Why Luckin Coffee Stands out in the Chinese Market?

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Abstract: With the rapid development of the Internet and media, the traditional coffee marketing model has been unable to meet the current consumer demand, and China's coffee industry has also undergone changes. Luckin Coffee has changed the traditional marketing methods by means of fission marketing, new retail and other strategies, and has quickly conquered the Chinese market. Therefore, this paper mainly takes Luckin Coffee as an example, and uses SWOT model to analyze the internal and external environment of Luckin Coffee from four aspects: strengths, weaknesses, opportunities and threats. At the same time, based on the analysis of consumer behavior and the existing status of Luckin Coffee, Luckin Coffee also has a SWOT model. It points out the positive factors of Luckin Coffee's popularity among consumers and the adverse effects after the financial scandal, compares and analyzes with Starbucks coffee, which occupies a larger share of China's coffee market, and finally explains the existing problems and puts forward corresponding countermeasures and suggestions.

Keywords: LuckinCoffee, SWOT analysis, Consumer Behavior, Marketing Strategy

1. INTRODUCTION

Luckin Coffee, a groundbreaking coffee chain originating from Xiamen, China, has captured the attention of the global market not just for its rapid and unprecedented expansion, but also for its novel approach to the coffee business. Established in 2017 by Jenny Zhiya Qian and Charles Zhengyao Lu, this nascent company quickly rose to prominence, challenging the dominance of international coffee powerhouses, most notably Starbucks, in the vast and diverse Chinese market. With the vision of making high-quality coffee accessible and convenient for consumers, Luckin Coffee adopted a distinctively tech-savvy, contemporary strategy that sharply set it apart from traditional coffeehouses.

In place of the typical café setting, where customers would sit and linger over their drinks, Luckin primarily banked on a digital-first model. Luckin Coffee has its own proprietary app that completely
improves the customer experience through easy and quick ordering. This allows customers to conveniently pre-order their favorite drinks and then quickly pick them up at any of the brand's locations. Unlike traditional coffee shops, which emphasize creating a comfortable service and atmosphere, Luckin has completely shifted its focus to providing maximum efficiency and unparalleled convenience for consumers on the go. They have further reinforced their strategy by carefully placing a large number of stores in high-traffic areas. These locations are more like quick pick-up centers than traditional cafes. This innovative approach is accentuated by an aggressive pricing model and enticing promotions. As a result, many of Luckin's products are more attractively priced, making them the preferred choice of competitors.

Luckin Coffee's expansion program has also played a crucial role, as Luckin Coffee has expanded thousands of stores in China in a very short period of time, a move that has successfully sent a message to other coffee brands in the Chinese market that Luckin Coffee will take over a large portion of the Chinese market and become the leading brand in the Chinese market.

While Luckin Coffee's innovation and rapid expansion strategy has been a good success, it also suffered a huge setback in 2020. An internal investigation revealed that Luckin Coffee fudged a large number of sales figures in 2019, which led to its stock price plummeting and delisting from the NASDAQ, sparking negative press from the financial community. This incident serves as a warning that excessive growth can lead to risks if not properly regulated.

Nevertheless, Luckin Coffee has been resilient in the wake of the negative press, and it represents corporate dynamism in the digital age. Despite the challenges, Luckin Coffee has remained true to its original vision, innovation, and ambition, and it is on track.

In this research report, we will adopt the SWOT analysis model to analyze the factors that will lead to the success of Luckin Coffee in the China market by deeply analyzing its Strengths, Weaknesses, Opportunities, and Threats in the market as the main framework. By understanding its internal strengths and areas of improvement, as well as the external opportunities available and potential challenges it might face, we aim to paint a holistic picture of the strategic avenues available to Luckin Coffee. The goal is to identify clear paths through which this burgeoning coffee chain can solidify its footing, innovate further, and consequently achieve a sustainable competitive advantage in the rapidly evolving and highly competitive Chinese coffee landscape.

The rest of this paper is organized as follows. Section 1 discussed the related literature. Section 2 discussed the brief introduction of Luckin coffee. Section 3 analyzed the marketing environment. Section 4 presented a SWOT model of Luckin Coffee. Section 5 analyzed the problems in Luckin Coffee's marketing strategy. Section 6 presented recommendations and countermeasures for Luckin Coffee's marketing strategy. And lastly, section 7 summarized the entire paper.

