

An Analysis of Luckin Coffee's New Marketing Model from the Perspective of Behavioral Finance

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Abstract: With the development of Internet technology, Luckin Coffee has transformed the traditional value creation model, driven by customer value as the goal, and established its brand effect in a short period of time through financing. However, the excessive and rapid expansion led to financial crisis, which caused it to fall into the negative vortex of financial fraud, and finally returned to the consumer market at the cost of delisting and restructuring in the United States. After returning to the market, Luckin Coffee changed its business operation model, and the reform of the new marketing model focusing on products and customers made its financial turnaround and rebuilt its brand value. How does Luckin Coffee take advantage of consumers' psychology and guide their consumption preferences? Based on the perspective of behavioral finance, this paper analyzes how the operation management team of Luckin Coffee reconstructs its marketing methods and paths by utilizing the anchoring effect of consumers, limited attention transactions and herd effect. The research conclusion shows that the new marketing model with consumer demand caused by consumer psychology as the core can effectively and rapidly increase the number of new customers and improve customer retention. Luckin Coffee has also quickly passed the crisis after delisting and restructuring, and its business performance and corporate value have also gradually increased. The brand value has returned to the vision of consumers, and the future is promising.

Keywords: Luckin Coffee, Behavioral Finance, Anchoring Effect, Herd Effect

1. Introduction

The development of Internet technology has given birth to the business model of new retail. Based on the Internet platform, enterprises use new Internet technologies such as big data and cloud computing to fully integrate online sales, offline experience and logistics distribution. In addition, enterprises can also use the new technology of the Internet to release new products, provide new services and expand new channels, and comprehensively enhance the sales and corporate value of enterprises.

Luckin Coffee was established in Xiamen in October 2017. At the beginning of its establishment, with the vision of "creating a world-class coffee brand and making Luckin a part of People's Daily life", Luckin Coffee made full use of Internet technology and chose a new retail model of "online + offline" to ensure a good consumer experience for customers. After its establishment, Luckin Coffee Company has maintained rapid development. From its official operation in May 2018 to 2019, the number of stores has exceeded 4,500, surpassing the total number of stores opened by Starbucks in

China for the first time. New retail methods and the rapid expansion of stores have also been favored by the capital market, with financing reaching 2.65 billion yuan in 2018 and 5.59 billion yuan in 2019. In May 2019, it went to the United States to list on the NASDAQ market, 19 months after the company was founded, and the highest share price of the company reached the peak of \$51.38 in January 2020.

However, in January 2020, Muddy Waters Fund issued a short report directly pointing to Luckin coffee data fraud, in April 2020, Luckin Coffee announced the announcement of adult financial operation fraud of 2.2 billion yuan, and then the stock price plummeted 80%, and the market value instantly evaporated nearly 5 billion yuan. What followed was an apology issued by Luckin Coffee, penalties from the domestic Securities Regulatory Commission, the US investment market and investor lawsuits. On June 29, 2020, Luckin Coffee suspended trading on NASDAQ and delisted for filing, entering the over-the-counter market.

After the financial fraud and delisting restructuring, Luckin Coffee did not withdraw from the market. After the governance of the company's equity structure, the company adjusted its business strategy to take "product quality and customer value" as the goal and improve customer demand as the core competitiveness [1]. Based on consumers' psychology and consumption preferences, it made new adjustments to the marketing model [2]. Luckin Coffee's turnover is rising year by year, the amount of loss is also shrinking, and in the first quarter of 2022, the first time to turn a profit, the total net income of fiscal year 2021 is 7.965 billion yuan, an increase of 97.5% compared with the fiscal year 2020 [3].

Behavioral finance is a discipline based on the perspective of psychology to explore how people make decisions with psychological biases and preferences, and how they affect investment behavior, and finally how they affect the value of assets. How does Luckin Coffee's new operating model make use of consumers' psychology and consumption preferences to adjust, and finally affect the value of the enterprise? This paper will make use of the anchoring effect, limited attention transaction and herd effect of consumers in behavioral finance to discuss how the operation team of Luckin Coffee takes advantage of these deviations of consumers' transaction behavior to adjust and reform the marketing model, so as to better acquire customers and improve customer retention, and rebuild the brand value.

2. The Anchoring Effect of Consumers

Since its inception, Luckin Coffee has been aiming to create low-cost high-quality coffee as its main product goal. Existing young white-collar consumers continue to take "cost-effective" as the anchor point. Although Luckin has experienced financial fraud leading to delisting, the coffee quality in stores has not declined, and the anchor point of "cost-effective" is the reference point that existing consumers care most about Luckin Coffee [4]. It is like an anchor that restricts the consumption habits of these old customers, because even after the delisting reorganization of Luckin, these young old customers continue to buy Luckin coffee.

