

Example of research paper on lollicup: how a small tea maker can become a global ...

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Capstone Project:

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Executive Summary

Lollicup is a beverage and restaurant company based out of California, USA. This is a small chain of restaurants which offers products in the tea and coffee ready to drink segment. However, the products of Lollicup are distinctly different from the traditional tea and coffee based products. Bubble tea is the flagship product of the company and within 13 years of opening its first store in USA, the company is already an established name in the alternate beverage solutions market. Lollicup now wants to expand beyond USA. It plans to launch its bubble tea products in UK market. This essay will discuss the vision and strategies for Lollicup to grow beyond the US boundary and also will look at the organizational structure of the company to explore the areas of improvement in terms of employee rewards practices and corporate governance.

Company and Product Description

Bubble milk tea aka pearl milk tea is a drink that was invented in tea shops across Taichung, a city located in western Taiwan in 1980s. The special ingredient used in bubble milk teas that makes it stand out from other non-carbonated drinks is the small tapioca marbles known as boba or pearls. Served in large transparent plastic glasses with an excessively wide straw to help the jumbo tapioca pearls floating up into the mouth, these drinks are a huge craze in Taiwan and Southeast Asia for over a decade.

Lollicup opened its first shop in the year 2000 in San Gabriel, California.

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Bubble milk tea is a very popular Taiwanese product and Lollicup saw an opportunity to make business out of this product in US market. By 2002, Lollicup opened 30 stores across the nation extending its target customers outside the student community, who were the primary customers of bubble tea till that time. In next few years, Lollicup opened another line of business called Karat line of high quality papers and plastic disposable goods. In 2009, Lollicup having observed of its stores becoming a popular hub for hangout introduced other snacks and food items for catering to the customers (Lollicup Coffee & Tea).

Mission and Vision of the Company

The vision of Lollicup has always been “ add a bit of fun, mix a little flavor”.

Whatever the company wants to do it wants to add joy to the experience and wants it to be fun for all the people connected with that process. It is not in the business just to do business and make money (Lollicup Coffee & Tea).

Lollicup has a mission to “ provide the world with something new and different”. Lollicup came in to business of selling coffee & tea with a product which is unique and novel and its mission is to grow and develop its product line in such a way that they remain different from the conventional beverage products (Lollicup Coffee & Tea).

In last ten years the company has adhered to its basic vision and mission by adding an element of fun to the product offering experience with an array of products which are novel. All the Lollicup store or restaurants are conspicuously different from conventional fast food stores. They are a way more colorful, cheerful and funny look wise. Lollicup hasn't changed the look

of its stores as it grew. Also its product line grew over time. Almost all the products that Lollicup develops and sells are unique. Products like jasmine milk tea, kumquat lemon tea, sour plum tea, yogurt slush, boba and grass jelly add-ons are very unique to Lollicup.

Strategic Goal and Plan for the Future

The strategic focus of Lollicup is to continue its growth in the US market and attract newer segment of customers by launching products that satisfy both the appetite and the nutritional needs while still continuing its image of “unique product offerer”. Lollicup’s objective is to offer products different from its competitors in taste and nutritional value than any other ready to go beverages available in the market. Lollicup apart from growing in the domestic market wants to expand its business to China, Middle-East and UK (Lollicup Coffee & Tea)..

In last 10 years Lollicup has achieved its goal of expanding in many parts of US. It will continue to expand in US but now the company has enough knowhow and financial strength to go beyond the US boundaries. The strategy is to enter into a developed market with its unique product line which has huge market potential. The pilot of entering into international market is achieved by Lollicup in 2011 by launching its first international stores in China. The Chinese stores are performing really well and Lollicup plans to expand in China. However, as Bubble milk tea is a South East Asian product, Lollicup is facing some local competition in China. European market on the other hand has huge potential and there is almost no big competition in European market. Lollicup wants to first start its operation in UK and then

to mainland Europe. The strategy to enter Europe via UK is devised because it will provide some great feedback about European market to Lollicup. It will also will be easier to start operating a store in UK as UK also speaks English so there will be no language barrier.

Competitive Advantage and Core Competency

Though Lollicup offers tea and coffee based products and other types of snacks and foods in its outlets, the original bubble milk tea is its flagship product which has garnered immense popularity among the customers. Despite the existence of myriads of its other products, bubble tea forms the core competency for the company. The demand for bubble milk based tea products, Boba tea powders and seeds constitute majority of its revenue. Innovative and unique varieties of bubble milk tea are expected to continue giving competitive advantage to the company in future market.

Strength and Opportunity

The biggest strength of Lollicup is its experience in selling bubble milk tea successfully in US. The UK market not being much different from the US market in terms of customer segments and perceptions, Lollicup can use the same strategy used in USA to launch the product in UK. The main weakness for Lollicup is its endeavor to expand beyond US for the first time. So it has no experience in external markets. UK being its first external venture, Lollicup is faced with this new challenge of running an operation successfully in two different countries.

