original taste.

### (4) Price

The general price of herbal tea as drinks is a little higher than that of other drinks. It's also the case of Baiyunshan Herbal Tea. Generally, the price of Baiyunshan Herbal Tea is slightly higher than that of other botanical drinks such as fruit juice. The price of common fruit juice in bottle is between 2.5 and 3 yuan while that of Baiyunshan Herbal Tea is between 3 and 3.5 yuan. The price of canned beverages is about 2.5 yuan; the price of common beverages is between 2 and 3 yuan. The relatively high price is intended to shed light on functions of the products by showing difference of price. The price of Baiyunshan Herbal Tea is a little lower than that of the market leader Wong Lo Kat.

#### **5.4.4 Product Positioning**

There are three kinds of advertisements of Baiyunshan Herbal Tea, print ads, vehicle ads and television/internet ads. The slogans of print ads go this way: "drink Baiyunshan Herbal Tea when you burn mid-night oil" and "herbal tea with fruit flavor". Since March 2009, Baiyunshan Herbal Tea has launched the bus advertisement campaign in Guangdong Province under the title "Baiyunshan Herbal Tea, herbal tea that can be taken everyday". The slogan of television ads is "drink

Baiyunshan Herbal Tea when you burn mid-night oil". The television ads show a scene of a group of young people watching football games at mid-night, drinking Baiyunshan Herbal Tea. The contents of those ads were targeted at blank markets. The company wanted to broaden the market by improving awareness, but it did not reposition the products in the market. Therefore, Baiyunshan Herbal Tea was still positioned as herbal tea, limited by the nature of medicinal tea. Besides, the differentiation strategy of Baiyunshan Herbal Tea to emphasize on fruit flavors obscured the market positioning.

#### **5.4.5 Brand Expansion**

Baiyunshan Herbal Tea failed to get rid of the image of medicinal tea because of the obscure positioning and failed to be easily recognized by consumers because of the lack of differences. The obscure positioning led to the failure to identify right channels for promotion. Since the very beginning, Baiyunshan Herbal Tea has made use of the catering industry and supermarkets. However, the strength of the brand did not enable multi-channel selling and no focus of these channels was formed. Therefore, in spite of the large selling network used by Baiyunshan Hutchison Whampoa Chinese Medicine Company, the large selling team owned by the company, its cooperation with Hutchison Whampoa Watsons and PARKn SHOP and its 5,000 retail terminals in Europe, Baiyunshan Herbal Tea is still limited to the market of Guangdong Province.

#### **5.4.6 Discussion**

Dependent on the great financing capacity of Baiyunshan Hutchison Whampoa Chinese Medicine Company, Baiyushan Herbal Tea launched its products and has become an herbal tea brand of certain influence in this industry. However, the fact that its products are still causing loss is undeniable. Studies show that in the operation of this brand, the enterprise has many empirical misunderstandings. For example, the original innovation of products was not in line with market rules; the positioning of

products was obscure; it has no clear target market and there was no focus of distribution channels. These errors ultimately led to the loss. If Baiyunshan Herbal Tea is to overcome the regional restriction and make a change to the situation of loss, the enterprise has to adjust the operation strategy and rely the development of products and enterprise on continuous innovation.

## **Chapter 6 Summary and Conclusions**

### **6.1 Innovation Experience of the Herbal Tea Industry**

In a context of rising global competition, firms need to innovate to achieve sustainable competitive advantage. It is also a driving force for the development of enterprises, industries, regions and even countries. But innovation activities alone cannot account for the development of enterprises.

