

A Comparative Study of Coffee Marketing Strategies

—Taking Starbucks and Luckin Coffee as Examples

Jiani Su^{1,a,*}

¹*Leeds Business School, University of Leeds, Leeds, LS2 9JT, UK
a. ml203js@leeds.ac.uk*

**corresponding author*

Abstract: Coffee is becoming more and more popular due to the influence of a series of factors, such as economic level, cultural life, social activities, and so on. Therefore, the coffee industry is becoming more competitive in China. In order to get more market share, the coffee company uses different marketing strategies. Among those strategies, co-branding has become a very popular marketing strategy in recent years, and a lot of research has proven its effectiveness. In this paper, there will be a discussion about the different views of Starbucks and Luckin Coffee, which are two very famous coffee companies in China, on the marketing strategy of co-branding based on available research papers. The article will use market segmentation, product value, and a customer journey map to analyze why Starbucks and Luckin Coffee have different opinions about co-branding. The result of the analysis in this paper suggests that because Starbucks and Luckin Coffee have different market positions and other influence factors, the former does not focus on co-branding in its overall operation, while Luckin Coffee takes co-branding seriously. This paper provides some valuable suggestions for coffee companies on how to find accurate marketing strategies according to their characteristics and whether they could use co-branding in the Chinese coffee industry.

Keywords: Starbucks, Luckin Coffee, market segmentation, product value, customer journey map

1. Introduction

Co-branding is when two or more brands cooperate in the market. This marketing strategy could normally help brands achieve unexpected outcomes. According to the research from Washburn et al., there is a high probability that customers would make some association with the familiar brand they just met, and this association may make customers spread the quality of the familiar brand to a no-longer-familiar new brand when there is a co-brand between these two brands [1]. Will Kenton pointed out that co-branding is a strategy that aims to improve market share, revenue streams, and customer awareness [2]. It means that co-branding is an effective marketing strategy, and businesses could benefit from its application. There is some background information about Starbucks and Luckin Coffee. Starbucks is a famous international coffee company. Until October 2, 2022, there were 6019 stores in China, and the government plans to increase the number of stores in the following years [3]. Houhai suggested that the average price of Starbucks in China is \$4.60, or about 32 yuan [4]. It could be argued that Starbucks offers coffee at a higher-than-average price in the Chinese coffee market.

Starbucks' objective is to increase the number of stores all over the world, especially in the US and China [3]. In addition, Starbucks aims to improve innovation in different areas, such as its digital platform, and to provide more different tastes of drinks. In October 2022, in China, the net revenues were \$ 3008.3 million [3]. Luckin Coffee is a Chinese coffee company. Until May 31, 2022, there are 5,652 self-operated stores and 2,562 partnership stores [5]. In 2022, the net revenues were 1,927.3 million. The mission of Luckin Coffee is that coffee is the beginning of being a part of people's daily lives [6]. The average price is between 15 and 25 yuan [4]. It shows that Luckin Coffee provides a lower average price for coffee. In general, these two coffee companies are different, but they are also strong competitors for each other in the Chinese coffee industry.

2. Market Segmentation

Tynan and Drayton in 1987 suggested that a very important marketing strategy is market segmentation, which is to figure out a group of customers to meet companies' business objectives [7]. To be more specific, market segmentation is where businesses divide the market into different buyer groups according to their different wants and characteristics and then apply different marketing strategies to them. Therefore, the discussion of market segmentation between Starbucks and Luckin Coffee is necessary for the explanation of the different implications of co-branding. There are mainly 4 variables to consider when segmenting the customer market: geographic, demographic, behavioral, and psychographic.

In the demographic segmentation of Starbucks, it basically focuses on people from the high-income group who are under 40 years old. According to Fromm in 2014, Starbucks strongly connects with Millennials from all over the world [8]. In addition, the geographic segmentation of Starbucks focuses on busy areas, such as shopping centers. Starbucks has 8947 stores in 2021, and 5358 stores in China [3]. Starbucks said, those stores are mainly located in high-traffic, high-visibility places [3]. In terms of the behavioral segmentation of Starbucks, those people who are looking for high-quality products and services are what Starbucks looking for. For example, this group of customers is looking for high-quality coffee and nice service where has a quiet, nice place to chat with friends or work. Last but not least, the psychographic segmentation of Starbucks is for those social people who want to make friends during the coffee time, as well as those people who are coffee lovers or looking for high quality products. In general, high-quality products and services are what Starbucks mainly provides. As Naimul suggested, excellent customer experiences are what Starbucks focuses on, and it makes them one of the leading coffee companies [9].

