

Analysis of the Marketing Strategies of Luckin Coffee to Get Rid of the Financial Fraud

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Abstract: In today's society, the market competition is very fierce, a variety of products and services emerge endlessly. Without a good business strategy, companies will be at a disadvantage in the competition and even go bankrupt. In the increasingly competitive market, some companies wrongly take some improper practices to address their situation, such as financial fraud, referring to the act of dishonestly obtaining money or assets by fraudulent means. It involves false information, misrepresentation, or concealment of facts for financial gain. If a company commits financial fraud, it will be forced out of the market and its reputation will be greatly reduced. We first conduct a SWOT analysis to evaluate the company's internal and external strengths and weaknesses. Subsequently, we assess the measures implemented by Luckin Coffee in response to the analysis. Thirdly, we validate the effectiveness of these measures using financial statement data. Ultimately, we draw some conclusions for other companies in mitigating financial fraud.

Keywords: Luckin Coffee, Financial Fraud, Marketing Strategy, Financial Statement Analysis

1. Introduction

Financial fraud refers to the premeditated and deliberate use of deceptive means and illegal behaviors by enterprise groups or individuals to obtain improper interests [1]. Misrepresentations that result in the establishment of financial statement fraud can pertain to all sorts of relevant information used by market participants to assess the financial health and future prospects of an investment. Fraudulent financial statements may be issued he profitability and future prospects of an enterprise [2].

Luckin Coffee, a famous coffee brand, is revealed to have committed financial fraud in 2020. On February 1, 2020, Muddy Waters Research issued an 89-page short report against Luckin Coffee, which sent the company's shares down 24 percent [3]. On April 2, 2020, Luckin Coffee admitted that the company falsified a 200-million-yuan volume of trade. On May 19th, Luckin Coffee was delisted in the end. Although the scandal gave Luckin Coffee a hard hit in the stock market, its sales did not experience a huge decline. After the scandal, Luckin Coffee also modified its strategies, including starting to close stores while opening new ones to reconstruct its commercial layout in China, providing smaller discounts, and innovating new products to offset the negative effect of raised prices. With all these changes, by the end of 2020, 60% of Luckin's stores started to earn profits. It is clear that Luckin Coffee managed to survive after the scandal [4].

In order to solve this problem, Luckin Coffee also modified its strategies, including starting to close stores while opening new ones to reconstruct its commercial layout in China, providing smaller discounts, and innovating new products to offset the negative effect of raised prices. With all these changes, by the end of 2020, 60% of Luckin Coffee's stores started to earn profits [5].

In this paper, we first analyze the strategic situation of Luckin Coffee using a SWOT analysis framework, based on which we further explore the corresponding measures of how Luckin Coffee got rid of the scandal. Finally, we verify the effectiveness of these measures by data analysis of Luckin Coffee's financial statements. This paper is helpful for some companies facing situations like Luckin Coffee.

2. SWOT Analysis of Luckin Coffee

2.1. Strength

Luckin Coffee offers high-quality, high-cost performance. Different from mature coffee brands such as Starbucks, Luckin Coffee positions itself as low price and high-quality coffee takes the differentiation route, and takes "let every customer easily enjoy a cup of good coffee with value" as the brand vision. Luckin Coffee employs subsidies as a strategy for implementing split marketing, offering customers extended coupon benefits to communicate the idea of exceptional value for money. The new reward is the fastest fission means, and a large amount of the advertisement is invested in the way that old customers bring new users to reward both sides. This simple interest drive not only makes users feel satisfied but also enables Luckin Coffee to achieve the fission growth of users in a short period of time, becoming a dark horse stirring China's coffee industry [6].

Furthermore, Luckin Coffee diversified its marketing strategies. Accurate advertising in the main urban office buildings and community elevators, LBS targeted advertising, and accurate advertising to reach the target customer groups around the store, such as office people, and young people.

Luckin Coffee is more convenient. Different from traditional coffee shops such as Starbucks, Luckin Coffee's stores are mainly outside, rather than setting up many seats for customers to rest like Starbucks. This is why Luckin Coffee can open a large number of stores to further enhance its brand awareness. Luckin Coffee has opened its stores in coffee shops, offices, campuses, gas stations, and other scenes of daily life, creating an infinite scene of "you can drink when you want". Luckin Coffee exclusively offers coffee without selling space, culture, or packaging, catering to the mobile preferences of the youth demographic.

2.2. Weakness

Luckin Coffee's marketing strategy has potential risks and serious loss problems. During its initial phase, Luckin Coffee heavily relied on subsidies totaling over 1 billion yuan. This reliance created a situation where consumers became dependent on these subsidies and diminished their understanding of the brand's core value proposition. Luckin Coffee's early marketing methods were mainly to attract new customers and offer discounts. However, many consumers were reluctant to buy coffee from Luckin Coffee at higher prices after experiencing the rewards.

Customers of Luckin Coffee are sensitive to price, and many of them buy it because of its low price. Once the subsidy is canceled in the later stage, Luckin Coffee is likely to lose a large number of users, so brand loyalty needs to be considered, and user viscosity needs to be improved.

2.3. Opportunities

The coffee market is growing. Thanks to global partnerships and trade, a diverse range of beverages has recently made their way into the Chinese market. The dining preferences and consumption habits

of young consumers are subtly shaped by various culinary traditions. Presently, coffee stands as the second most favored beverage in China. There's a growing trend of increased daily coffee consumption among the Chinese population, and the market is replete with cafes strategically located to provide people with enjoyable and relaxing experiences. Due to China's large coffee market and increasing consumer awareness, many coffee companies have swiftly expanded their presence in this market. By 2020, the number of cafes in China has exceeded 100,000, and the consumer population has reached 300 million [7].

