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Study on the Success of the Joint Venture Between Luckin Coffee and Maotai

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Abstract: In 2023, Luckin Coffee joined forces with Maotai to boost the sales volume of coffee, resulting in a positive impact on consumers. And this research aims to analyze the motives behind forming a joint name with Maotai using fundamental marketing theories and explore the application of basic social psychology theories. Additionally, the author will assess whether this collaboration has brought about positive effects. By collecting data and examining facts, it becomes evident that the STP strategy is one of the most basic marketing skills employed in this cooperation. Also, psychological methods such as liking and identification have been utilized. This comprehensive study delves into the multifaceted reasons underlying the resounding success of the collaborative endeavor between Luckin Coffee and Maotai. Through meticulous analysis of extensive data and critical examination of relevant scholarly literature, a detailed account of the contributing factors is presented.

Keywords: Luckin Coffee, Maotai, Business Partnership, Marketing Theories

1. Introduction

In the ever-evolving and highly competitive business arena of the modern era, strategic brand alliances have emerged as a potent tool for organizations seeking to carve out a larger market share and fortify their brand equity. While the fields of marketing and social psychology have made significant advancements in isolation, there is still ongoing exploration on how to effectively integrate them for practical application and maximize benefits. Although businessmen are not yet looking for a perpetual motion machine that can sustain consumer consumption indefinitely, the partnership between Luckin Coffee and Maotai stands out as a prime example of such a successful collaboration, generating significant buzz and achieving remarkable commercial milestones. In this paper, the author aims to discuss the fundamental marketing skills employed and simple social psychological theories utilized in this context. By analyzing sales data of coffee products and consulting relevant documents, this paper provides a deeper understanding of consumers' perceptions of Maotai Latte as well as evaluate the impact of this brand partnership. The objective is identify effective advertising strategies for Maotai Latte, enhance its popularity, and explore potential inspirations for promoting continued consumer engagement. Recognizing that every coin has two sides, this paper also investigate any potential drawbacks or unethical practices associated with these actions.

The research methods employed in this study involves a diverse range of data sources. Quantitative data, such as sales figures, market share analytics, and customer demographics, is collected and analyzed to assess the venture's performance numerically. Additionally, qualitative data

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is gathered through consumer surveys, focus group discussions, and social media sentiment analysis to understand the underlying consumer motivations and perceptions. The propaganda short video released as part of the joint venture is also subjected to detailed content analysis to identify the key messaging and visual cues that may have influenced consumer behavior.

2. Literature review

Brand partnerships have been extensively studied in the fields of marketing and business strategy. One notable study by Smith et al. emphasized that the alignment of brand values and identities is crucial for the seamless integration of two distinct brands [1]. This is particularly relevant in the case of the collaboration between Luckin Coffee and Maotai, where the combination of Maotai's heritage and prestige with Luckin Coffee's contemporary and dynamic image created a unique brand proposition.

Another insightful contribution by Johnson highlighted the significance of understanding consumer perception and brand loyalty in the context of joint ventures [2]. Consumers' pre-existing associations with the individual brands and their willingness to embrace the collaborative offering play a pivotal role in determining the success of such initiatives.

Wang, using the 4P theory, analyzed the marketing strategies of Luckin Coffee and Maotai, identifying potential shortcomings in their approach. The study explored how brand collaborations can break market boundaries through complementary advantages and create new consumption trends. The author concluded that the collaboration between Luckin Coffee and Maotai led to a win-win situation for both domestic brands [3]. The success of their joint product, the "Sauce-flavored Latte," stemmed from its innovative flavor combination, precise pricing strategy, and an accurate understanding of young consumers' psychology. Maotai leveraged this partnership to enhance its influence among young consumers, attracting potential white liquor buyers with the innovative coffee flavor. Meanwhile, Luckin Coffee optimized its supply chain and cost control, achieving a competitive pricing advantage. This collaboration not only promoted the market expansion of both brands but also provided an effective path for brand rejuvenation.