Now, the discussion will move on to the segmentation of Luckin Coffee. First of all, the demographic segmentation of Luckin Coffee is mainly focused on students and white-collar workers, who may range in age from 18 to 35 [4]. It could be argued that this group of customers has always had a limited income and may not be able to afford high-quality products and services. Therefore, as Haohui claimed in 2022, Luckin is aiming to provide affordable and easy-to-get coffee for its customers [4]. In addition, let us move to the geographic segmentation of Luckin Coffee. Luckin Coffee's stores are basically near office buildings and universities and are located in Tier 1 and Tier 2 cities. In these areas, Luckin Coffee could meet its potential customers, who are students and white-collar workers to the largest extent. Moreover, the behavioral segmentation of Luckin Coffee is also quite different from Starbucks. Luckin Coffee is not keen on providing a comfortable and quiet place for guests; customers usually order by mobile phone and then go to the store to take it away instead of sitting there to enjoy coffee for an hour. Luckin Coffee does not focus on providing high-quality coffee; it aims to provide coffee and milk tea, which have a wide range of tastes, at a low price. In other words, Luckin Coffee is aiming to provide fast delivery services and products. Last but not least, Luckin Coffee's psychological segmentation focuses on customers who are looking for cheaper coffee and more convincing shopping experiences. As the brand objective of Luckin Coffee is to

make coffee cheap for everyday people, it can be claimed that the development of Luckin Coffee has ended the practice of coffee only existing in the high-end market [10]. This customer group does not have spare time to sit down and enjoy a coffee for a couple of hours. According to the discussion above, co-branding may not work very well at Starbucks, but it works at Luckin Coffee. The customer group at Starbucks is mainly high-income, looking for quality coffee and a comfortable environment. Therefore, the co-branding marketing strategy may not be able to influence their decision-making process. In terms of Luckin Coffee, its customer group is basically students and young workers, who are also the main customer group of those brands which Luckin Coffee cooperate with. For example, Luckin Coffee collaborated with Maltese, which is a famous cartoon, in February 2022. And a co-branding marketing strategy could help this busy customer group make a quick decision; for example, customers might quickly decide they will get coffee from Luckin Coffee because they are fans of Maltese. According to KC Karnes, targeting consumers with more effective advertising means you will be able to better engage your audience [11].

3. Product Value

According to Dan T, the product value is how much customers can gain from using the product [12]. In this case, Starbucks and Luckin Coffee provide coffee to their customers, and coffee is the core value. Co-branding is where you can add emotional needs for products. Mary K. argued that businesses will become more relevant, gain credibility, and stand out from the competition if you use emotional messages in your branding and marketing [13]. Customers will be drawn in for reasons other than the original product. For instance, when a clothing brand cooperates with a star by printing his image on t-shirts, customers may buy the t-shirt because they are fans of the star. Luckin Coffee cooperates with other brands, which is also called co-branding. Luckin Coffee is very keen on the co-branding marketing strategy. The case of Luckin Coffee collaborated with Maltese is the recent case. This was a successful marketing strategy since Luckin Coffee got a lot of attention on social media sites such as TikTok. In this case, Luckin Coffee infused emotional needs into its coffee. It means customers may buy the coffee not because they want to drink coffee but because of the cute cartoon character. Luckin Coffee turned its coffee into an expected product. In terms of Starbucks, co-branding is not its main marketing strategy. Starbucks did do some co-branding marketing, but with a lower frequency in China. Therefore, Starbucks does not incorporate additional emotional needs into its coffee. Starbucks pays more attention to the quality and flavor of coffee beans, which means it still focuses on the customer's initial needs.

4. Customer Journey Map

Rosenbaum pointed out that customer journey mapping has been a popular tool in strategy management because academics and practitioners have praised its outstanding usefulness in analyzing the customer's experience in organizations [14]. In this section, there will be an explanation of the customer journey mapping of Starbucks and Luckin Coffee and an analysis of the differences between these two companies because of their co-branding marketing strategy. To begin with, what is the purchase journey. There are five steps in the purchase journey: problem recognition, information search, evaluation of alternatives, product choice, and post-purchase activities. The main function of the co-branding marketing strategy is to shorten the purchase journey and filter the alternatives. In terms of the case in which Luckin Coffee cooperated with Maltese, customers may choose Luckin Coffee simply because they are fans of Maltese. In this situation, customers chose to skip the information search step. It means that customers do not have to get more information about the coffee, such as its taste, reviews, before buying it. In addition, a co-branding marketing strategy helps companies filter the alternatives. In this case, customers who are interested in Maltese would

only buy coffee from Luckin Coffee instead of other coffee companies in the market, for example, Starbucks, because Starbucks did not cooperate with Maltese. In general speaking, a co-branding marketing strategy would help businesses shorten the purchase journey by eliminating the information search and evaluation of alternative steps.

