

# ***Analysis of Business Management Models and Marketing Strategies of Chinese Coffee Brands--Luckin Coffee as an Example***

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**Abstract:** Since the 20th century, China's national economy has continued to improve, the people's quality of life has taken a leap forward, coffee has become a popular consumption, and the coffee market has shown unprecedented potential. In the face of such a large and dynamic market, many local coffee brands have emerged in an attempt to seize the market share. However, Luckin Coffee, with its unique business management model and innovative marketing strategies, has successfully stood out in the fiercely competitive local coffee market and gradually established its leadership position. This paper adopts a case study approach to analyse in depth the business strategies and marketing strategies of Luckin Coffee in recent years. By comparatively examining the differences between Luckin and other brands, we are able to summarise the key factors of its success. These factors include, but are not limited to: efficient management system, innovative business model, strong marketing promotion, and keen insight into market trends. In addition, this paper discusses the challenges faced by Luckin Coffee, such as how to cope with increasing market competition, how to maintain customer loyalty, and how to adapt to changing consumer demands. In response to these challenges, this paper proposes some specific solutions, aiming to help Luckin Coffee further improve its business strategies and promote its long-term development.

**Keywords:** Coffee market, business management model, marketing strategy.

## **1. Introduction**

In today's rapidly changing business environment, China's coffee market is undergoing unprecedented changes. With consumers' pursuit of high-quality life and the rapid development of Internet technology, traditional coffee brands are facing great challenges and opportunities. Luckin Coffee, as an emerging Chinese coffee brand, has rapidly risen to the centre of attention in the industry with its unique business model and marketing strategies. This paper aims to explore the key factors of Luckin Coffee's success by analysing its business management model and marketing strategies to provide reference for the future development of the company.

Luckin Coffee's success lies not only in its innovative new retail model, but also in its precise market positioning and effective marketing strategies. Luckin Coffee has realised the deep integration of online and offline by using big data and artificial intelligence technology, and has effectively expanded its market share through the 'online + offline' sales model. In addition, Luckin Coffee has

also adopted social media marketing strategies, interacting with consumers through social media platforms to enhance brand influence and consumer loyalty.

However, Luckin Coffee's development has also faced many challenges. In April 2020, Luckin Coffee exposed itself to the incident of performance falsification, which triggered widespread concern and questions in the market. Nevertheless, Luckin Coffee managed to restore market confidence through a series of measures and achieved significant growth in 2021. This process is particularly critical in terms of Luckin Coffee's brand value construction, risk management, and future development strategies.

This thesis will use case studies and comparative analysis to deeply analyse Luckin Coffee's business management model and marketing strategies. Through a comprehensive study of Luckin Coffee's development history, marketing strategy, and brand building, this thesis aims to reveal the internal logic of its success and provide opinions on the future competitive landscape of China's coffee market. At the same time, this paper will also discuss the challenges faced by Luckin Coffee and its coping strategies, with a view to providing reference and inspiration for related enterprises.

## **2. Literature Review**

### **2.1. Introduction to Luckin Coffee**

Luckin Coffee is a Chinese coffee chain brand established in 2017, positioning itself as a new retail specialty coffee operator dedicated to promoting the popularity and development of coffee culture in China. Luckin Coffee was listed on the NASDAQ on 18 May 2019, creating the myth of listing in 18 months. In 2023, Luckin Coffee's total sales in China reached 28.46 billion yuan (approx. US\$3.45 billion), surpassing Starbucks China for the first time, and Luckin Coffee has reached a massive 16,000 total shops in China, making it China's largest coffee chain brand [1].

### **2.2. Market Fragmentation of Chinese Coffee Brands**

At present, China's coffee market has huge potential, with about 300 million coffee consumers, while the total coffee consumption as well as the per capita consumption is still lower than that of various mature coffee markets. Taking South Korea, where the coffee industry is relatively mature, for example, data shows that South Koreans drink 353 cups of coffee per year on average, which is much higher than the global average of 130 cups, and the '2024 China Urban Coffee Development Report' shows that the number of coffees per capita per year in China in 2023 will be 16.74 cups. This shows that the coffee market has the potential to develop into a 100-billion-dollar market, which has led to a constant influx of entrepreneurs into the coffee market, making China's coffee industry continue to be radiant [2].