Innovation plays a fundamental role in and is aimed at upgrading industrial structure and advancing industrial development. But blind changes or single innovation activities will bring disasters to enterprises and industries. Because it is a systematic and integrated progress for an enterprise to realize innovation, it will not necessarily enhance the competitiveness of a traditional Chinese medicine enterprise to blindly invest in technological innovation; rather, it may lead an enterprise to misunderstandings of its development. Only by establishing an innovation system can a traditional Chinese medicine enterprise raise its capabilities. In industrial innovation, an overall arrangement for industrial development should be carried out and an innovation system should be established. The establishment of an enterprise innovation system is a dynamic process. Enterprises and governments need to effectively integrate innovation activities to establish an enterprise innovation system so as to ultimately generate more profits for enterprises. For enterprises in the herbal tea industry, many of their herbal tea products are currently sold at a loss; yet herbal tea products have indeed made great contributions to the development of enterprises. For instance, they have helped to promote enterprise brands and upgrade enterprise structures. Though the herbal tea industry has only existed for less than a decade, a huge industrial system has formed. The rise of the herbal tea industry serves as a significant reference for the development of the traditional Chinese medicine industry.

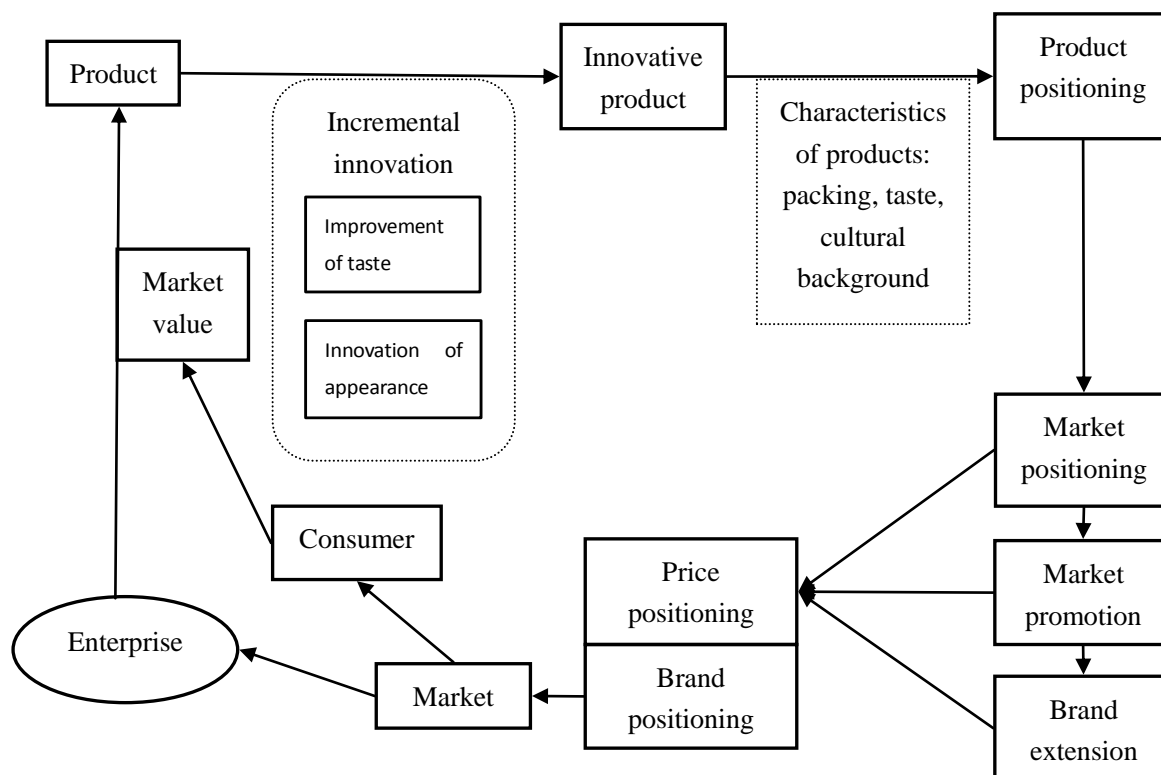
It is a systematic process for an industry to realize innovation, which requires joint efforts from governments, industries and enterprises. How should governments play a leading role in policies, how should industries make overall arrangements and

how should enterprises operate are all important factors for enterprises to gain development. This thesis takes the whole situation into consideration, makes an in-depth analysis of successful case enterprises, combines macro-level backgrounds with micro-level findings and then summarizes practical experience of herbal tea industrial innovation from aspects of enterprise, industry and government.