The UK market is still untapped. A new product like bubble milk tea will definitely offer enormous opportunities to Lollicup in UK. It has the potential

to take the market by storm with its new product within few years.

The main threat comes from the two main competitors already present in the UK market. Bubblicious Tea and Bubble Tea House Company sell bubble milk tea products online and in few places through third party vendors in UK. As soon as Lollicup enters the market with its products and set up restaurants and kiosks, these competitors can replicate the same model to sell bubble tea. This will create more competition for Lollicup.

Financial Performance and Future Financial Plans

Lollicup has grown very fast in last ten years with only 5 stores and revenue of less than \$300, 000 in 2000 and now it has become a \$50 million company in 2012. The average growth rate in last few years has been almost 30-40% with no signs of slowing down.

UK market will be completely a new market for Lollicup but with its experience in USA, the company plans to start with 30 stores or kiosks in and around schools and universities in London and Birmingham. It plans to sell around 2, 500 bottles/cups per day during the first year with year on year growth target of 30% in first 5 years. The revenue will be around £ 800, 000 in the first year and it will grow to become £ 2. 25 million in next 5 years.

Future Growth Strategy

Nonalcoholic beverage industry is mainly dominated by carbonated drinks with Coke and Pepsi constituting $\frac{3}{4}$ of the market. However, in recent years there is a trend seen among people in shifting towards more healthy drink options. Fruit juices as well as other healthy choices are becoming very popular in demand. Bubble milk tea is healthy and does not contain high

caffeine substances with less calorie content compared to other drinks. In the wake of the latest ban imposed on selling energy drinks in few UK schools and colleges, there are chances to grab the market in schools by introducing bubble milk tea which would be a much healthier substitute for the energy drinks. The base of bubble milk tea is mainly black or green tea. Additionally, there is yet no drinking product launched targeting at women. Therefore, the coffee based, tea based and even the milk based bubble tea drinks would appeal the young female crowd. Further, since there would be option for using sugar substitute for health freak customers, many young college students and young women would get drawn to it.

Hence it has the potential to become a very healthy choice for the customers in future given the current drinking trend in UK. In UK currently two companies, Bubblicious Tea and Bubble Tea House Company are the leading players in the market of bubble milk tea. However, both the companies don't have any store for bubble milk tea in UK with all their products sold online and through third party vendors. These companies also sell their products through established supermarkets like TESCO. The competition still lacks the visibility in UK because physical presence of a store provides a lot more visibility than just selling a beverage product online or through third party retailers where among hundreds of products bubble tea doesn't accrue the visibility it deserves. Lollicup has experience in selling beverages in restaurants. Also it knows how to operate kiosks for bubble milk tea in college campuses and sell its product through internet. Lollicup can use its experience in USA to expand its business in UK which is a smaller market comparatively.

In view of the fact that the UK market still lacks something creative and outrageously fashionable in terms of non-carbonated drinks for children and females, an exclusive product of bubble milk tea typically targeting students and young females could be developed and sold into the market. Since besides students, the targeted customers include young females many of whom are figure conscious, the new product would keep the option open for using sugar substitutes like honey, stevia, agave and aspartame on special request (Stradley, 2004).

Merger and Acquisition:

There are three options for the company to grow in UK. First and foremost the company can grow organically. This way the company can have a free hand in its future decisions and can operate using its current management and team which is delivering great results in USA. However, going into a new market is a different ball game all together and Lollicup because of its inexperience overseas may not do as well as they are doing in US, regardless of a great management team and unique product line.

Merger or acquisition lowers those risks to some extent. If Lollicup forms a merger with some company in UK for its expansion then it will get valuable local market knowledge which it currently does not have. Then it can take better decisions about store opening, product launches, product offerings, marketing campaigns and pricing strategy. This type of knowledge comes from a partner in UK who is also in similar type of business. However, partnering with a business entity which offers similar kind of products comes with a cost. Besides, if there is a conflict of interest between the merged

entity and Lollicup then the merger may not work at all.

In case of acquisition, Lollicup will have complete managerial power over the entity it will acquire and will also gather significant knowledge about the local market but then Lollicup will have to invest a greater amount of money than needed for merger. Also finding a suitable company for acquisition will be difficult as Lollicup is in a unique business.

Looking at the current business scenario, Lollicup should not go for merger or acquisition. The business segment which currently offers unique coffee and tea products is not a big one. Lollicup has the option of merging with Bubblicious Tea or Bubble Tea House Company. However, those companies will not provide much strategic advantage to Lollicup, rather they may create overhead for the company. It is advisable that the company should go ahead and expand its operation in UK on its own as UK market is fairly similar to US market.

Rewards Program for Employees

Currently the company does not have a very well defined rewards program. However, as it grows it is of utmost importance that it continues to keep its employees happy. There are many ways Lollicup can start some benefit and compensation program to enhance the employee happiness index and motivation.

