

# Research on Cost and Expense Management in the New Tea Beverage Industry: A Case Study of Bawang Tea Princess

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## **Abstract**

Amid intensifying competition and rising costs in the new tea beverage industry, effective cost management has become crucial for enterprises to build core competitiveness. This paper examines the rapidly rising and publicly listed new-style Chinese-inspired tea beverage brand Bawang Tea Princess as a case study, delving into its cost management practices. Based on the company's financial data from 2021 to 2024, the research systematically evaluates its cost control effectiveness through trend analysis of core indicators such as gross profit margin, net profit margin, and cost-to-profit ratio, while benchmarking against brands like Heytea and Milk Snow Ice City. Findings reveal that through vertical supply chain integration, technological empowerment, and refined operations, Bawang Tea Princess achieved a significant increase in cost-to-revenue ratio despite raw material cost fluctuations, demonstrating strong profit resilience. However, its current cost management still faces challenges including raw material price volatility risks, high marketing expenses, and insufficient localization strategies. Accordingly, this paper proposes systematic improvement measures across dimensions such as building resilient supply chains, deepening digital transformation, optimizing marketing ROI, and advancing ESG strategies. These aim to provide valuable insights for Bawang Tea Princess and similar new tea beverage enterprises to optimize cost structures and achieve sustainable development.

**Keywords:** New Tea Beverage Industry; Cost Management; Bawang Tea Princess

## **1. Introduction**

In recent years, China's new tea beverage industry has experienced rapid growth, with its market size surpassing 100 billion yuan, establishing itself as a key sector in the consumer market. The industry now faces market saturation and profound shifts in the competitive landscape, while simultaneously grappling with escalating operational cost pressures (Porter & Kramer, 2011). However, amid intensifying competition within the bubble tea sector, mounting costs associated

with franchise models, and consumers' evolving demand for healthier options, the sustainability of its high growth rate remains a focal point of market attention.

As an emerging Chinese-style tea beverage brand, Bawang Tea Princess rapidly rose to prominence through its "fresh leaf milk tea" concept and global expansion strategy. It listed on the Nasdaq in 2025, becoming one of the few Chinese tea beverage companies publicly traded in the U.S. As the industry shifts from scale worship to deepening single-store health, cost control is no longer an isolated task for finance departments but a strategic core vital to corporate survival (Shank & Govindarajan, 1993). This study analyzes Bawang Tea Princess's cost control capabilities, profit model, and potential risks based on its financial data, supply chain management, and market performance (Ittner & Larcker, 2001). It aims to evaluate its long-term competitiveness and provide insights for the sustainable development of China's new tea beverage industry.

With the rapid expansion of China's new tea beverage industry, competition has intensified, prompting enterprises to explore cost-reduction and efficiency-enhancement strategies. Achieving long-term sustainable development requires prioritizing cost control capabilities, as cost management directly impacts profitability and determines a company's survival in fierce market competition (Kaplan & Norton, 1996). Cost management serves as a core indicator of operational efficiency; optimizing cost structures enhances resource utilization and strengthens brand competitiveness.

This paper analyzes the current state and optimization pathways of cost control at Bawang Tea Princess, using its financial data, supply chain management, and franchise model as case studies. It aims to provide new perspectives for cost management research in the tea beverage industry (Simons, 2000). This study offers valuable insights for the milk tea sector while revealing potential risks under rapid expansion, helping enterprises optimize their business models and achieve high-quality development. Building upon a clear understanding of the research context and significance, the following analysis will first examine the common cost challenges facing the new tea beverage industry. It will then focus specifically on Bawang Tea Princess, conducting an in-depth examination of its current cost management practices.

## **2. Analysis of Bawang Tea Princess's Current Cost Control Practices**

### **2.1. Primary Challenges in the New Tea Industry**

#### **(1) Significant Fluctuations in Raw Material Costs and Low Procurement Efficiency**

Core raw materials such as sugar, milk, fruits, and tea leaves are significantly influenced by seasonal variations, origin, climate, and supply-demand dynamics, leading to unstable costs. Many small and medium-sized brands or outlets lack economies of scale, resulting in weak bargaining power and high procurement costs. Additionally, procurement processes may lack standardization, posing risks of waste or substandard substitutions. This complicates cost forecasting, squeezes profit margins, and complicates inventory management, increasing the likelihood of spoilage losses (Chen, Frank, & Wu, 2005).