## 6.2 Innovation Strategies within an Enterprise

This thesis reveals the whole process of innovation in the herbal tea industry through case study and an overview of the herbal tea industry. And up till now, innovation experience of the herbal tea industry gained through research is still presented separately in the previous chapters. To show more clearly the strategies of industrial innovation, this thesis puts forward an integrated framework of industrial innovation on the basis of research in the previous chapters. This integrated framework deepens conclusions of the research on innovation strategies of the herbal tea industry.

Figure 6-1 A Path of Industrial Innovation



Source: The author



Enterprises are agents of innovation. To carry out product innovation, an enterprise should first conduct market researches on the market value of innovative products. Such researches have great influence on the ultimate market performance of innovative products. Innovation experience of herbal tea products indicates that for an enterprise, incremental innovation based on existing products is an effective way of product innovation. In particular, current traditional Chinese medicine enterprises are generally weak in overall strength and are thus not able to create new traditional Chinese medicine products. For those enterprises, on the one hand, incremental innovation can help to lower investment risks; on the other hand, products of incremental innovation can often enter into a new market and therefore help an enterprise seize a blank market and avoid fierce competition in a highly homogeneous market. As for a blank market, naturally early entrants enjoy certain advantages. Therefore, speaking of demand for innovation, enterprise managers always say that innovation is rather necessary for enterprises. Innovation of herbal tea products lies in improving a traditional folk Chinese medicine decoction to a new type of beverage. In the improved beverage, bitter taste of the original medicinal tea which is difficult to accept is changed while functions of the original medicinal tea are maintained. Besides, such problems as the original traditional Chinese medicine is hard to decoct and inconvenient to drink are solved. Research findings indicate that to blindly add to contents of herbal tea products so as to make the products enjoy diversity cannot enable the products to be accepted by consumers. For instance, to make herbal tea taste fruity cannot bring good market performance.

Product positioning is a critical link for innovative products to enter into a market. Product positioning has to experience tests of the market and it greatly influences market acceptability of a product. Research findings show that successful product positioning not only depends on new concepts but also requires taking into consideration such characteristics of a product as packing style, taste and cultural background. The problem that needs to be solved for product positioning is figuring out the strengths and weaknesses of a product compared with other products of the same type. Different from product positioning, for an enterprise, market positioning is

to grasp the market before promoting its products and then to find an entry point out of a highly homogeneous market according to product positioning before entering into the market. Wong Lo Kat has been handling the lion's share of the herbal tea market. Its product positioning is characterized by positioning its product in the ranks of beverage while making it different from common beverages. Its slogan "Afraid of excessive internal heat? Drink Wong Lo Kat!" enables it to get rid of the image of medicinal tea, positioning it in the ranks of beverage and meanwhile differentiating it from common beverages.

Whether a product can finally be accepted by the market depends on many factors such as price and brand. In the current highly homogeneous market, the power of brand is one of the most important factors that influence acceptability among consumers. A brand has no sales force in itself, but it can show great sales force when combined with consumers' trust and loyalty. As a result, brand management has become a strategic key to the development of enterprises. The establishment of a brand is a long-term process of accumulation, and blind investment in advertisement does not necessarily guarantee profits. The first step of brand establishment is brand positioning. Product positioning should be conducted according to product quality and brand positioning should be conducted according to characteristics of products. Only reasonable positioning will bring about reasonable price. Brand positioning does not mean success of a brand; it is only the beginning of brand establishment. Correct brand positioning is a prerequisite to rapid development of a brand; however, it cannot account for sustainable and rapid development of a brand. In fact, it is proved that strong methods of brand building after reasonable brand positioning are effective ways to continuously gain market share.