College students are also a group of young people, and young white-collar workers are the roles they will become when they enter the society. Luckin Coffee regards young white-collar workers as the anchor point of the whole consumer group, and opens more stores on or around the university campus or in the university city. By taking advantage of the anchoring effect of young college students, when college students consume drinks, they will be able to enjoy the coffee. They will unconsciously take the consumption habits of the characters they are about to become as a reference point, which restricts their consumption like an anchor. When Luckin Coffee has always taken "cost-effective" as the core competitiveness of the product, and the price is within the range of college students' consumption, college students also begin to buy Luckin coffee as a supplement to their drinks [5].

3. Limited Attention Transactions of User Consumers

Since its inception, Luckin has been committed to how to acquire new customers and quickly occupy market share as the goal, and has held a variety of marketing activities to take advantage of the limited attention of investors and maximize the public and private traffic of consumer groups [6]. Investors' limited attention trading is a manifestation of investors' trading behavior deviation in behavioral finance, which means that investors can only choose the assets they are interested in or conspicuous when choosing investment targets due to their limited energy [7]. When a consumer chooses a coffee drink, it can be regarded as an investment in his (her) consumption of drinks, if the consumer has no inclination, she (he) will choose the products that they often advertise, various media and have coupon activities. Luckin Coffee is taking advantage of the limited attention of investors trading bias, before the listing on the focus on Luckin brand promotion advertising.

In the early stage of Luckin's listing, Luckin first invited famous Chinese actors Zhang Zhen and Tang Wei as spokespersons, and successfully exported Luckin's brand positioning as "high-quality commercial coffee" to the public with their independent business temperament. In 2019, it invited Liu Haoran, the younger brother of Chinese actor Guomin, to be the new brand spokesperson, and targeted the consumer group at "office young people" with a number of new products of deer tea. Even after the delisting storm, Luckin did not give up the use of star effect for advertising to promote the brand. In September 2021, Luckin cooperated with sports star Gu Ailing to launch two types of coffee related to the main body of Winter Olympic sports, namely ski latte and Sa snow Latte, promoting the concept of sports health and so on, and shifting the brand positioning to more young people. When they make use of these obvious spokespersons, they will carry out a variety of online and offline marketing activities around these spokespersons, such as subway, elevator, shopping mall and other public scenes, which are covered with paper electronic screen advertisements of Luckin; Online sweepstakes such as signature photos of gift cards designed using the spokesperson's photo. The overwhelming advertising has attracted the attention of consumers to a great extent, making more consumers know the brand of Luckin Coffee, and the star halo sought after by the public has also established a good brand image of Luckin Coffee in the minds of consumers.

Luckin coffee in addition to open the brand awareness in the way of cooperation with the star, in the public consumer area has obtained a huge customer base, after the delisting storm, Luckin's brand has also been questioned by consumers. In order to let the eyes of consumers return to the brand of Luckin once again, the operating officer of Luckin has used more refined operation channels to attract the limited attention of old customers more accurately, and will focus more on customer retention, introduce customer traffic from the public domain to the private domain, and increase customer retention [8]. Luckin has frequent access to users through the offline consumption environment of many stores, such as the dining table, checkout counter, poster, coffee bottle, etc., and the online hot ecology, such as the enterprise Wechat group with Wechat as the main body, Wechat mini program, popular short video platform, Luckin Coffee APP, etc., for new products and coupon activities on the platform. These online Internet ecology has become the daily way of mass consumption, Luckin Coffee has officially made use of the consumption scene which is highly coincident with the consumption habits of the public, especially young people, and greatly improved the attention of investors with omnipresent marketing [9]. This new private marketing model has made Luckin add more new consumers and encouraged more old customers to buy again.

Another way of Luckin Coffee to attract consumers' attention is to cooperate with major famous brand IP and constantly launch innovative explosive products. In April 2021, the raw coconut latte launched by Luckin Coffee was loved by young consumers, and the sales volume exceeded 100 million cups on the first anniversary of its listing. In April 2022, Luckin took advantage of the position of the old national beverage brand Coconut Tree Group in the hearts of mass consumers, and jointly

produced coconut Cloud Latte with Coconut Tree Group, which sold 660,000 cups on the first day of listing. It sold 4.95 million cups a week, and its total sales exceeded 81 million. Coconut Group is a 68-year old enterprise in the Chinese beverage market, which has a large number of loyal customers and a good public reputation in the Chinese consumer market. In cooperation with Luckin Coffee, we make use of consumers' nostalgia and novelty, and attract more middle-aged and elderly customers to make new attempts for the brand in their hearts. In April 2024, after raw coconut latte, meteorite latte, thick milk latte and other raw coconut latte products were loved by consumers, Luckin struck while the iron was hot, and once again cooperated with the famous IP spirit Day Group of the first batch of Bubble Mart, a domestic blind box enterprise in China, to launch a limited number of new coconut Emperor latte, again taking advantage of the huge consumer fan base of Bubble Mart brand. Attract their attention to get more consumer attention, expected to achieve the next hot product.