2. LITERATURE REVIEW

2.1. Development of Strategy

Luckin Coffee had been brought into the public eyes with the special market strategies of inexpensive price and direct discount to customer and help Luckin to make a good start of the brand. Initially Luckin make several operating strategies to have access to the market of Chinese coffee chain shops, including brand design strategy, low price strategy, market and cost strategy.[1] The impressive design of typical blue cup printed a deer head become a symbol of Luckin, contrast sharply with the green Starbucks., and customers can easily recognize the brand with the ingenious symbol so that brand promotion costs less money and energy.[2]

According to the financial analysis of Luckin between 2018 and 2019, these strategies seem to help Luckin make a profit and gain a firm foothold in Chinese coffee market.[1] Nevertheless Wang studies more deeply and find out some financial issues and potential risks of Luckin. Luckin had a
conservative assets structure with the current assets for a large proportion of the total assets. Also, the asset growth rate is positive, indicating that the company's asset scale and growth rate had increased considerably. However, the proportion of non-current assets with higher income level is smaller, the company's profitability level is lower. Because of the strategy of expanding scale rapidly and appealing customers attractively, the data of the analysis indicated the total assets turnover of the company had slowed down and the sales ability has weakened. Moreover the liquidity of the company's assets and the short-term solvency is gradually enhanced which easily resulted in financial risk. Wang thought the shop sales ability is not strong, and excessive development of new products lead to higher operating and managing costs, the company should improve reasonable marketing strategies and open up sales channels.[3]

After the outbreak of COVID-19 and the event of financial fraud, Luckin have explored and reset strategies continuously to get out of trouble and regain market confidence. On the basis of Wei’s report, in recent years, China's online retail sales have been on the rise and approximately exceeded the share of offline counterpart, while e-commerce, the online consumption pattern, also have seemed to be stuck which the growth rate of online shopping transaction turnover is gradually slowing down. Therefore a New Retail mode have been emerging into the retail market which combine online e-commerce, offline and logistics. The New Retail takes full advantage of both online and physical stores to improve and upgrade the consumption progress and consumption experience. Luckin adopts the mode of "online +offline + logistics” to make customer experience, information flow and capital flow more unobstructed. Customers can order and pay online with mobile phone, hence there is no need to set up a cash register in the stores. Moreover, another feature of New Retail era is applying big data to business scenarios to create consumer profiles and recommend personalized menus based on consumer preferences to increase the probability of repurchase and heighten customer loyalty.[4]

2.2. Impact of Financial Fraud

In April 2020, Luckin announced a preliminary internal investigation showing that an estimate of $310 million worth of fabricated sales and is delisted from NASDAQ in June 2020 and stuck in lawsuits due to accounting fraud. [5] The stock price of Luckin had undoubtedly slumped and the stockholders’ interests is extremely damaged. This illegal event is a breach of trust that can not be tolerated and had a notoriously bad influence on global financial market. What’s worse is that this fraud not only lost the credibility of financial regulators but also impaired domestic corporation reputation and image.[6]

Chen has suggested that it is possible to apply blockchain into the practice of the fraud prevention, and detection from the perspective of Fraud Triangle, that is, motivation, opportunity and rationalization. Regardless of the data on the blockchain is so transparent that regulators can more easily investigate and supervise relevant financial reports, which means if companies want to conceal poor records, those would bear higher fraud cost and had a slimmer chance to try.[5]

Luckin can only be thankful that it is the largest local chain coffee brand in China and the coffee market in China has increasingly expanded with larger target consumers those who are accustomed to drinking coffee and willing to be in favor of domestic brands. [7] Therefore Luckin still have a positive opportunity to refound as long as improve the awareness of financial crisis and adjust a proper strategy.

2.3. Compared to Starbucks

Wang’s study mainly introduced the business strategy of Starbucks an American chain coffee brand, since 1999 Starbucks have expanded and entered into China market for more than twenty years, and China has become Starbucks’ fastest growing and largest overseas market. Therefore
Starbucks have successfully established a well-known brand image and become a symbol of young white collar workers pursuing fashion and built a great of consumer base. Compared to Starbucks, Luckin has focused on cost performance with low price and high quality. While the diversity of products of Luckin is not as various and plentiful as Starbucks, Luckin has paid attention to novel scene position and emphasizes more on the needs of consumers in different scenes to achieve the full coverage of consumers' needs in various scenarios by opening different types of stores. With the outbreak of COVID-19, Starbucks had launched a series of measurement to minimize the financial loss as far as possible, such as delivery service with APP. At the same time, Luckin also introduced an unmanned retail strategy to provide a convenient and effective purchasing service to guarantee certainly income on the premise of abideance by the governments' rules.