### **6.3 Innovation Strategies among Enterprises**

There are many brands in the herbal tea market. Many of the herbal tea brands topping the list in terms of sales volume are co-run by two companies. For example, Wong Lo Kat, Deng Lao and Shaxi are all co-run by two enterprises. Case study shows that cooperation between enterprises can help to optimize the overall

arrangement of an industry chain, optimize resource distribution, reduce investment in brand building of a single enterprise and benefit the development of an industry. Wong Lo Kat is a good example.

In 1995, Guangzhou Pharmaceutical Holdings Limited, owner of the brand of Wong Lo Kat, rented the right to the use of Wong Lo Kat to The JDB Group. Afterwards The JDB Group set up a manufacturing enterprise in Dongguan, Guangdong and started producing red canned Wong Lo Kat herbal tea. It set up its manufacturing enterprise in mainland China mainly to make use of raw materials of traditional Chinese medicine there. Before the rent, Wong Lo Kat was merely a regional brand and a kind of regional traditional Chinese medicine beverage. “At that time, core products of Guangzhou Pharmaceutical Holdings Limited were medicines and the company didn’t show much interest in beverage.” Due to strong economic strength and international trade platform of The JDB Group, Wong Lo Kat soon became a tycoon in the beverage industry. Its market sales volume in 2008 was more than 12 billion yuan. It was spread over 80 countries and regions. When red canned Wong Lo Kat rapidly occupies the market, Guangzhou Wanglaoji Pharmaceutical Co., Ltd., a subsidiary of Guangzhou Pharmaceutical Holdings Limited, releases tetra packed Wong Lo Kat herbal tea. And by virtue of the brand effect of Wong Lo Kat established by The JDB Group, market share of tetra packed Wong Lo Kat herbal tea is rapidly on the increase. In 2007, sales volume of tetra packed Wong Lo Kat herbal tea exceeded 0.7 billion yuan. Guangzhou Wanglaoji Pharmaceutical Co., Ltd., once ranked last among the subsidiaries of Guangzhou Pharmaceutical Holdings Limited, soon became the enterprise with the fastest growing speed due to Wong Lo Kat. Meanwhile, sales volume in the herbal tea market of famous brands such as Pangaoshou was far below 0.1 billion yuan in 2007.

Apart from the above mentioned way of cooperation, enterprises also cooperate to guarantee stability of source of raw materials. Such cooperation optimizes the industry chain. For instance, Guangdong Nantai Pharmaceutical Co., Ltd. cooperates with Guangzhou Wanglaoji Pharmaceutical Co., Ltd. to set up a GAP production base of *Gangmeigen* (roughhaired holly root), a principal raw material of Wong Lo Kat. In

addition, Guangdong Nantai Pharmaceutical Co., Ltd. cooperates with enterprises such as Guangzhou Chenliji Pharmaceutical Factory to set up GAP production bases. Through cooperation, on the one hand, both stability of source of raw materials and product quality are ensured; on the other hand, cost of production is reduced.

With reasonable overall arrangement of the industry chain, the brand of Wong Lo Kat brings win-win results to both of the two enterprises. In addition, the fact that enterprises cooperate to jointly set up production bases indicates that cooperation between enterprises is an important strategy for an enterprise to realize innovation and gain development. This fact not only deepens conclusions of innovation strategies in the herbal tea industry, but also suggests meaningful lessons for health industries in Guangdong.

## **6.4 Implications of Herbal Tea Industry Innovation on Health Industry Development**

In previous chapters, we analyze the overall development of the herbal tea industry and business cases, clarifying how herbal tea industry innovates and develops and what strategies enterprises in the industry can adopt to innovate. Reflecting on the overall innovation development of the industry and business cases, several suggestions helpful for health industry development can be summarized in three areas:

First, when developing health industry, products of choice should be internationalized. In other words, it should be suitable for promotion in different markets. Take Herbal tea as an example. It originates from a traditional folk Chinese medicine decoction which people make by themselves in several parts of China. After product upgrading, herbal tea has become a new type of beverage that meets double needs of consumers and that is easy for them to buy and safe and convenient for them to drink. The new product not only differentiates from ordinary beverages, but also makes breakthrough in traditional market positioning as “medicine decoction”. At the very beginning, with the image of “medicine decoction”, herbal tea did not have clear product positioning and were, therefore, only accepted in limited markets. After

product upgrading, it has been marked as a kind of beverage that can be applied widely in different markets. Consequently, it is suggested that enterprises should choose products featured by international reputation, market adaptation, premium quality as well as regional characteristics.