## **(2) Rising Rent and Labor Costs**

Tea shops typically locate in high-traffic commercial districts or shopping centers, where rent constitutes a fixed, high, and inflexible expense. Concurrently, rising minimum wages and labor shortages drive up staff salaries, benefits, and training costs. This compresses product pricing and profit margins while increasing operational pressure, potentially leading to diminished service quality or high employee turnover (Banker, Bardhan, & Chen, 2008).

## **(3) Supply Chain Management Lacking Transparency and Efficiency**

From supplier selection and logistics to store receiving, multiple stages involve information asymmetry. Lacking effective tracking and monitoring tools, issues like cargo damage and delays frequently occur, increasing hidden costs (Dekker & Van Goor, 2000). Some brands rely excessively on suppliers without backup plans. This disrupts normal store operations, raises communication and coordination costs, and hinders rapid responses to market shifts and cost fluctuations.

## **(4) Rough inventory management with high wastage rates**

Inaccurate demand forecasting for raw materials — especially perishables like fruits and fresh milk — can lead to either stockpiling that expires or shortages that impact sales (Teunter & Haneveld, 2002). Operational errors during preparation may also cause waste. The absence of detailed inventory tracking and auditing mechanisms directly increases costs and reduces gross margins. It also affects customer experience, such as causing long waits or unavailable desired beverages.

## **(5) High marketing expenses with unclear ROI**

Significant investments are made in online platform promotions (e.g., delivery platform commissions, advertising fees), offline events, and membership marketing, yet effectiveness is difficult to measure precisely, leading to potential resource wastage. Overreliance on discount promotions to attract customers actually lowers the average transaction value and profit margin. This increases operational costs and erodes profits; marketing strategies may also miss the target audience, resulting in poor effectiveness (Slagmulder & Van Wassenhove, 2004).

Despite facing the aforementioned common challenges within the industry, different brands exhibit distinct characteristics in their cost control practices and outcomes due to varying strategic positioning and operational models. The following section will take the rapidly rising traditional Chinese-style tea brand Bawang Tea Princess as an example, detailing its development journey and current cost management methods.

### **2.2. Overview of Bawang Tea Princess Company**

Bawang Tea Princess was established on November 17, 2017, as a new Chinese-style tea beverage brand under Guochao Enterprise Management Co., Ltd. Headquartered in Jinjiang District, Chengdu, Sichuan Province, the brand specializes in fresh milk tea made with whole tea leaves, offering pure tea, fresh fruit tea, and related merchandise. Its brand philosophy is "Connecting the World Through Oriental Tea." In June 2017, the Bawang Tea Princess brand was

established. On November 17th, its first store opened on Wuyi Road in Kunming, Yunnan, using Southwest China as its operational base to expand outward. Bawang Tea Princess features a Chinese aesthetic, with its name paying homage to the classic Chinese opera *Farewell My Concubine*. Product designs incorporate elements like opera costumes, traditional embroidery, and seal carving woodwork. Store interiors feature a Zen-inspired Chinese aesthetic with wooden accents and seal script wall decorations. The four product series draw names from classical Chinese allusions, such as "Boya Breaks His Strings," "The Orchid Pavilion Preface," "Mutual Support Through Hardship," and "Peach Blossom Destiny." On March 6, 2025, the China Securities Regulatory Commission issued a notice: Tea Princess Holdings Limited intends to issue up to 64,731,929 common shares for listing in the United States.

Currently, Tea Princess employs relatively traditional cost control methods, primarily focused on internal operations. It adopts a phased control model, divided into pre-event forecasting and planning, where initial costs are managed through budgeting and raw material procurement planning. During production process control, the company monitors raw material wastage, labor allocation, and energy consumption (e.g., water and electricity) in store operations. Post-event calculation and analysis involves periodic reconciliation of actual costs against budgeted figures, though the depth of analysis is limited, largely relying on monthly or quarterly financial summaries (Cooper & Kaplan, 1991).