Traditional overseas coffee brands such as Starbucks and Costa still dominate the domestic market, but new local coffee brands such as Luckin and COTTI, which are positioned in the new retail market, are also showing a rapid development trend, supported by huge capital investment as well as innovative management and marketing strategies, and there are still more and more new brands joining the coffee market. Competition in China's local coffee market is getting fiercer and fiercer, and the original market landscape is facing renewal.

## **3. Luckin Coffee's Business Management and Operation Model**

### **3.1. Rapid Expansion and Shop Distribution**

According to Luckin Coffee's Q2 2024 financial report Luckin will continue to follow a stable and sustainable growth strategy when it comes to opening shops. As of the end of the second quarter, the

company had nearly 20,000 shops, including 13,056 self-operated and 6,905 chain shops. Along with the increasing number of shops, driven by the brand's overall competitive advantage, Luckin Coffee's user base in the second quarter was further consolidated and improved, with an average of 69.69 million monthly active users, an increase of 61.8% year-on-year, and up from 43.07 million in the same period of 2023[3].

Luckin's rapid increase in the number of shops in a short period of time is due to the liberalisation of its franchise model and its ability to accelerate the sinking of the market, which has enabled Luckin to go from 10,000 shops to 20,000 shops in just 13 months.

In the franchise model, Luckin has a distinctive 'franchise with shops' and 'directional location franchise model', these two different franchise models are to help Luckin through the franchisee will be the shop layout in the traffic hub, shopping malls, leisure centres, medical centres and other places with high traffic. This business model enables Luckin to respond precisely to consumer demand while growing rapidly. Luckin's current shops can be divided into three types: one is the 'quick pick-up shop', which occupies an area of 20-60 square metres and is mostly concentrated in crowded areas such as office buildings, commercial districts and universities, which allows Luckin to better establish a close relationship with consumers and quickly open up the market with lower rent and decoration costs, accounting for 91% of Luckin's stores. The second type is the 'flagship shop', which usually occupies an area of more than 120 square metres, is relatively empty and is mainly used to build the brand. The third type is 'delivery kitchen', this type of restaurant is usually 10-20 square metres, occupies less space, can reduce the rent and decoration costs, of which the proportion of takeaway kitchen is about 4.1% [4].

### 3.2. "Unlimited Scenario" Channel Setting

Luckin is positioned as a new retail operation model combining online and offline sales, and based on this, it proposes the strategy of 'infinite scenes', which includes coffee shops, offices, university campuses, gas stations and other scenes [5]. Compared with the 'third space' concept proposed by Starbucks, which opens large shops and gives coffee a social attribute, Luckin's 'infinite scene' strategy adopts a combination of online and offline, and the offline shops are also subdivided into flagship shops to meet the social needs and quick pick-up stores to meet the fast demand, while the 'infinite scene' strategy is based on the 'infinite scene' strategy, which includes cafes, offices, university campuses, gas stations and other scenes [5]. Luckin's 'infinite scene' strategy combines online and offline, with offline stores subdivided into flagship shops to meet social needs and quick pick-up shops to meet fast needs, while relying on the mature takeaway industry and Luckin's self-built apps to make online sales highly efficient and convenient without being bound by the scene. Through the 'infinite scene' strategy, Luckin Coffee has achieved full coverage of consumers' daily life and work scenes.

### 3.3. Asset-Light Operation Logic

Luckin has adopted an asset-light operation logic to ensure that it can effectively use its limited resources to obtain economic benefits [6]. Luckin uses its own online software programme in the context of the big data era and adopts Internet marketing, which significantly improves its operational efficiency; in addition, Luckin's shops have a simple staff structure, but they are all highly adaptable and multi-functional, which enables its staff to change flexibly; in addition, most of Luckin's shops are 'quick pick-up shops', which have the characteristics of small size, small staff and simple decoration. In addition, most of Luckin's stores are 'quick pick-up stores', which have the characteristics of small area, few employees and simple decoration, and these shops account for 90% of Luckin's total number of shops, and most of their locations are in office buildings or part of the

area of the convenience store, which is different from the location of Starbucks, and the low rents in these areas make the initial investment in Luckin Coffee less, which reduces Luckin's fixed costs and enables it to adapt to the changes in the market more.