Second, layout of industrial chain should be well organized. The success of Wong Lo Kat manifests the way in which enterprises in two regions can cooperate to develop the health industry. Learning from Wong Lo Kat, enterprises in mainland China can strive for cooperating with international enterprises in other regions, so that both sides can enjoy common development on the basis of sharing resources and making full use of complementary advantages. Cooperation can be materialized in a diversified manner, such as jointly establishing production bases and running the same brand by cooperation between enterprises from two regions.

Third, support and guidelines from governments play an important role in developing the industry. It is with the support of policies that herbal tea industry can enjoy such development in a short period of time. For example, listing herbal tea as an intangible cultural heritage can limit the number of enterprises that enter into the industry without restraints and prevent excessive competition in the emerging industry, which ensures the industry to develop with standardized regulations. *Reply on Relevant Issues Concerning Wong Lo Kat* from Ministry of Health helps Wong Lo Kat, the pillar enterprise in the herbal tea industry get rid of trouble. There are numerous examples illustrating the significance of governments' support in developing the industry. Cooperation between Guangdong and Macau on developing the health industry will certainly receive assistance and support from the two local governments, which definitely serves as an opportunity for enterprises in two regions.

#### **6.4.1 Direction and Positioning of Health Product Innovation**

Premium products serve as footstones for enterprises to achieve further development. Only along with development can enterprises promote the upgrading of industry structure. Therefore, quality products play a fundamental role in industry

development and serve as an important component at the primary stage of the industry. Clearly defined direction for product innovation is in need for practice. In product innovation, the direction chosen should be suitable for and profitable through market promotion. After conducting researches, the study summarizes these four product development directions that are of market potential and lists parts of products for future innovation, serving as reference for relevant government departments.

First, make innovation in products used for gifts. We can develop health product souvenirs, such as dried tangerine peel with gift package. Currently, we can conduct mass production (investment in building planting bases with scientific management) and develop products with exquisite packaging. Now, in the market, there are no competent brands. So it is of great value to develop such products.

Second, promote new health products, such as garlic health products, tea health products, bamboo leaves beverage and ginger tea. A successful example is Korean ginger milk tea.

Third, further develop and innovate renowned and quality Chinese patented medicines. The study summarized the renowned and quality Chinese patent medicines in Guangdong (Chart 7-1). Among the listed medicines, there are 7 varieties with sales of more than 100 million yuan including Xiaoke Wan, serial products of Wong Lo Kat, Fufang Danshen Pills (composite salvia miltiorrhiza pills), Huatuo Zaizao Wan, Xia Sang Ju (chrysanthemum beverage), Ban Lan Gen Granules (indigowoad root granules) and Sanjiu Weitai. However, the rest of them on the list don't sell well. Most of varieties are merely sold in limited number of areas. Therefore, they are of great potentials for further development. There are successful cases like Ban Lan Gen Granules (sugar free) and Kou Yan Qing Granules (sugar free).