In accounting methodology, Bawang Tea Princess focuses on direct costs like tea leaves, dairy products, and packaging materials, using traditional cost allocation methods to distribute overhead expenses by store or product line. This approach lacks comprehensive supply chain optimization, particularly in dynamic cost management for warehousing/logistics and marketing efficiency (Gosselin, 2006).

Bawang Tea Princess exhibits limitations in cost control, focusing on single-store production costs like raw materials and labor while neglecting supply chain coordination costs. These include cold chain logistics, cross-regional procurement premiums, and implicit costs such as the return on investment for brand marketing. The company employs traditional cost accounting methods reliant on historical data, failing to adopt activity-based costing or target costing. This hinders the precise identification of high-cost segments. Furthermore, organizational coordination is inadequate, with finance, operations, and procurement departments operating independently. There is a lack of a full-chain cost linkage mechanism, exemplified by the disconnect between new product development and market pricing (Anderson & Dekker, 2009).

Below is Table 1 detailing Bawang Tea Princess's cost structure, with preliminary analysis based on its composition. Based on the data in Table 1, it can be seen that in Bawang Tea Princess's cost structure, raw material costs account for the largest proportion of total costs, followed by store operating costs and marketing expenses. This indicates that Bawang Tea Princess incurs the highest costs and makes the largest investments in raw materials and store marketing.

**Table 1. Bawang Tea Princess Cost Structure 2021-2024**

Cost Item	2021 Share	2022 Share	2023 Share	2024 Share
Raw Material Costs	38%	41%	39%	31%
Labor Costs	14%	12%	11%	14%
Store operating expenses	16%	14%	15%	18%
Logistics and Warehousing	6%	7%	6%	6%
Marketing Expenses	16%	17%	18%	19%
Administrative expenses	5%	4%	4%	3%
Research and Development Expenses	4%	4%	6%	9%
Other Costs	2%	1%	1%	1%
Total Cost as a Percentage of Revenue	100%	100%	100%	100%

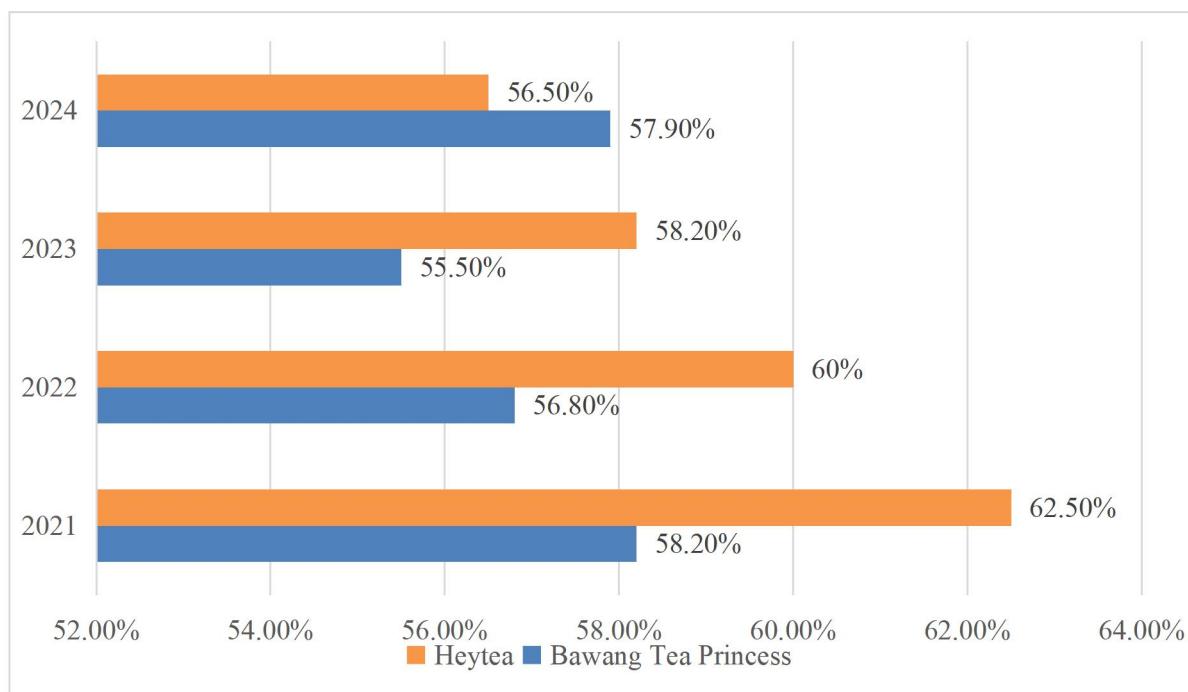
Among these, raw material costs saw a significant decline in 2024, while R&D expenses notably increased. This shift stems from sustained raw material cost inflation in recent years, potentially driven by tea quality upgrades or supply chain volatility. The rise in R&D expenditure reflects the conversion of technological investments into tangible benefits — such as deploying more automated tea-making equipment and leveraging AI for sales forecasting to optimize inventory turnover rates (Kulp, Lee, & Ofek, 2004). Over these four years, marketing expenses grew substantially, reflecting brand expansion strategies where costs rise alongside store growth. Labor and operational expenses were optimized — likely through digital ordering systems or standardized processes — achieving better balance in staffing and daily operations. This enabled the company to prioritize cost savings on raw materials while focusing more on innovation and sales promotion, enhancing market competitiveness (Ittner & Larcker, 2001).