Per capita income increased. Economic factors are one of the main influencing factors in the coffee market. As the number of China's middle class grows and the level of consumption improves, more people are willing to spend money on high-quality coffee.

2.4. Threats

There is still a gap between product quality and big brands. Due to the rapid expansion of Luckin Coffee, some stores have problems such as poor coffee quality and poor staff service, which leaves a bad impression on customers and has a negative impact on the brand image.

The threat of small and medium-sized coffee brands. Small and medium-sized coffee brands emerge in an endless stream. While expanding the market, Luckin Coffee also needs to always seize every opportunity to increase sales and brand awareness so as to avoid new coffee brands standing out and stealing the share of the coffee market.

3. Measures and Effectiveness

Luckin Coffee has taken a number of measures that have led to a recovery in the economy. Below we analyze these measures and their effectiveness.

Luckin Coffee first concentrated on their company internally, mainly to get the company back on track and no longer affected by negative public opinion. Luckin Coffee face the crisis positively and honestly and reshapes its corporate values and culture. After experiencing the fraud incident, the new management of Luckin Coffee did not escape and cover up but took the initiative to restore the truth, actively assumed responsibility, compensated investors, and ensured that the fraud force was completely eliminated. After reviewing the pain, the new management of Luckin Coffee put "truth-seeking and pragmatic" in the first place of corporate values and took it as the basis and criteria for all actions of Luckin Coffee.

Luckin Coffee has diversified its products to attract more customers and increase sales. Luckin Coffee has found through its research on consumer demand that there is more room for development in adding milk to coffee. Luckin Coffee understood that people like dairy products but also have spiritual dependence on coffee. Therefore, Luckin Coffee tried the raw coconut category, launched a series of raw coconut latte products, and invited the flow of stars such as Luxiu Li to become a spokesperson. Luckin Coffee keeps up with the trend and quickly warm the market. It is estimated that most of Luckin Coffee's profits come from the contribution of raw coconut latte, which further promotes the development of coffee milk tea.

After Luckin Coffee experienced financial fraud, although it reached a settlement with shareholders, the sense of trust with shareholders was reduced.

Table 1: Summary of shareholder's equity

Years	2019	2020	2021	2022
Total shareholder's equity(RMB)	5,142,527	2,724,884	3,631,137	5,049,247

We choose the owner's equity index from Luckin Coffee's financial statements to demonstrate the effectiveness of their measures. As shown in Table 1, between 2019 and 2020, Luckin Coffee's financial fraud led to a decrease in owner's equity. However, following the incident, Luckin Coffee consistently provided accurate financial statements, which helped rebuild trust among the public and new shareholders. This is evident in the increase in owner's equity from 2020 to 2022, as shown in Table.

Table 2: Quick ratio change from 2019 to 2022

Years	2019	2020	2021	2022
Non-inventory current asset (RMB)	7,166,840	6,144,629	7,790,010	4,830,587
Current liability (RMB)	4,309,379	1,000,986	6,591,633	2,828,836
Quick ratio (RMB)	1.663	6.139	1.182	1.708

To reinforce the efficacy of these actions, we perform a financial indicator analysis, with the quick ratio objectively gauging Luckin Coffee's ability to meet short-term obligations.

Table 2 shows Luckin Coffee's liquidity from 2019 to 2022. quick ratio is calculated by non-inventory current asset divided by current liability. The closer the quick ratio is to 1, the more reasonable use of short-term assets. The changes in the quick ratio between 2019 and 2020 is extremely volatile. When the financial fraud incident occurred in 2020, the quick ratio soared to 6.139, which indicates that Luckin Coffee's asset liquidity was very poor at that time. However, in 2021, after Luckin Coffee took a series of measures, the quick ratio tended to be normal again. All in all, their measures have provided effective help to the company, making the liquidity of Luckin company smooth.

4. Discussion and Suggestions

Based on a SWOT assessment and a review of financial statements, we derive a set of recommendations based on our comprehensive analysis for companies facing challenges similar to those faced by Luckin Coffee.

First of all, companies facing financial fraud challenges like Luckin Coffee should take responsibility initiatively. It is paramount for a company to demonstrate proactive responsibility, which entails refraining from evading accountability and concealment and instead, proactively working towards the restoration of truth.

Second, the companies should take some strategic measures to gradually reconstruct a solid and trustworthy brand foundation. This process initiates with the decisive step of purging the fraudulent team from the organization's ranks. Subsequently, it encompasses a diligent schedule of quarterly reviews aimed at guaranteeing that these individuals are never reinstated within the company's workforce.

Third, as part of this transformational journey, there's a critical need to prioritize the reformation of the corporate value culture. The core of this effort is the elevation of authenticity and pragmatism to the forefront of the company's core values.

Lastly, it is of paramount importance for companies to conduct thorough and exhaustive examinations into the primary incentives and methodologies employed in financial deception, particularly within publicly traded firms. This comprehensive scrutiny allows companies to identify

preventive measures that can significantly reduce the occurrence of financial fraud, thereby protecting investors from incurring avoidable losses.

5. Conclusion

After the financial fraud occurred, Luckin Coffee immediately demonstrated its internal attention to the matter, and then diversified its products and revised its marketing strategy, as well as further improving its financial transparency. In this paper, we assess Luckin Coffee by examining its strengths, weaknesses, opportunities, and threats, both from an internal and external perspective. In addition, we also evaluate financial indicators such as shareholders' equity through research and objectively measure the effectiveness of the measures taken by Luckin Coffee.

Luckin Coffee's series of measures taken in response to the financial fraud contributed to the company's economic turnaround and helped the company regain the trust of shareholders and customers. This paper highlights the importance of adaptability and transparency in overcoming major corporate crises, providing valuable insights for companies facing similar challenges.

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