Table 6-1 Summary of Renowned and Quality Chinese Patent Medicine in Guangdong

Enterprises	Products
Guangzhou Chenliji Chinese Medicine Factory	Bupi Yichang Pills Wuji Baifeng Pills
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	Cough-reliving serial products such as <i>Pei Pa Koa</i>
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	Zhuifeng Tougu Pills Tieda Wanhua Medicine Oil
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	Xiaoke Pills
Guangzhou Xingqun Pharmaceutical Co., Ltd.	Xia Sang Ju
Guangzhou Wonglaoji Pharmaceutical Co., Ltd.	Serial products of Wong Lo Kat
Guangzhou Qixing Pharmaceutical Co., Ltd.	Huatuo Zaizao pills Xinxue Granules
Shenzhen Sanjiu Pharmaceutical Group	Sanjiu Weitai
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co., Ltd	Fufang Danshen pills Ban Lan Gen Granules Xiaoyan Lidan Pills Naoqing Pills

Source: The author

Fourth, develop series of natural cosmetics. It is stressed that all ingredients being natural without any chemicals is the trend for international cosmetics development. As for it, Chinese medicine has shown its charisma and potentials. Some surveys show that in China alone, skin care products are growing with an annual rate of 18.3 % in terms of market expansion, while that of pure Chinese medicine skin care products is over 61%. (National Business Daily, 2009). Now, enterprises including Pien Tze Huang, Tong Ren Tang, Mayinglong, and BaWang have initiated series of Chinese medicine cosmetics. Meanwhile, serial products such as Bawang's and Herborist's have entered into the international market and gained huge benefits.

Traditional Chinese medicine has long been used in cosmetics. It has been acknowledged and accepted by people at home and in neighboring countries that Chinese medicine has specific functions in cosmetics. For example, ginseng, angelica

and astragalus are of benefit for nourishing blood, invigorating circulation and boosting energy; pearl powder for making skin tender and radiant and diminishing spots; and poria cocos for improving skin moisture. Extracts of carrot, angelica, ginseng, ganoderma lucidum, pollens, pearl powder, velvet, placenta, milk and others are rich in amino acids, vitamins and natural moisturizing factors. These natural extracts have been long applauded by internationally renowned beauty specialists and consumers. To sum up, natural Chinese medicine cosmetics have embraced huge development value and market prospect.

Apart from cosmetics for daily skin care, functional cosmetics are of tremendous market potentials, especially for those products aiming at treating women's common diseases related to beauty, for example, acne, seborrhea, seborrheic dermatitis, seborrheic alopecia, juvenile white hair, female hirsutism, female skin melanosis and freckle caused partly by pathological and physiological changes, melisma and premature aging of skin (skin sagging). All these diseases are keenly concerned by women. Dermatological departments in hospitals can usually treat those diseases. However, if medicine is directly smeared on the face, it affects the way a woman looks. Besides, such medicines often do not smell pleasant. As a result, it would be regarded as unacceptable by women. Therefore, development of those functional cosmetics can satisfy dual needs of women, embracing a promising future.

#### **6.4.2 Layout of Industry Chain**

In the research, we have studied some cases of enterprises, which are cross-regional and representatives of win-win cooperation between two regions. A lot of lessons can be drawn by reflecting on the cases. All lessons are of realistic significance for developing an industry chain of the health industry. The case of Wong Lo Kat manifests that both enterprises in Guangdong and Hong Kong have achieved win-win results.



Table 6-2 Models of Enterprises' Resource Distribution

Model	Enterprises	Distribution of Resources	Way of Cooperation
Model 1	Guangzhou Wonglaoji Pharmaceutical Co., Ltd and Hong Kong JDB Group	Two enterprises are co-operating the same brand— Wong Lo Kat. The JDB Group, headquartered in Hong Kong, has set up a manufacturing base in Dongguan.	Cooperation
Model 2	Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co., Ltd	Two enterprises jointly invest in building Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co., Ltd. Research, development and production of products are conducted in Mainland China. The enterprise explores markets of both regions.	Joint venture
Model 3	Pei Li (Hong Kong) Health Products Ltd.	This is a Hong Kong company with a sole proprietorship, with its parent company in Hong Kong, and production base completely in Guangxi.	sole proprietorship

Source: The author

Resources are prerequisites for industry development. While the health industry develops, multiple parties must integrate their advantageous resources, share resources and complementary advantages through multi-party and cross-regional cooperation. An industry is made up by individual enterprises, and the industry cannot develop without progress made by enterprises. As for the future of health industry, ways of cooperation among multiple parties should be explored in reality. Cases listed in Chart 7-2 have provided several pragmatic models for health industry development. For instance, cooperation between two sides can be achieved by establishing joint ventures and sole proprietorships. In this way enterprises from two sides can share resources and have a reasonable industry layout, so as to promote industrial, economic and social development in two regions.