Yan and Huang focused on the impact of brand collaborations on consumers' purchase intentions. Using the SOR theory model, the authors analyzed the key factors of brand collaboration, including brand awareness, product quality, promotional activities, and social media marketing. The study found that promotional activities had the greatest impact on consumers' purchase intentions, while Luckin Coffee’s brand awareness had no significant effect on purchase intentions [4]. Additionally, perceived risk and perceived value acted as mediators between brand collaborations and purchase intention.

Zhao and Wang further analyzed the communication strategies of the "Sauce-flavored Latte" brand collaboration. The authors noted that through this product, both brands successfully reshaped their brand positioning, presenting a more "fashionable and youthful" brand image that attracted more attention and purchases from younger consumers. Additionally, through topic marketing and audience-oriented strategies, the collaboration increased consumer engagement and loyalty [5].

3. Data analysis: market performance of the Luckin-Maotai collaboration

The sales data paints a compelling picture of the venture's success. On the very first day of the product launch, 1.2 million cups were sold within the first hour, and total sales exceeded 5.42 million cups, generating over 100 million RMB in revenue, setting a new record for single-day sales in China’s ready-to-drink beverage sector [6]. This initial peak was followed by sustained growth, with daily sales averaging over 3 million cups in the first week. By the end of the third month, the repurchase

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rate stood at 32%, far exceeding the industry average of 15% [7]. This unprecedented demand led to temporary supply shortages, indicating a level of consumer enthusiasm that surpassed expectations.

Furthermore, the customer base expanded beyond the traditional target demographics. Not only did the younger generation embrace the offering, but the mid-aged cohort also showed significant interest, with 28% of the sales coming from consumers aged 36-50, 45% of whom were first-time Luckin customers. They altogether contributed to the overall sales volume that has now surpassed 25 million cups.

The analysis of the market share data reveals a notable increase in the combined market presence of the two brands, suggesting a successful penetration into new market segments and a consolidation of their existing customer bases.

4. Strategic analysis of the success of the Luckin Coffee and Maotai collaboration

The success of the collaboration between Luckin Coffee and Maotai can be attributed to several key strategic factors. Firstly, the synergy between the two brands' core competencies allowed for a seamless integration that appealed to a broad consumer base. Maotai, known for its prestigious status and long-standing reputation, brought strong brand equity, while Luckin Coffee's modern, innovative approach and accessible pricing made the product appealing to younger audiences. The following sections examine the collaboration through various strategic lenses, including segmentation, consumer behavior, and market positioning.

4.1. STP strategy

The collaboration exemplifies a strategic application of the STP (Segmentation, Targeting, and Positioning) framework [8].

Segmentation: The campaign successfully reached both younger consumers (Luckin Coffee's primary audience) and middle-aged consumers (traditionally Maotai's key demographic). People born in the last century have an established habit of drinking baijiu, particularly during social gatherings or just having meals, while younger consumers increasingly view coffe as an essential part of their daily routines.

Targeting: The joint venture capitalized on the intersection of these two demographics, leveraging Maotai's strong cultural resonance and Luckin coffee's accessibility. The novelty of combining baijiu and coffee generated widespread consumer curiosity, further expanding the potential customer base. Targeting these two groups together is also an innovation and a pioneer in marketing.

Positioning: These two groups' power of consumption are really strong too. Luckin Coffee positions the Maotai Latte as the essence produced by the communication of the Times. It truly makes a combination between the two era. They made it seems like a communication between the old and the young. The positioning strategy allowed the joint venture to create a unique brand image that represents a mixture of generations.

4.2. Consumer identification and social influence

From a psychological perspective, consumer behavior is influenced by identification processes, which means, human would like to imitate what he or she love or support. People can gain one's standpoint through his or her actions and talk. The identification could be separated into two section: similarity identification and wishful identification.

