

Analyzing the Marketing Strategy of Luckin Coffee under the New Retail Mode

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Abstract: With the rapid development of science and technology, new retail modes, such as e-commerce and online APPs, gradually emerge and mature into a mainstream consumption pattern. Not only did traditional retailing industries start the revolution, but also infant industries are trying to engage in this new tide. This paper examines Luckin Coffee (Luckin) as a successful case study to investigate its marketing strategy within a large-scale marketing environment through the method of literature review and theoretical analysis such as SWOT and 4Ps theory. The utilization of artificial intelligence and big data adds value to enterprises by enabling them to differentiate themselves in the market and identify their target customers. Therefore, vendors have the ability to provide personalized services, such as online ordering and delivery services, in order to satisfy fast-growing and constantly changing demands of various customers. This article serves as a point of reference for future research in marketing strategies.

Keywords: new retail, marketing strategy, SWOT, 4Ps.

1. Introduction

Luckin Coffee (Luckin) was established in Xiamen, China in 2017. It began trial operations in first-tier cities such as Shanghai and Beijing and quickly entered the market with a new retail model that integrated online and offline, as well as a diversified marketing approach focused on social e-commerce. As a result, it has quickly developed into one of the major domestic chain coffee brands in recent years. This is inseparable from the consumer-centric brand mission. Luckin Coffee is committed to fully utilizing the new retail model of mobile Internet and big data technology, while also establishing deep partnerships with high-quality suppliers across various fields in order to enhance the overall consumer experience. For example, in 2022, Luckin Coffee signed a contract with Kunshan Economic and Technological Development Zone to invest 120 million US dollars to build a fully automated production base integrating coffee research and development, roasting production, sales and logistics distribution. On June 5, 2023, with the opening of the flagship store in Zhongshan Road, Xiamen, the number of Luckin Coffee stores in the Chinese market has reached 10,000, becoming the first chain coffee brand in China to exceed 10,000 stores [1].

New retail is a new mode in which individuals and enterprises rely on the Internet to upgrade and transform the production, circulation and sales process of commodities by using psychological knowledge and advanced technologies such as big data and artificial intelligence, so as to reshape the business structure and ecosystem, and deeply integrates online services, offline experiences and

modern logistics. The concept of the new retail, which integrates online and offline channels and transforms traditional business models, was initially introduced by Jack Ma in 2016, the founder of Alibaba. This approach allows consumers to not only enjoy the convenience of online shopping but also experience the tangible aspects of offline retail.[2].

This paper aims to explore the operational methods of Luckin through 4Ps theory, in order to elucidate its success following the transition to a new retail model. Moreover, SWOT analysis will illustrate the macro performance of Luckin from four aspects including strength, weakness, opportunity and threat. Enterprises can thus gain innovations and experiences as they strive to improve and distinguish themselves from their competitors. Besides, the thesis can give advice and inspirations to newly emerging industries on how to grow up and increase the market share by seizing the opportunity of technology improvement and market reform.

2. Marketing strategy of 4Ps analysis

2.1. Place

Luckin Coffee is mainly distributed in first and second tier cities, especially in the universities, office buildings and shopping malls. This is closely associated with its segmentation, targeting and positioning principle. In terms of geographical factors, coffee consumers in first and second tier cities account for 46% of the total, so their coffee purchasing power is much higher than that in third tier cities and below [3]. In addition, consumer consumption habits in first and second-tier cities have basically been formed, and market penetration is relatively easy, so it is the preferred target to open the market. In terms of population as well as psychological and behavioral factors, female coffee consumers account for 61%, more than 90% of consumers between the ages of 19 and 50, and 68% have a bachelor's degree or above [3]. This indicates the majority of the target consumers are white-collar workers, administrators and college students, and college students will more likely to become those workers in the office buildings in the future, which also creates potential value for the company. To sum up, the target market of Luckin Coffee is young working adults and college students who love coffee or regard coffee as a daily necessity in first and second-tier cities.

It is worth mentioning that all Luckin Coffee stores adopt direct sales as the only channel of marketing without any kind of franchise, which involves high investment and operating costs. To a certain extent, managing this issue may prove challenging due to the varying allocation of resources and profitability in different regions. Consequently, achieving balanced development becomes a difficult task. However, it filters out the opportunities for middlemen to make a difference so that entrepreneurs can earn higher sales profits by directly contacting customers. This pattern ensures that the brand has direct control over store operations, allowing for better implementation of brand strategies and the standardization of service.. At the same time, Luckin can quickly expand in the core areas of first-tier cities to capture the market, ensuring the sustainability of the brand's long-term development. The stunning sales volume and profits prove that Luckin has achieved great success and covered the costs.

2.2. Product

In April 2021, Luckin Coffee launched its Coconut Latte, a single product that contributed 1.26 billion yuan to Luckin Coffee in just 8 months. By April 2022, one year after Luckin Coffee launched its Coconut Latte, sales had directly exceeded 100 million cups, achieving a double explosive growth in revenue and store numbers, making it the largest chain coffee brand in China [1]. The combination of coconut and coffee was first introduced to the public and quickly became the iconic product of Luckin Coffee. Witnessing such a surge in demand of the new product, Luckin Coffee has been dedicated to conducting extensive research and development of other products that containing

coconut as a key ingredient. These drinks also gained an overwhelming response in virtue of the popularity of the previous Coconut Latte. Subsequently, other brands set Luckin Coffee as an industry benchmark and began to emulate its success.