### 6.4.3 Responsibilities of Governments in Industry Innovation

Government policies play an important role in industry innovation. As for the herbal tea industry, the government support and protect its development. The industry has so far developed for less than 10 years and doesn't have enterprises that are competent in an all-round way. However, the emerging industry has attracted plenty of participants, which certainly leads to out-of-order competition in the industry. China has listed herbal tea as a national intangible cultural heritage, and included 21 enterprises, 18 brands and 54 varieties from Guangdong, Hong Kong and Macau on the list of protection, which have ensured an orderly development of the herbal tea industry. The issue about the legitimacy of *prunella vulgaris* as a component of Wong Lo Kat has caused a stir. In No. 189 document (2005) Approval of Relevant Issues of Wong Lo Kat issued by Ministry of Health, the ministry has agreed the Application for Instructions about the Use of Seal heal in Ordinary Food, making Wong Lo Kat herbal tea as the legitimate product. The approval of the ministry has demonstrated that the government provides policy support to Wong Lo Kat, the pillar enterprise in the herbal tea industry, and even to the whole industry. It has also proved that government policies play an important role in industry development.

Since government's role in a developing economy may have a positive impact on the industry development, how should the government promote industry innovation? Innovation of a single enterprise will not influence all the industry. If an enterprise's innovation doesn't comply with the future of industry development, it will get the enterprise in trouble or even impede the industry development. Therefore, when guiding the industry development, the government should define the direction from a big picture and properly adjust the economic structure by giving full play of their role. Cooperation between Guangdong and Macau on developing the health industry reflects that the government should choose direction of industry development from the perspective of improving economic structure, making important contribution to developing economies of two regions. Herbal tea industry is a newly emerging one. As for a new industry, it heavily depends on full support and guide from the government. By the same token, the development of health industry counts a lot on

policy support. It can't succeed without common support and guide of local governments from two sides. To remove obstacles in areas of geographical distance, institutional systems, politics, economy and culture, both local governments should establish a co-leading group on Guangdong-Macau cooperation to manage, coordinate and support the health industry development for both sides.

However, too much government intervention apparently limits the industry's development. Lu Feng and Mu Ling regard the organizing ability of enterprises as the source of their competitiveness. By innovating products of local characteristics, enterprises can survive and develop in a fierce market and increase their competitiveness. At the meantime, competitiveness of an industry is determined by that of leading enterprises within the industry (Lu & Mu, 2003). Capacity building of enterprises is strengthened by continuous learning from others and innovation on the level of organization. It is a way of realizing industry innovation that enterprises learn from each other and innovate together. Therefore, as an industry develops, enterprises should be the major players of innovation. How can the government support industry development? Even though it costs a lot for enterprises to innovate, other enterprises can be beneficiary from experience of their innovative counterparts. No matter enterprises succeed or fail in innovation, their innovation and experience benefit the society. Hence, if government does not compensate for enterprises' innovation, innovation in reality might be less frequent than what is best for the society (Lin, Cai & Li, 1999). As for enterprise innovation, the government should adopt encouraging policies, such as compensating enterprises by offering tax cut or subsidy. The encouragement from government promotes the establishment of the innovative system and development of the health industry at two sides. Nowadays, health industry is nurtured by government of two sides. It is determined by the reality and inevitable that major players of innovation at the beginning of the industry are governments of Guangdong and Macau. After establishment of the industry, it must rely on enterprises to achieve further development. Therefore, governments should gradually guide that the major responsibility of innovation will be transferred from governments to enterprises. The responsibility transfer will boost development of enterprises, upgrade

industry structure, and eventually cultivate the world-class health industry.