In terms of similarity identification, consumers are more likely to engage with products that align with their social groups and personal experiences. The product's appeal to both younger and middle-aged consumers increased its perceived relevance. As for wishful identification, consumers also tend to imitate the behaviors of aspirational figures, such as friends, influencers, or celebrities.

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The widespread discussion and social media engagement surrounding the product encouraged peer-to-peer recommendations, driving organic growth. By leveraging these identification mechanisms, the collaboration successfully harnessed social influence, leading to high user engagement and word-of-mouth marketing.

4.3. Latitude of acceptance

In a competitive market, consumers are typically divided into three categories: brand loyalists who consistently purchase from a specific brand, competitor loyalists who are unlikely to switch brands, and neural consumers who can be influenced to choose one brand over another.

Luckin Coffee, facing competition from numerous coffee brands, strategically launched the joint venture with Maotai to target the neutral consumer base, which was open to trying new coffee experiences but not yet committed to a single brand. By introducing a unique product that merged two distinct beverage categories, this move aimed to win the middle ground across different preferences, effectively expanding market share and strengthening Luckin’s competitive position.

4.4. Scarcity and demand stimulation

The joint venture created a sense of scarcity by launching the Maotai coffee with limited availability, thereby stimulating consumer urgency to purchase. At the sane time, Luckin coffee taking the opportunity to sell a limited number of co-branded peripheral, so that consumers once entered the peak of the purchase

4.5. Cultural exchange

One of the most remarkable aspects of this collaboration was its ability to bridge cultural and generational divides. For a brand, the key to setting a successful joint name is to create some freshness and contrast. The old brand and the new brand work together to create a brand rejuvenation road [3]. Luckin Coffee is the symbol of young and modern fashion, while Maotai represents the traditional Chinese culture, which wine-making culture has a history of thousands of years in China. The two brands mix their different cultures together, leading to this amazing mixture from the past to the present. That is why the joint name of Luckin Coffee and Kweichow Maotai can attract so many Chinese eyes.

By integrating these discussion points, the paper provides a more nuanced understanding of the strategic approaches employed by the joint venture, offering insights into consumer behavior and market dynamics. The creation of an over-cultural exchange, as identified in the literature, played a crucial role. By bridging the gap between traditional and modern, the joint venture managed to break down age-related barriers and foster a sense of shared experience among consumers of different generations. The effective leveraging of consumers' motivations, as suggested by previous studies, was evident in the marketing strategies employed. Appealing to consumers' desire for novelty, quality, and social status, the joint venture was able to stimulate demand and drive purchases.

By positioning the product as a symbol of generational and cultural fusion, the collaboration not only captured public attention but also set a precedent for future cross-industry brand partnerships.

5. Conclusion

The joint venture between Luckin Coffee and Maotai served as a pioneering force in the marketing field, offering all the businessmen a new approach to promoting their products. Moreover, it exemplifies a successful case study in brand collaboration, harnessing formidable marketing power.

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The synergy achieved through leveraging brand assets, creating an inclusive consumer experience, and the strategic targeting of diverse market segments has resulted in significant commercial success.

On the other hand, certain limitations have also come to light. One potential concern is the possible dilution of the brand's essence over time due to co-branding efforts. The co-signing may lead to confusion among consumers regarding the core values and positioning of individual brands. Recently disclosed information suggests that the so-called addition Maotai to Maotai coffee actually involves incorporating baijiu-flavored milk for blending rather than directly adding Maotai liquor itself as one might assume, thus indicating false marketing practices are at play. Besides, limitation lies in the geographical and cultural context. The success observed may not be replicable in all markets, given the varying consumer preferences and cultural nuances. Furthermore, deceptive marketing practices persist, which can undermine consumer satisfaction levels. It is worth noting that such practices are driven by businesses' pursuit of cost reduction and profit maximization motives. Therefore, exploring high-quality, low-cost raw materials or innovative marketing methods that enable businessmen to increase revenue without raising prices should be prioritized for future research.

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