3. SWOT Analysis

3.1. Strengths

Luckin Coffee is different from Starbucks and other mature coffee brands by implementing differentiation strategy and conveying the concept of high quality, cost-effective and high convenience to customers.

The first advantage of Luckin Coffee is its focus on product development. By 2023, Luckin Coffee has formed a coffee product matrix composed of nine product lines and more than 60 products in sale. The core of the matrix is Luckin’s “Big latte” strategy. Luckin’s concept of “Product is king” is realized by high quality raw materials and team of experts. It uses 100% Arabica coffee beans and high-grade milk source. When Luckin Coffee was founded, WBC was invited Andre Latouvada, the Italian champion of the World Barista Competition, served as the chief coffee Master. In 2018, Luckin invited Agnieszka Rojewska, a famous Polish barista, to serve as the consultant of Luckin Coffee. With “Master Coffee” as the marketing title, Luckin established its brand image.

Luckin Coffee's main audience groups are college students and white-collar workers aged between 20 and 35. These young consumers have a great demand for coffee, and most of their core demands are to refresh their minds. Luckin Coffee has captured the needs of this group, expanded its brand voice constantly and occupied a certain market share. Compared with Starbucks, Luckin Coffee uses the method of discounting to make the price more acceptable [7]. When the brand was initially established, it adopted the subsidize method for fission marketing—new users drank the first cup for free. Later, after the brand gained a certain popularity, it issued discount rolls to customers every week to keep the coffee price in a reasonable range, which well formed the consumption habits of users [9].

Luckin Coffee mainly chooses "Online + Offline " Mode.[10] Online advertising is mainly targeted by wechat LBS, based on the accurate push of existing stores, and through effective online and offline communication, consumers can quickly identify with the brand. Offline adopted precise advertising to promote the brand. According to statistics, in the first three months of 2018, the number of advertising exposure exceeded 100 million times. In addition to integrating online and offline activities, Luckin Coffee also uses cross-border co-branding to allow young people to organically interact with the brand. For example, it co-launched Coconut Cloud Latte with Coconut Tree Group, and cooperated with EDG e-sports Club to create Coconut Green Ice Brew. Luckin Coffee uses omni-channel and full-platform promotion to attract users to the central community through various official channels such as brand APP, wechat public account, XiaoHongshu and Tiktok [11].

3.2. Weakness

In the early stage, Luckin Coffee issuing a large number of low discount rolls and free activities to users, forming the "get the best deal" of consumers. In fact, Luckin Coffee has a loss in profit, and
users and the brand cannot be sticky. Once the discount strategy is canceled, the sales volume drops greatly, which leads to the withdrawal of shareholders. Even in April 2020, LuckinCoffee broke a financial fraud scandal [5]. Luckin Coffee admitted to false transactions of 2.2 billion yuan, which was detrimental to the subsequent development of Luckin Coffee. Starbucks, its big rival in China, rarely discounts customers, strictly controls the price of its coffee, and has gained a loyal group of members whether it is a new product in the season or a hot new product.

Another disadvantage for Luckin is the lack of a stable and large supply chain for its products. Under the influence of the general environment, the soaring price of raw materials is the primary problem. Luckin Coffee cannot guarantee the quality of its products to win the trust of customers, while its rival Starbucks pays great attention to the selection and roasting of coffee beans, which has become an irreplaceable high-quality coffee in the coffee industry.

3.3. Opportunities

The social pattern towards benefit is a considerable chance for Luckin Coffee. The business's ingenious service design, which integrates online buying with offline pickup, accommodates this pattern. This design not just offers a fast and hassle-free method for individuals to take pleasure in a cup of coffee however likewise enables Luckin Coffee to develop shops in locations with lower store lease efficiently managing expenses. This method might be even more improved by checking out collaborations with other companies or public areas to offer pickup points therefore broadening its reach without the requirement for comprehensive physical facilities.