#### **6.4.4 Research Limitations and Future Suggestions**

Although this research achieved results as to herb tea industry through a lot of field study, certain limitations do exist. One limitation can be explained by the limited data which was obtained. Most herb tea producers are pharmaceutical producers and herb tea is only part of their products. Before the research was carried out, the researcher formerly thought that the revenue information of all herb tea products and the specific data of all regional markets in these herb tea producers can be obtained, thus the role of herb tea in the development of these companies can be analyzed. But in field study, the companies' directors give the explanation that all these data belong to business secret so they are unwilling to provide relevant financial data. Meanwhile, due to relevant research on herb tea is limited in number, some data are hard to obtain.

Besides, there are various herb tea producers but those who are open to field study are limited in number. Therefore, the overall quantitative analysis for the whole herb tea industry has not been revealed. Some of data come from the data released from the official websites of these companies. But these data remain to be verified because part of the data and information released by these companies are aimed for business promotion. Meanwhile, the researcher interviewed some companies, but due to the limit of time and space, the investigation and research of companies are not deep enough and the information is gained through talking with these company staff and therefore the information can be subjective to some extent.

Through a lot of data collection and company investigation, the development of herb tea industry and some factors which hinder the development of this industry can be found out. Besides, some suggestions are put forward through the perspectives of the company, the investor and the government. This not only requires researchers to have in-depth logic analysis but also to have profound theoretical research basis and comprehensive knowledge ability about market, government policy and company internal management. But due to the limitation of personal cognitive ability and social experience, the implications of my research result and the relevant suggestions for

other industries need to be further delved.

In reality, many companies will all produce for the same brand, which will result in the difficulty in case analysis. Therefore, the researcher only chooses a single brand herb tea as the starting point to make in-depth research while lacks a profound analysis about the overall operating situation of the company. Meanwhile, with the changes of policy and the market, some unexpected things happened during my research. For example, originally two companies co-produce and manage one herb tea of the same brand, but due to the fierce market competition, these two companies broke up and they separately operate herb tea of different brands. The drastic change in the market resulted in a lag behind in my thesis.

The pharmaceutical industry is the most traditional industry in China with the most distinctive ethnic characteristics. How to promote the traditional Chinese pharmaceutical culture to the world has been an issue of concern for all sectors of society. To be specific, herb tea is a special example which is originated from the traditional Chinese pharmaceutical culture. Herb tea industry can reflect the path of development of the traditional Chinese pharmaceutical industry. From the process of development of herb tea products, we can see the development path of the internationalization of the traditional Chinese pharmaceutical industry. There are altogether 12,807 kinds of Chinese herbal medicine, which is the world's most abundant resources. With people's trend to returning towards nature and advocating natural products, traditional Chinese pharmaceutical products will be given more attention and recognition. Meanwhile, with a boost in the world's beverage market, the market demand for herb tea will continuously grow. Therefore, the herb tea industry will embrace good development opportunities. With the advancement of herb tea industry, more researchers will carry out research, which serves as a driving force for the innovation and development of herb tea industry. After a consequent review of this thesis, a thorough reflect on the questions which are found and repeated thinking, the following suggestions are proposed for future researchers: while in field study, once a sales manager said: "although our herb tea products did not make money, our company's overall revenue keeps arising. Herb tea products are sacrifices that we

have to make to promote our brand.” As a result, while making research on the revenue and profitability of herb tea producers, we cannot judge the company’s operating level only through the obligatory data and profitability of herb tea products. Especially when we are doing quantitative research, the company’s overall market strategy must be first of all made clear. In addition, research on the quality criteria and efficiency is few in number, which is not conducive to the international expansion of herb tea market. The researcher hopes that future researchers can make more in-depth research on herb tea industry so as to provide more useful suggestions to promote the future development of herb tea industry.

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