Another stunning success of Luckin Coffee is the co-branding with Maotai, which is one of the three famous Chinese wines. They jointly launched Maotai Flavor Latte, a product that used thick milk with liquor flavor, which contains 53 degrees of Kweichow Moutai liquor. The overall alcohol content of the beverage is less than 0.5 degrees. The first day sales of a single product exceeded 5.42 million cups, in total of over 100 million yuan [1].

The collaboration between the two well-known firms achieved unexpected effect. Luckin Coffee captured the curiosity of consumers and has capitalized on this consumer psychology, effectively expanding its customer base, especially for moutai purchasers, and attracting a wider range of middle-aged customers.

Furthermore, there are diverse choices on Luckin's APP for customers to order a delivery service, ranging from instant coffee to coffee cups and other coffee accessories. They are quite convenient for people who do not have enough time to wait for freshly made coffee in offline entities. In addition, Luckin Coffee often offers seasonal and holiday exclusive products which are typically presented in specially designed packaging to capture the attention of customers. However, these products are only available for a limited time period, employing the "hungry marketing" strategy to stimulate consumer purchasing desire. Like other brands, Luckin Coffee also supplies desserts and sandwiches to serve with coffee. Consumers can receive a discount if they order a set meal, which is a bundling of complementary products.

2.3. Price

Luckin Coffee takes an absolute price advantage in the industry, which differentiates itself from other brands. The price elasticity of demand is high due to fierce competition. An affordable price will increase quantity demanded more than proportionate and thus boost total revenue. Additionally, there are many discounts and gifts offered to the customers. An abnormally high price will first be displayed on the ordering page, and when it comes to the payment page, consumers can usually get a more than fifty percent discount by using loads of coupons. This is a successful application of anchoring effect. Anchoring bias refers to the tendency of individuals to place excessive reliance on the initial piece of information they receive regarding a particular topic. This cognitive bias can lead people to give disproportionate weight to the first information they encounter, potentially influencing their subsequent decision-making and judgment. Regardless of the accuracy of that information, people use it as a reference point, or anchor, to make subsequent judgments [4]. In this case, the original high price has left a deep impression in people's minds, which makes customers feel surprised by the enormous drop of price at last. People's purchase intentions will suddenly arise. Most of them will not be willing to lose a chance to get an affordable discount. Other humanized services, like free shipping, are also welcomed by the consumers.

2.4. Promotion

Currently, celebrity endorsement tactics is a popular way to improve the brand awareness and exposure. Studies have shown that celebrities' strong visibility, appeal, and other attributes enhance brand recognition [5]. Luckin Coffee has enlisted several well-known figures with significant social influence to serve as its brand ambassadors, including Zhan Xiao, Haoran Liu, and Eileen Gu. Their posters were widely distributed in shopping malls, metro stations and other crowded public areas. Besides, Luckin Coffee will update the information of the latest spokesperson on its official website and social media account. At the same time, the spokesperson will also post news of cooperation with

Luckin Coffee on social media. It is worth mentioning that these celebrities are usually highly sought after by contemporary people, especially by the target consumers of Luckin Coffee. They fully leverage their influence to enhance the brand's value. On the one hand, celebrity endorsement expands the awareness of the brand via the popularity of celebrities themselves and the support from their fans. On the other hand, exposure of the stars increases through endorsement campaigns, which forms a win-win situation. In the case of Eileen Gu, winning the Winter Olympics medal after the heated discussion over her x, Luckin Coffee developed the collaboration with her in the first place. First of all, customized drinks related to Eileen Gu and skiing were launched, which were warmly received by the market and contributed to a significant increase in Luckin Coffee's sales. Secondly, a new slogan, "Young, go Luckin", was announced, which encouraged more young people who has a positive attitude towards life to engage in the market, creating a strong brand image of self-improvement. As an athlete, Eileen Gu is renowned for her outstanding performance in the Winter Olympics in which China has not excelled. Her achievement have significantly enhanced China's competitive position on the global stage, making her recognized and loved by the Chinese. This also correspond to the idea of Luckin Coffee, "create a world-class coffee originating from China". Therefore, by choosing Eileen Gu as its spokesperson, Luckin Coffee has enhanced the brand's credibility and has cultivated a positive reputation for the company.

One of the novel strategies of Luckin Coffee is social fission marketing. The goal of fission marketing is to harness everyone's social connections to increase influence and spur growth [6]. Subscribers of the Luckin Coffee's own APP can share the link to their friends or on the social media. If someone downloaded the APP and signed up as a new user, both the new and the existing customers would get a cup of coffee for free and gain discount coupons. The speed of online information dissemination is currently rapid, coupled with a plethora of incentives, leading to a swift expansion in the number of customers. Apparently, this method taps the potential consumers and strengthens the stable relationship between the two sides at a low cost.