Regardless of the growing appeal of coffee in China the marketplace is controlled by foreign brand names. This provides a special chance for Luckin Coffee to place itself as a leading Chinese coffee brand name. To take advantage of this, Luckin Coffee might concentrate on promoting its regional roots and understanding of Chinese customers' tastes and choices.[12] This might include establishing special blends or items that cater particularly to the Chinese taste buds, or integrating aspects of Chinese culture and custom into its branding and marketing efforts.

The coffee market in China is presently in a high development phase with increasing approval and need for coffee amongst Chinese customers. This provides a considerable chance for Luckin Coffee to broaden its client base and increase its market share. To make the most of this, Luckin Coffee might purchase marketing research to comprehend customer patterns and choices and customize its item offerings appropriately [13] much better. In addition, it might check out chances for growth into brand-new areas or cities where coffee usage is on the increase.[14]

Numerous rivals in the coffee market are placed at a high-rate point which might prevent some possible customers. Luckin Coffee's economical rates technique can draw in these customers and promote their interest in coffee culture. To utilize this Luckin Coffee even more might concentrate on promoting the worth and quality of its items, highlighting that a fantastic coffee experience does not need to feature a high price. It might likewise think about executing commitment programs or unique promos to reward regular consumers and motivate repeat purchases.

3.4. Threats

The coffee market is extremely competitive, with lots of reputable global and regional brand names. To stick out Luckin Coffee requires to constantly innovate its services and products enhance its brand name image and improve consumer commitment. This might include buying research study and advancement to develop distinct and premium items or carrying out consumer feedback systems to guarantee that its offerings fulfill client requirements and expectations.[15] It might likewise include checking out brand-new service designs or techniques, such as collaborations or cooperations to get a one-upmanship.
The target consumer groups of Luckin Coffee are rather varied, varying from trainees to workplace employees. This variety positions a difficulty in regards to item advancement and marketing techniques. Additionally, the practice of drinking coffee is not well developed amongst Chinese customers particularly compared to tea. To resolve this Luckin Coffee might buy consumer education efforts to promote the advantages and pleasure of coffee usage. It might likewise establish targeted marketing projects to attract various consumer sections, highlighting the importance and appeal of its items to each group.[16]

In conclusion while Luckin Coffee deals with considerable obstacles in the kind of extreme competitors and varied consumer choices, it likewise has considerable chances for development and advancement. By leveraging its strengths and resolving its weak points Luckin Coffee has the possible to take a substantial specific niche in China's quickly growing coffee market. Its ingenious organization design concentrate on benefit and price and understanding of regional tastes and choices position it well to take advantage of the chances provided by this vibrant and developing market.

4. MARKETING PROBLEM

4.1. Discrepancy in Store Distribution and Product Positioning

Lukin Coffee faces a challenge due to the mismatch between its store distribution and product positioning. This incongruence can result in confusion among consumers. In first-tier cities, Lukin Coffee stores are typically located near business centers or office buildings, with a focus on offering fast and convenient coffee service. However, in third and fourth-tier cities, where there may be limited understanding of the local consumer market, store positioning lacks precision and product selection fails to align with local taste preferences.

For instance, certain third-tier cities have less distinct market segments. To establish a presence in these areas, Lukin Coffee sets up stores in commercial districts and close to shopping malls. However, it's important to note that local residents might exhibit a stronger preference for soft beverages like Frappuccino rather than the coffee-based beverages primarily promoted by Lukin Coffee. Such differences in approach could potentially lead to sales challenges.

4.2. Need for Improvement in Coffee Quality

Consumers have raised concerns about the quality of Lukin Coffee, which may impact their willingness to make repeat purchases and recommend the brand [1]. Some customers have taken to social media platforms to express dissatisfaction with the lackluster flavor of Lukin Coffee's offerings. When compared to other coffee chains, customers perceive a noticeable decrease in the quality of their beverages. A TikTok video from May 2019 gained popularity as a consumer shared her disappointing experience of receiving bitter and tasteless coffee, resonating with many viewers' experiences as evident from the extensive comments section. Potential reasons for this disparity could include factors like the selection of coffee beans and the roasting process employed by Lukin Coffee. To address these concerns, it is crucial for Lukin Coffee to continuously strive for improvement in enhancing coffee quality. Implementing measures such as introducing premium-grade coffee beans, offering a master series of coffees, and emphasizing pour-over brewing methods have demonstrated promising outcomes in this regard.