To further quantify the effectiveness of its cost control measures, the following section will conduct an in-depth analysis of Bawang Tea Princess's cost efficiency using key financial indicators such as gross profit margin, net profit margin, and cost-to-revenue ratio, and compare it with major brands within the industry.

### 2.3. Core Metrics Reflecting Cost Control

#### (1) Analysis Based on Gross Profit Margin

Gross Profit Margin =  $(\text{Operating Revenue} - \text{Cost of Goods Sold}) / \text{Operating Revenue} \times 100\%$ . This metric reflects the profit ratio obtained after deducting directly related sales costs from total sales revenue. A higher gross profit margin indicates more effective cost control during the sales process. It directly demonstrates a company's capability to manage costs in the sales segment. A high gross profit margin suggests the company can reduce sales costs through optimized supply chain management, procurement cost control, and production process improvements, while maintaining product quality and market competitiveness (Figure 1).



**Figure 1. 2021-2024 Gross Profit Margin**

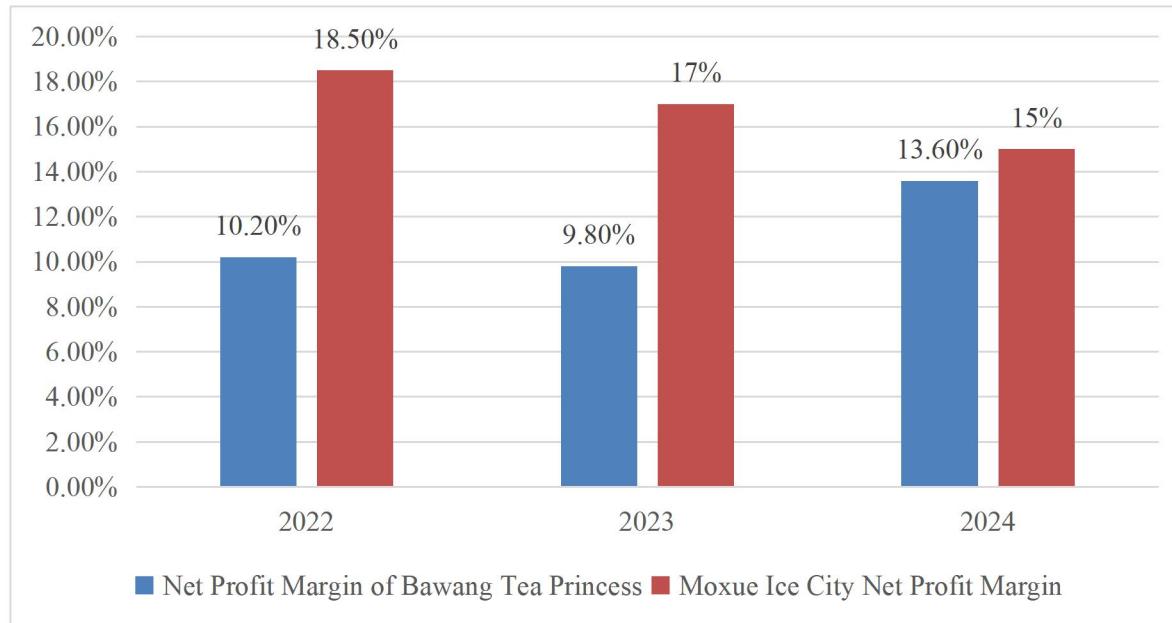
The figure above shows the trend analysis of the gross profit margins for Bawang Tea Princess and Hey Tea from 2021 to 2024. It can be seen that over these four years, Bawang Tea Princess's gross profit margins were 58.2%, 56.8%, 55.5%, and 57.9%, respectively, while Hey Tea's gross profit margin showed a declining trend, with Bawang Tea Princess experiencing a decline in the first three years before a slight recovery in the final year.