### **3.4. Supply Chain Management**

On 29 August 2024 Luckin started construction of an innovative production centre in Qingdao with a total investment of about 3 billion yuan, which will form a roasting supply network with an annual production capacity of more than 100,000 tons together with the two roasting bases in Fujian and Jiangsu, a move that reveals one of Luckin's major business management strategies - asking for productivity from the supply chain. Luckin takes advantage of Qingdao's location as a must-go place for importing raw coffee beans, and the innovative factory to be built here will realise the whole process of automated production from raw bean processing, coffee bean roasting, packaging to storage and logistics [7].

## **4. Luckin Coffee's Marketing Strategy**

### **4.1. Price Strategies**

#### **4.1.1. Penetration Pricing Strategy**

Luckin Coffee has adopted a penetration pricing strategy since its inception, thanks to the fact that Luckin's asset-light operation allows it to have lower costs compared to traditional coffee brand shops, such as Starbucks, which has enabled Luckin to achieve rapid market entry with pricing lower than that of other competitors in the market. In addition, Luckin's high frequency of coupon distribution makes it possible for consumers to actually pay less than its pricing. This penetration pricing strategy has helped Luckin to expand rapidly and increase customer stickiness and brand loyalty in a short period of time.

#### **4.1.2. Bundled Pricing Strategy**

Luckin Coffee uses coffee as the brand's main product and also sells some light snacks and peripheral products. The variety of products has led Luckin to adopt a bundled pricing strategy, which allows consumers to purchase their packages at a lower price for two different products purchased separately. The bundled pricing strategy not only makes it more affordable to purchase Luckin's coffee products, but also helps Luckin sell its other coffee-related products, increasing Luckin's sales.

### **4.2. Brand Co-branding Strategy**

With the increasingly fierce competition in the coffee market, Luckin Coffee stands out in the industry with its brand co-branding marketing strategy. The brand co-branding strategy enables Luckin to quickly attract attention, expand its market influence, increase brand awareness and gain more customers from the market. For example, Luckin's first-day sales with Guizhou Moutai Wine exceeded 5.42 million cups; the first-week sales of its co-branding with TOM&JERRY exceeded 16.24 million cups; and the first-day sales of its recent co-branding with the game 'Black Myth: Wukong' exceeded 4.5 million cups. Obviously, whether it is with the brand or popular IP cooperation, Luckin Coffee launched products have achieved better sales results and realised a win-win situation for the brand [8].

### 4.3. Product Innovation Strategy

On 3 September, Luckin launched 'Oolong Milk Tea', which combines Wuyishan Dahongpao with yoghurt base, and is another masterpiece after 'Jasmine Milk Tea', further penetrating into the new tea beverage track. Through the development of innovative tea products, Luckin is further catering to the preferences of local Chinese consumers and providing consumers with more choices while enhancing product diversity. In addition, Luckin's advertising slogan 'Morning Coffee, Afternoon Tea' has helped Luckin increase traffic during afternoon tea time and the number of non-coffee users, giving its products an all-day consumer base.

### 4.4. Advertising Strategy

Luckin's advertising strategy is also innovative. Its advertising strategy has the characteristics of 'consumer-orientation', Luckin will target the consumer market to the young working group, the rise of the coffee track in the past two years, the main consumer group is the young working people, Luckin through the consumer's consumption of psychological details, from the consumption scene, consumption motives and other aspects, spend a lot of costs. Continuously seeking spokespersons that fit consumers, using the star effect and inviting famous celebrities to endorse, Luckin has attracted the attention of consumers, and so far, there are dozens of Chinese phenomenal stars who have cooperated with Luckin. Its advertising adopts a combination of online and offline, online through a variety of media publicity, and offline advertisements in commercial districts and office buildings and other densely populated locations, attracting consumers in a short period of time. In addition, the advert slogan 'This cup, who does not love' has also left a deep impression on consumers [9].

## 5. Challenges and Suggestions for Luckin Coffee

### 5.1. Challenges

**Increasing competition in the industry:** In February this year, the number of shops of COTTI Coffee, which was established much later, reached 7,000, and there are nearly 50,000 cafes in China, which has surpassed the United States to become the country with the largest number of branded cafes in the world. These figures show that China's coffee market is maturing, and coffee has evolved from a niche, commercialised consumer product to a mass consumer product. With the influx of more brands, competition in China's coffee market will become increasingly fierce.