4.3. Weak Brand Awareness

Lukin Coffee faces the challenge of low brand awareness. This hinders consumers from developing a strong connection with the brand amidst numerous coffee options available [2]. Unlike other coffee chains, Lukin Coffee seems to allocate less investment in advertising and promotion, leading to a lack
of distinct brand activities. Consequently, it becomes easier for consumers to recall the names of competing brands while Lukin Coffee's identity remains vague. In today's competitive market, brand recognition and emotional attachment play crucial roles in influencing consumer choices. Unfortunately, Lukin Coffee's brand strategy does not fully capitalize on this potential.

4.4. Risks of Overreliance on Trending Products

Lukin Coffee's brand image may suffer from relying too heavily on a single trending product. When the popularity of that product fades, it could put the brand's continued growth at risk [3]. Take, for example, the Coconut Cream Latte which became immensely popular and served as the flagship product. It is crucial to promptly introduce other enticing offerings to maintain consumer interest. A similar situation was faced by "Honey Snow Ice," a brand that gained fame for a particular dessert but experienced a significant decline in attention once that product was phased out due to cost-related issues in the third quarter of 2021.

5. SUGGESTION

5.1. Expansion into Third and Fourth-Tier Cities

Lukin Coffee should enhance its research efforts in third and fourth-tier city markets to gain a deep understanding of local consumer preferences and cultural habits. This knowledge will enable Lukin to strategically adjust their product positioning and store layouts to better meet the needs of local consumers. For example, introducing signature beverages that are tailored to local tastes and designing stores that seamlessly integrate with the local culture can significantly strengthen Lukin's presence. Moreover, considering unique store designs for each locality and aligning marketing strategies based on the preferences of different consumer segments can also be explored.

5.2. Emphasis on Innovative Product Development

Lukin Coffee should prioritize its commitment to innovative product development by consistently introducing new coffee offerings. Additionally, the brand can explore the incorporation of local flavors into its beverages, resulting in creative and unique blends. By adopting this approach, Lukin Coffee will not only capture consumer attention but also diversify the consumer experience while safeguarding against relying solely on a single bestseller. It is crucial for the brand to avoid anchoring its identity solely on one product and instead foster a more versatile and sustainable brand image.

5.3. Prioritize Brand Culture to Elevate Service Quality

Lukin Coffee should prioritize several key areas to strengthen its brand presence and expand internationally. First, the company should focus on fostering a strong brand culture that embodies its distinct image and values. This can be achieved by investing in initiatives that shape brand identity and establishing clear brand guidelines. Furthermore, it is crucial for Lukin Coffee to train its staff to deliver exemplary service and develop long-lasting customer relationships. By providing superior service aligned with the brand philosophy, Lukin Coffee can enhance consumer loyalty and differentiate itself from competitors. In addition, learning from Starbucks' successful management practices can greatly benefit Lukin Coffee's internationalization efforts. Specifically, improving staff training programs and catering.
5.4. Cultivate "Tian Mingzao Effect" and Engage in Cross-Marketing

Inspired by past successes like the "Tian Mingzao Effect," Lukin Coffee actively seeks collaboration opportunities with notable figures and events [4]. This strategic approach creates a buzz, attracting more attention and fostering discussions. Additionally, cross-collaborations with artists and musicians through co-branded beverages help broaden their consumer base. By leveraging different audiences and interests, Lukin Coffee effectively drives brand engagement and increases visibility.

6. Conclusion

Through the analysis of SWOT model, we can find that Luckin Coffee has been facing a complicated business environment with strengths and weaknesses. The financial fraud impairing the reputation and its initial market strategy have a heavy financial pressure on it. In spite of that, Luckin Coffee has attracted a faithful consumer group consisted of most of young people with the combination of price strategy and market strategy-- "Online + Offline " Model. As far as the current situation is concerned, there are some blank space to full up for the brand. First, Luckin Coffee are supposed to strengthen its brand awareness and keep exploring the potential value of the brand to make the image much clearer. Additionally, Luckin Coffee should spend more time and efforts on innovating product development to avoid the risk of overreliance on the single bestseller.

Luckin Coffee should maintain the strengths and improve crisis awareness and keep looking for the potential opportunities. Only in this way, can Luckin Coffee make an incredible progress in business.

Acknowledgments

All authors contributed equally to this work and should be considered co-first authors.

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