Bawang Tea Princess experienced a declining gross margin trend from 2021 to 2023, primarily due to rising raw material costs. Tea leaves and fresh milk prices increased by an average of approximately 12% annually. Compounded by insufficient economies of scale during the initial expansion phase of new stores, this resulted in a gross margin significantly lower than that of Heytea. Bawang Tea Princess rebounded to 57.9% in 2024. This recovery stemmed from cost control measures: signed long-term direct procurement agreements with tea gardens in Yunnan and Fujian, reducing tea leaf costs by approximately 10%. The company also established regional cold chain centers to minimize fresh milk transportation losses. Product portfolio upgrades introduced the high-margin "Boyan Juexian" series, increasing its sales share to 35%, boosting overall gross profit margin. In contrast, industry peer Heytea faced declining margins to 56.5% in 2024 due to higher rents and labor costs associated with its premium positioning. This demonstrates Bawang Tea Princess's counter-cyclical growth achieved through vertical supply chain integration and hit product strategies (Shank & Govindarajan, 1993).

## **(2) Analysis Based on Net Profit Margin**

Net Profit Margin =  $(\text{Net Profit} / \text{Operating Revenue}) \times 100\%$ . It reflects the proportion of net profit a company obtains after deducting all costs and expenses from sales revenue, including cost of goods sold, administrative expenses, financial expenses, and others. A higher net profit margin indicates better overall cost control and stronger profitability. The net profit margin comprehensively reflects a company's level of cost control in its overall operations. It

encompasses not only the cost of goods sold but also administrative expenses, selling expenses, financial expenses, and others. A high net profit margin indicates that a company can effectively control various costs, thereby achieving higher net profits (Simons, 2000).



**Figure 2. Trend of Net Profit Margin from Sales, 2022-2024**

The figure 2 above shows the trend analysis of net profit margins for Bawang Tea Princess and Mixue Ice Cream from 2022 to 2024. It can be seen that Bawang Tea Princess's net profit margins for these three years were 10.2%, 9.8%, and 13.6%, respectively, indicating an upward trend over the past three years, while Milk Snow Ice City's rate has declined.

In 2024, Bawang Tea Princess's net profit margin surged to 13.6%. This growth stems from digital operations optimizing labor scheduling through its proprietary POS system, reducing per-store labor costs by 15%. Regarding expense control, the marketing expense ratio decreased from 22% to 19% through targeted advertising on Douyin and Xiaohongshu. The management expense ratio was compressed by 1.2%, reflecting the headquarters' flat-structure reform. The scale effect of store expansion proved significant, with direct-operated offline stores exceeding 3,000 locations, diluting supply chain fixed costs. Automation equipment now covers 80% of stores, boosting cup-making efficiency by 40%, enabling the company to achieve excellent standards in overall sales efficiency and expense control. Meanwhile, Mixue Ice Cream faced net profit margin pressure due to its low-price strategy, dropping to 15.2% in 2024. Bawang Tea Princess achieved profit resilience through technological empowerment and refined operations (Slagmulder & Van Wassenhove, 2004).