Furthermore, Luckin Coffee took the corporate social responsibility and confirmed to donate 10 million yuan to the Red Cross Foundation of China to help prevent and control diseases and disasters, gaining widespread attention of consumers. Sales revenue increased as more people got familiar with this brand and tried to support it.

3. SWOT analysis

3.1. Strength

The affordable price is one of the biggest highlights of Luckin Coffee. This is because it takes advantage of economies of scale, which reduces the long-run average cost. Besides, Luckin Coffee applies cutting-edge technology in the production. Although the resource input was costly, labour cost, such as wage and training fee can be avoided. The automated assembly line has highly improved efficiency and quality. For instance, the roasting system has the capability to tailor the roasting curve based on the coffee beans' origin and precisely regulate the roasting temperature, hot air volume, and heat exchange efficiency between hot air and coffee. This ensures a consistent flavor profile for the coffee beans. Apart from that, Luckin Coffee masters the skill of big data analysis. It can use the information collected from the APP users to identify the advertising target, thereby optimizing resource allocation.

3.2. Weakness

Most stores of Luckin Coffee have limited space. Though it saves rent, there is no leisure area for customers to work or study. While its target consumers are none other than workers and students who just need this place. "Some individuals may not initially plan to have a cup of coffee, but in order to

focus on their work in a peaceful and comfortable environment, they are willing to pay for a seat at the coffee shop." After working for a long time, they may additionally spend on additional food and desserts to satisfy their hunger. Hence this inferior design causes Luckin Coffee to lose a lot of potential customers.

Apart from that, Luckin Coffee has limited international influence compared to established foreign brands due to its relatively recent entry into the market. Currently, it has a minimal presence in overseas markets, resulting in low brand recognition among foreigners.

3.3. Opportunity

Luckin Coffee is facing a huge opportunity in the industry. The coffee industry is hugely profitable in China, with profits reaching 3 billion in 2016 [5]. The huge population is the basis for high profits. Nowadays, coffee has become a fashion item. It is no longer just a means to stay alert and focused, but also serves as a topic of discussion among the upper class, showcasing their refined taste and sophistication. Additionally, Furthermore, as an increasing number of young individuals participate in the market, there is a growing demand for coffee to assist them in managing their heavy workloads. Even in the break time, water is no longer popular. In fact, coffee has turned into the first priority of some people to quench their thirst as a habit. Statistics demonstrate that the average annual growth rate of coffee consumption in China is 15%, which is much higher than the growth rate of 2% in the world [7]. Under such circumstances, the potential of the Chinese coffee industry is yet to be fully extracted.

3.4. Threat

Luckin Coffee has had to face fierce competition since it launched. Starbucks, the giant in the coffee market, was its biggest competitor. Its shops in China alone amounted to 3,600 plus in 2019, capturing over 70% of the market share [8]. Other brands, such as Costa Coffee, should also not be underestimated. These competitors present a huge market threshold for Luckin Coffee. They have entered the Chinese market for many years with a deep understanding of the consumption habits of local customers so that they gradually creates brand loyalty among a large number of domestic consumers.

4. Recommendation

Based on current marketing situation, several suggestions can be provided for Luckin Coffee. First of all, it can expand store area for work and relaxation in order to attract more consumption. Secondly, the company could consider placing advertisements on international social media platforms to generate interest and awareness. Following this, they can establish pilot stores in various countries as a means of further investigating foreign markets. This presents an opportunity to increase the awareness of a Chinese coffee brand among international audiences, thereby contributing to the export revenue of Luckin Coffee. It is important, however, to avoid excessive marketing and co-branding, as these can dilute the brand's image and lead to aesthetic fatigue.

With the advent of new retail age, breakthroughs and innovations in technology, such as data cloud computing, make marketing modes constantly change, bringing huge impacts and challenges to traditional marketing modes. In the face of a promising market, how to rely on modern information technology means establishing a personalized customer communication service system, to achieving precision marketing and improving marketing efficiency, is the core of future marketing strategy among coffee enterprises.

5. Conclusion

This paper focuses on different marketing strategies used by Luckin Coffee in the era of new retail. Emerging technology, such as big data analysis, is applied to gain an insight into consumer psychology and behavior, so that diversified and personalized services are offered to customers. The ads of other marketing campaigns, like co-branding and celebrity endorsement, are placed in multiple channels and have gained an eye-catching effect. Advancing in production and management techniques allows resources to be allocated efficiently, which means Luckin Coffee is always processing with the times. Nevertheless, to keep up with the pace of those coffee giants, there is still a long way to go.

Based on the research method of literature review, most statistics and examples are cited from previous cases, which is lack of field visit. Other forms, like sample drawings and questionnaire surveys, are helpful in analyzing a brand from the perspective of consumers. Moreover, the paper merely provides an overview of the basic tactics employed by Luckin Coffee, along with some underdeveloped opinions from the author. There are numerous complex factors that influence the business strategies of Luckin Coffee.

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