Luckin Coffee's most successful co-brand product, which has taken advantage of limited investor attention, has been the sauce-flavored latte. This product is jointly launched by Luckin Coffee and Moutai Company. First of all, Moutai Company is a leading enterprise in China's liquor industry and the most expensive stock in China's financial market in the capital market. Its liquor is of high price and good quality, and its consumption is a symbol of status in China, which is sought after by the public. And coffee and liquor drinks are also the first time to appear in the public's vision, this new concept of coffee and the brand effect of Kweichow Moutai company, once launched in the market caused an uproar, greatly attracted the attention of many liquor lovers, coffee lovers, ordinary consumers and curiosity psychology, the day before the market on September 5, 2024, The cumulative volume of public opinion related to "sauce-flavored latte" has reached more than 512,000, the relevant amount of attention on short video platforms has reached 23,000, and the amount of attention on Weibo platforms, forums, and self-media accounts has reached more than 270,000, which has gained great attention from various consumer groups and accumulated a large number of potential consumer customers. On the first day of the soy sauce latte listing, the daily sales volume of sauce-flavored latte single product stood out 5.42 million cups, and the sales volume exceeded 100 million yuan on the first day, so the heat has not decreased, and it has once again become the phenomenon of Luckin Coffee explosive product.

From the perspective of behavioral finance, the evolution of Luckin Coffee's marketing model has changed from the initial way of cooperating with famous stars, issuing coupons and discount coupons to attracting more customers in the public domain, to the transformation of public domain customers through more refined Internet multidimensional private domain traffic, and repeatedly cooperating with famous IP to innovate and sell co-branded products [10]. It is closely related to the fact that Luckin Coffee marketing team is well aware of consumer psychological deviations and makes great use of consumers' limited attention to transactions. The multi-dimensional marketing approach of Internet ecology enables consumers to access Luckin coffee in various daily life scenarios. When consumers find it difficult to choose among various coffee drinks due to limited energy, the availability bias of consumers enables them to choose conspicuous and easily available information for decision-making while consuming less information searching [11]. Therefore, it increases the possibility of consumers choosing Luckin coffee and the re-purchase rate of old customers. The product launch of the joint venture with the famous IP has greatly attracted the already huge fan base of the co-branded IP, and consumers will increase their willingness to try and pay for the co-branded product due to their love for the co-branded IP when making decisions according to their emotional inspiration bias. The continuous cooperation with famous IP has kept Luckin Coffee brand's attention in the hearts of consumers, attracting more new customers to join, while preserving the retention of old customers. Even after delisting and restructuring, it still attracts more customers through these ways, coffee sales and turnover have been rising year by year, and in the second quarter of 2022, it will turn a profit. Total revenue reached 3.299 billion yuan, up 72.4% year-on-year.

4. The Herd Effect of Luckin Coffee Consumers

First of all, in the marketing of each new product, Luckin Coffee has added more social attributes in addition to the commodity attributes of the product, which has generated a herd effect among different consumer groups and expanded the consumption of Luckin coffee. Whenever Luckin Coffee develops a new product, the company will certainly promote it on major Internet platforms, especially in social media marketing. The search volume of Luckin's new product can almost exceed 10,000 on Wechat, Xiaohongshu, Douyin and other short video platforms, which are the largest and most convenient social platforms on the Internet in China. Many young people find the same fashion and trend life elements in the consumption of Luckin coffee. Luckin coffee has become a conversation and connection for young people. In the consumption of soy sauce lattes, many middle-aged people, when consuming baijiu flavored coffee, link the emotional exchange of Moutai liquor consumption experience, which enables the public to have a sense of identity and belonging when consuming Luckin coffee [12]. In order to obtain such a sense of identity and belonging, more consumers will be able to buy coffee. Even if there is no coffee consumption habit or no consumption preference for Luckin coffee products, they will choose to follow the consumption habits of others.

Secondly, the sales of Luckin's new products bring positive value to the Luckin coffee brand, and consumers are optimistic about this. Under the premise that the quality of Luckin coffee is guaranteed, the optimistic mood is contagious among consumer groups, and more consumers will choose to consume Luckin coffee in order to support domestic coffee brands.

5. Conclusion

From the perspective of behavioral finance, this paper discusses how the operation team of Luckin Coffee, after the delisting and restructuring storm, takes "product quality and customer value" as the goal, analyzes consumers' consumer psychology and habits by using the anchoring effect of consumers, limited attention transactions and herd effect, adjusts and changes the marketing model, and finally improves the core competitiveness of the enterprise. It has achieved a turnaround against the wind and reshaped the brand value. The change of Luckin Coffee's operating model shows that the shaping of corporate brand value should ultimately return to improving product quality and customer satisfaction, so as to deeply explore customer needs and develop products according to consumer preferences in order to truly improve customer stickiness and truly enhance brand value.

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