### **(3) Analysis Based on Cost-to-Profit Ratio**

Cost-to-Profit Ratio = Total Profit / Total Costs × 100%. This metric reflects how much profit each unit of cost and expense invested generates. A higher ratio indicates greater profitability per dollar spent, better cost control, and stronger earning power. Bawang Tea Princess demonstrates remarkable cost management effectiveness. From 2021 to 2024, its cost-to-profit ratio rose from 13.3% to 16.4%, with a substantial year-on-year increase of 4.3 percentage points in 2024,

reaching a historic peak. The core driver behind this sustained growth lies in a systematic breakthrough in "unit cost profitability." In 2024, every RMB 1 invested in costs generated RMB 0.164 in profit, a 23.3% increase from RMB 0.133 in 2021. First, it optimized deep supply chain integration. In 2024, the proportion of raw material costs dropped from 42% in 2021 to 36%. This was primarily due to direct tea procurement agreements reducing sourcing costs, combined with packaging material lightweighting that compressed per-cup costs by 0.8 yuan, directly contributing to a 2.1 percentage point increase in profit margin. Second, technological innovations drove cost reductions and efficiency gains. Significant returns from digital investments emerged: AI-powered sales forecasting reduced inventory wastage by 3% compared to industry averages (Kulp, Lee, & Ofek, 2004), while automated equipment deployment across stores cut labor costs, collectively boosting the profit margin by 1.5 percentage points. Finally, precise expense management saw the marketing expense ratio decrease from 23% in 2023 to 19% in 2024, yet revenue grew by 35%, achieving a leverage effect of "reducing expenses while increasing revenue" (Wouters & Sportel, 2005).

Horizontal comparisons reveal efficiency barriers: Bawang Tea Princess achieved a cost-to-profit ratio of 16.4% in 2024, significantly outperforming Heytea and leading over Mixue Ice Cream. It established a differentiated advantage by balancing "high premium pricing with strong operational control" — while Mixue Ice Cream benefits from economies of scale but faces limitations in ingredient quality, Heytea is burdened by high rental costs and marketing expenses. Data confirms that Bawang Tea Princess has restructured its cost chain through technological efficiency gains rather than merely compressing individual segments. This enables it to achieve the industry's optimal input-output ratio within the ¥15-20 per customer price range, laying the foundation for sustainable profitability (Kaplan & Norton, 1996).

Although core metrics indicate that Bawang Tea Princess has achieved some success in cost control, its current model still faces several pressing issues that require urgent attention. The following sections will systematically outline these challenges and propose targeted improvement strategies.

## **2.4. Cost Control Issues and Improvement Measures for Bawang Tea Princess**

### **2.4.1. Primary Issues in Bawang Tea Princess's Cost Management**

While Bawang Tea Princess demonstrates overall strong cost management, several notable issues persist that may challenge its profitability and long-term growth. Analysis follows across raw material costs, operational expenses, supply chain management, and localization strategies:

#### **(1) Significant Fluctuations and Controversy in Raw Material Costs**

Bawang Tea Princess's core product is fresh milk tea made with whole-leaf tea, requiring high-quality ingredients like tea leaves and fresh milk. These costs are highly volatile, significantly influenced by market supply and demand dynamics and seasonal factors (Chen, Frank, & Wu, 2005). For instance, price fluctuations in fruit ingredients can directly impact per-cup costs. While the average per-cup cost is approximately 3 yuan, rising raw material prices would directly erode profit margins. Though Bawang Tea Princess emphasizes "health" and "high quality," consumer

skepticism regarding the use of "processed milk" suggests potential controversies in its raw material selection. This could impact brand image and cost control strategies. Bawang Tea Princess relies on multiple suppliers for most raw materials, increasing management complexity and supply chain disruption risks (Dekker & Van Goor, 2000). Any disruption in raw material supply could impact product availability and brand credibility.

## **(2) Year-on-Year Increase in Marketing Expenses and High Operating Costs**

High store rents and labor costs: Bawang Tea Princess typically locates stores in prime commercial districts, resulting in elevated rental expenses. Estimates indicate operating costs exceed 50% of total revenue, exerting significant pressure on profit margins. Furthermore, with rapid store expansion, employee wages and benefits have surged substantially. Furthermore, store expansion may incur substantial costs for recruiting and training new staff. Bawang Tea Princess's marketing expenses have surged dramatically in recent years—from 73.6 million yuan in 2022 to 1.1 billion yuan in 2024, totaling over 1.4 billion yuan across three years. While this has boosted brand awareness, it has also significantly intensified cost pressures (Slagmulder & Van Wassenhove, 2004).