**Marketing homogeneity:** Although Luckin's marketing methods are innovative and use the Internet and positioning of new retail strategies, the differentiation advantage of these marketing methods is gradually weakened with the imitation and further development of competitors [10].

**Difficulty in quality control:** Due to the rapid expansion of Luckin Coffee, it faces great challenges in quality control. The problem of coffee beans not being fresh has appeared in some shops, and some consumers have reflected that the taste of coffee in some shops is not good. Unstable quality can have a huge impact on the brand image and may cause customer loss.

**Lack of customer loyalty:** Luckin's current customer base is mainly maintained through the network and discounts, and the financial fraud scandal of Luckin in the past two years has also affected consumers' trust in Luckin.

### 5.2. Suggestions

**Facing competition in the industry:** Luckin Coffee can focus on the sinking market and overseas market. Against the backdrop of intensifying competition in the coffee market, there is a large



consumer demand in the sinking market, Luckin should further reserve funds, improve its operational capabilities and have keen market insights to gain greater market space in the sinking market. In addition, Luckin Coffee has successfully laid out the overseas market in 2023, and in the case of increased competition in the domestic market, the overseas market can provide more development opportunities [11].

In the face of marketing homogeneity: Luckin can rely on its self-built APP and the accumulated sales data to carry out product innovation through big data analysis and launch coffee drinks and non-coffee drinks that are more in line with consumers' tastes. In addition, Luckin can further penetrate into the field of brand co-branding and can create its own unique brand image and differentiation advantage by cooperating with famous brands in other industries.

Facing the difficulty of quality control: first of all, Luckin should develop a standardised operation process. The strict implementation of the operation process can ensure that the quality of each cup of coffee is qualified. Secondly, Luckin should establish a complete supply chain management system. Luckin should strictly screen the selected materials to ensure that the quality of raw materials is qualified. Finally, Luckin should focus on staff training and establish incentives. Through training, it can strengthen the professional skills and service level of employees, and the incentive mechanism can stimulate the enthusiasm of employees to ensure the quality of products.

Facing the problem of low customer loyalty: according to the actual needs of consumers, provide consumers with the products and services they need in a timely manner, and relying on the online platform to provide discounts for new and old users, to maintain the old customers while attracting new customer groups.

## 6. Conclusion

Through the study of Luckin's management strategy and marketing plan, this paper finds out the key elements of Luckin's success in occupying a place in the highly competitive coffee market, so the relevant industries should formulate management strategies and operation plans that meet their own development goals and have their own advantages when entering the market or facing the highly competitive market environment. Just like Luckin, in terms of management strategy, it can fully combine with the current rapid development of the Internet platform to build a complete industrial chain; at the same time, it should also pay attention to the location advantages of different regions where the enterprise is located, and give full play to the location advantages to help the enterprise reduce costs and increase profits in the process of production and operation. In addition, in the marketing programme, enterprises can take a variety of pricing strategies to increase customer traffic, quickly occupy the market share; can be co-branded with other brands, in order to quickly increase brand awareness, so that the brand in a short period of time to obtain a lot of attention and can achieve win-win situation with other brands; at the same time, enterprises should also attach importance to the product innovation, always keep a close eye on the market changes, and use the spirit of innovation to constantly improve their own. At the same time, the company should also pay attention to product innovation, keep an eye on market changes, and continuously improve its core competitiveness with the spirit of innovation. In the face of challenges, Luckin should also make timely adjustments and innovations to seek better development. These methods are the secrets of the success of Luckin Coffee, this paper summarises the analysis of Luckin Coffee's management strategy and marketing plan, which can help more enterprises to better formulate implementation strategies in the face of market competition, and also puts forward corresponding suggestions to help Luckin develop better in the face of the challenges it encounters in its development.

Finally, this paper summarises Luckin's excellent management style based on relevant literature and cases and gives suggestions on the challenges it faces nowadays. However, these cases and challenges are time-sensitive, and the market situation will change at any time, so when drawing on

the strategies and policies summarised in this paper, we should pay attention to combining them with the current market environment, and with the specific situation in order to make further innovation and development.

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