5. Discussion

However, co-branding strategy is not always perfect. There are some negative effects brought about by the co-branding marketing strategy. For example, the co-branding is likely to increase the cost of production. In the case of Luckin Coffee with Maltese, Luckin Coffee might experience an increase in the cost of production. Because, in order to attract more fans of Maltese, Luckin Coffee provided a free sticker of Maltese to customers who purchased related products. In addition, business may make advertisements about the co-branding, which also leads to an increase in the total cost of production. Starbucks may consider those problem seriously, and thus it chose another marketing strategy.

6. Conclusion

In the perspective of market segmentation at Starbucks, co-branding would not have a significant impact on this group of customers. People who choose Starbucks are looking for high-quality coffee, food, and services, such as a nice sofa on which to sit down. In terms of Luckin Coffee, co-branding helps its target customers make decisions quickly. Because its customers are often interested in cartoon art and pay less attention to the quality of products and services. From a product value perspective, Luckin Coffee uses co-branding to add additional emotional value to its products. In other words, customers may buy its products because they are interested in its partner brands. Starbucks still focuses on its main product value: the quality of its products and services. Last but not least, Luckin Coffee uses co-branding to shorten the customer journey by skipping the information search process and evaluation of alternative steps. Although Starbucks does not focus on co-branding, it is still a strong competitor of Luckin Coffee because it uses other marketing strategies that are more suitable for it. It also shows that co-branding is not a perfect marketing strategy. When adopting co-branding, a coffee company may have to face some challenges, such as an increase in cost product. Because there is not enough financial data to show how much Luckin Coffee benefits from co-branding and how well Starbucks uses other marketing strategies, this paper does not make a deeper comparison between these two coffee companies. In addition, because Starbucks is an international company and Luckin Coffee is a Chinese coffee company, this paper does not take some international factors that may have influenced Starbucks into account. Further studies can explore the use of co-branding in international coffee companies from a global perspective.

References

- [1] Washburn, J. H., Till, B. D., & Priluck, R. (2004). *Brand alliance and customer-based brand-equity effects*. *Psychology & Marketing*, 21(7), 487-508.
- [2] Will Kenton. (2022). *Co-Branding: Definition, Strategies, Examples*. <https://www.investopedia.com/terms/c/cobranding.asp>.
- [3] Starbucks Fiscal 2022 Annual Report. *Financial Data*. <https://investor.starbucks.com/financial-data/annual-reports/default.aspx>.
- [4] Haohui Z. (2022). *Methods for Luckin Coffee to Develop its Core Competence*. *Advances in Economics, Business and Management Research*, volume 648, 1527- 1532.
- [5] Luckin Coffee Inc. 2022 Annual Report. 2022. *Annual Report*. <https://investor.luckincoffee.com/financial-information/annual-reports/>
- [6] Luckin Coffee. *About us*. <https://lkcoffee.com/about>.
- [7] Tynan, A. C., & Drayton, J. (1987). *Market segmentation*. *Journal of marketing management*, 2(3), 301-335.

- [8] Haskova, K. (2015). *Starbucks marketing analysis*. *CRIS-Bulletin of the Centre for Research and Interdisciplinary Study*, 1, 11-29.
- [9] NAIMUL K. (2020). *Internal Analysis of Starbucks' Competitive Advantage*. *Linkedin*. <https://www.linkedin.com/pulse/internal-analysis-starbucks-competitive-advantage-naimul-kader>.
- [10] Xiaocong C. (2022). *Research on Marketing Innovation of Luckin Coffee*. *Advances in Economics, Business and Management Research*, volume 648, 3047- 3052.
- [11] KC Karnes. (2020). *What is Emotional Branding and How to Use it Effectively*. *CleverTap*. <https://clevertap.com/blog/emotional-branding/>.
- [12] Dan T. (2023). *What Is Product Value? (Plus How To Define It in 4 Steps)*. <https://www.indeed.com/career-advice/career-development/product-value>
- [13] Mary Kyamko. (2023). *Emotional Branding: What It Is and How to Use It Effectively*. *crowdspring Blog*. <https://www.crowdspring.com/blog/emotional-branding/>.
- [14] Rosenbaum, M. S., Otalora, M. L., & Ramírez, G. C. (2017). *How to create a realistic customer journey map*. *Business horizons*, 60(1), 143-150.