Profit sharing plan refers to a defined contribution plan in which an employer shares a determined amount of profit earned in a year with the covered employees especially with those in the top management using a formula for distribution. Profit sharing is a good way of motivating employees by giving

them a sense of belonging to the organization. In case of Lollicup, it may start something similar to profit sharing. It may create a compensation percentage based on the revenue a store earns. Suppose a store in Los Angeles increases its revenue by 20% from previous year then all the employees working in that store will get a 10% bonus over their standard salary. This way the stores will be motivated to improve their sales which in turn will augment the overall sales of the company. Lollicup can also create similar plan for its management and marketing team based on some other criterion. This plan will work effectively in motivating store employees as well as management employees who work harder to help the organization earn profit (What Do We Know About Merit Pay, 2011).

Performance based incentives or bonus program is an effective way to motivate employees to deliver high performance because the high performing employees based on their performance rating receive a determined amount of incentives or bonus or a determined percentage of the basic pay under this program (Performance Based Bonus, 2013). For example, Lollicup can start an “ employee of the month” in each store. Whoever becomes the employee for that month gets a onetime extra check for that month. These incentive or bonus programs boost up the morals of the employees who feel motivated to give the best shot in their performance by constantly trying to develop themselves.

Ethical Practices in Lollicup

In a small company in which numbers of employees are less, maintaining visibility and transparency is easy. However, with the growth and expansion

of business it becomes difficult for the top management to maintain the same kind of transparency and visibility. Lollicup is a new company and over the last few years has grown exponentially. Lollicup is no longer a small company. It needs to build its own corporate governance structure which will ensure proper code of business ethics across the company and will help identify and report any wrongdoing.

Integrity is one of the first codes of business ethics that Lollicup should implement. Integrity and values like leadership, diversity, quality and passion should form the pillars of its corporate governance. Lollicup should have an equality philosophy that one should do what is right no matter in which business division or in which country one operates in. Integrity is set both for the individual as well as the company. The responsibilities of the employees as well as other operatives to different stakeholders of the company should be clearly defined by the code of ethics. The code should mandate that all the employees should be working in an honest way maintaining integrity with full accountability for their actions. Since Lollicup plans to operate in many countries, in the event of any code in direct conflict with the local law, the local law will hold its ground.

Lollicup should encourage its employees to introspect whether or not what they are doing is ethically and legally viable and how their action reflects the image of the company. If the answer comes in negative then the employee should not proceed to do a thing that is not legally and ethically tenable.

Lollicup should also form a small ethical cell which will help the management as well as the employees by giving advice, guidance and training on ethical issues and situations.

Managers are instrumental in promoting ethics within the company. They should always lead by example. Managers should invariably create an environment where employees are encouraged to raise any issues without fear. They should also ensure that the employees working under them fully understand the code of ethical responsibilities as per the company policies. Managers should prevent employees from delivering results that are damaging for the company's good name and violate business ethics and personal moral conduct. Managers are the first line of forum to raise any questions and they are supposed to guide others in the right direction. Managerial position is very important in terms of propagating ethical guidelines in Lollicup.

Many a time it is seen that if any sensitive unethical issue related to the top management of a company is reported, the person responsible for reporting often is penalized for the exposure. Therefore, in Lollicup any report made to ethics and compliance department should be kept anonymous. Even if somebody discloses his identity while complaining to the ethics department, the ethics department should make sure to keep the identity of the person reporting confidential and conduct a thorough and fair investigation. Ethics body also should ensure that an honestly raised concern over a misconduct of an employee should not be the reason for an adverse action against the employee who reported. The company should vow to protect honest reporting but that does not mean that every concern raised will be taken as an honest report. Lollicup should ensure that any concern raised receives a fair and square investigation.

Aside from all the ethical policies to be followed by the employees and the

management, Lollicup also should maintain certain codes of conduct to be followed by the company itself in order to fulfill its ethical responsibility towards its employees. First and foremost, it protects its employees and their personal data with utmost care. It should not racially discriminate against any employee. It should also abide by all the contractual laws of the land in which it operates and the contract between the company and the employee.

Conclusion

Lollicup is a company which offers a unique product called Bubble Milk Tea. Lollicup started its business with this product and developed a bigger product line in last few years keeping in with its vision of adding fun to the experience of making unique products. It continues to sell products which are novel than any other beverage products. After its success in the US market the company's strategy is to grow globally. It has tried to expand in China but is facing a lot of competition. European market is still untapped and Lollicup wants to enter in European market through UK. UK is a market which is similar to US and will provide a nice platform to start its international journey. However, growing big as a company means a lot of new things should be implemented in the company. In a bigger company, Lollicup should come up with some well-structured rewards program to identify high performers and motivate all the employees to perform better. It also needs to create an ethical structure within the organization to ensure ethical conduct and no wrongdoing. If Lollicup can successfully implement

those then its strategy of international expansion with its motto of delivering unique products to the customer will be a big success.

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