## **(3) Localization Strategy Requires Innovation and Optimization**

Bawang Tea's product line struggles to fully cater to regional consumer preferences and consumption habits. For instance, northern markets may favor hot beverages, while southern markets prioritize cold drinks. This disparity makes it difficult to achieve cost optimization through a single product line. Insufficient product innovation and localization adjustments in certain regions hinder rapid adaptation to market demands, potentially increasing inventory and wastage costs (Teunter & Haneveld, 2002). In response to the key issues identified above, Bawang Tea Princess urgently needs to implement systematic improvement measures. The following section will propose specific cost control optimization recommendations across multiple dimensions, including supply chain, technology, management, and strategy.

### **2.4.2. Cost Control Improvement Measures for Bawang Tea Princess**

To address these challenges, systematic improvements can be implemented across three dimensions. In supply chain management, diversify procurement networks by reducing reliance on core production regions to 50% of sourcing, expand capacity with new Southeast Asian tea plantations, and adopt a "floating + fixed" pricing strategy to hedge risks (Anderson & Dekker, 2009). Simultaneously, integrate IoT temperature sensors with store quality control KPIs to maintain spoilage rates below 3%. For technological optimization, a regional demand forecasting platform should be built to reduce cross-regional inventory transfers from 30% to 15% (Kulp, Lee, & Ofek, 2004). Develop AI-driven tea processing optimization models to decrease reliance on high-cost ingredients, and implement "flexible staffing with cloud-based scheduling" to boost labor efficiency by 22% (Banker, Bardhan, & Chen, 2008). Management mechanisms should implement "three-pronged" approaches: granular budgeting for utilities and logistics (Cooper & Kaplan, 1991); parameterized quality control with six hard metrics; and transparent marketing ROI with defined conversion targets (Gosselin, 2006). Notably, ESG strategy delivers long-term

value through biodegradable cups and "solar-powered stores"—offset by a 15% short-term cost increase but yielding brand premium and energy savings (Porter & Kramer, 2011).

Beyond short-term cost reduction, Bawang Tea Princess must establish a strategic framework for long-term competitive advantage. Within 1-2 years, it is projected to elevate its cost-to-profit ratio to 18%, surpassing Mixue Ice Cream & Tea to become the industry's efficiency benchmark. Fundamentally, Bawang Tea Princess must transition from "cost control" to "cost strategy," integrating supply chain resilience, deep digital application, and ESG value creation into its overall cost management system (Shank & Govindarajan, 1993). Only then can it maintain a sustained competitive edge in the fiercely competitive tea beverage industry. Particularly in the New Tea 3.0 era, where consumers increasingly demand quality and sustainability, the true path to success lies in strategically optimizing cost structures to achieve "cost reduction without compromising quality" (Ittner & Larcker, 2001).

Based on the above analysis, Bawang Tea Princess's cost management practices are not only crucial for its own development but also hold significant implications for the entire new tea beverage industry. The following section will summarize the key points and explore future development directions for the industry.

### 3. Conclusion

As the new tea beverage industry transitions from scale expansion to high-quality development, Bawang Tea Princess's cost control practices offer significant insights for the sector. Three major development directions will emerge in the future: First, supply chain construction will shift from solely pursuing low costs to a diversified "resilient + sustainable" approach. By establishing global raw material bases and digital supply chain systems, companies will ensure consistent quality while enhancing risk resilience. Second, digital transformation will deepen across the entire value chain. Technologies like AI forecasting and intelligent scheduling will enable precise alignment from production to sales, propelling the industry from "experience-driven" to "data-driven". Finally, ESG strategies will become a core competitive advantage, creating differentiated value through green practices such as biodegradable packaging and clean energy.

For Bawang Tea Princess, seizing this industry transformation presents an opportunity to elevate cost advantages into strategic strengths. By building a new cost management system integrating "smart supply chain + digital operations + sustainable value," the company can establish a competitive moat in quality-driven competition and lead the new tea beverage industry toward greater efficiency, greener practices, and enhanced sustainability.

### Author Contributions:

Conceptualization, Y.Z.; methodology, Y.Z.; software, S.L.; validation, S.L.; formal analysis, S.L.; investigation, S.P.; resources, S.P.; data curation, S.P.; writing—original draft preparation, Y.Z. and S.L.; writing—review and editing, Y.Z. and S.L.; visualization, S.P.; supervision, S.P.;

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