Business Analysis of Luckin Coffee: Risk and Opportunity

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Abstract: Over the past decade, the Chinese coffee market has experienced substantial expansion, with Luckin Coffee emerging as a key competitor. This study undertakes a comprehensive analysis of Luckin Coffee, pinpointing its opportunities and risks and offering practical recommendations for its future development. Multiple research methods are employed. A thorough literature review is carried out to grasp the theoretical frameworks within the coffee industry. The SWOT analysis evaluates Luckin's internal capabilities, such as its efficient digital operations and strong brand recognition, along with its weaknesses, like inconsistent product quality. The Five-c model and Porter Five Forces Model are applied to analyze the external environment, covering factors like the bargaining power of suppliers and buyers, the threat of new entrants and substitutes, and the intensity of competition. Additionally, a word analysis of consumer reviews and social media conversations is conducted to understand consumer attitudes. The findings indicate that although Luckin's digital-centric approach and cross-border marketing endeavours have improved customer experiences and brand awareness, it confronts challenges from inconsistent product quality and fierce competition. This analysis holds significant value. It gives investors a clear perspective on Luckin's potential, facilitating more informed decision-making. It guides the company to enhance its brand competitiveness by improving product quality and refining marketing strategies, ensuring its long-term viability in the highly competitive Chinese coffee market.

Keywords: Luckin Coffee, Chinese coffee market, SWOT analysis, Consumer perspectives

1.　Introduction

The Chinese coffee market has been experiencing remarkable growth and transformation in recent years. As noted by Wang Lili in "China's Coffee Market Presents New Changes", over the past decade, there has been a consistent upward trajectory in China's coffee sales [1]. Driven by the burgeoning demand for coffee among consumers, the Chinese coffee industry has witnessed rapid development. Consumers' evolving preferences, who seek diverse coffee flavours, have propelled the industry towards a more diversified landscape regarding coffee types and brands.

According to the "2022 China Restricted Coffee Category Development Report", as of May 1, 2022, there were 117,300 coffee shops in mainland China, and the market size of freshly brewed coffee reached 8.97 billion yuan, with a remarkable year-on-year increase of 178.7% in orders. As discussed by Wei S in "Analysis of Marketing Innovation Under the New Retail Mode-Taking' Luckin Coffee' as an Example", new retail has opened up new avenues for developing the coffee

economy [2]. The increasing supply and demand dynamics and the diversified and competitive market environment have given coffee companies substantial room for growth.

However, the coffee market in China is also highly competitive. Due to the inherent characteristics of coffee products, the problem of product homogeneity among different coffee brands is quite pronounced. In this challenging context, Luckin Coffee has managed to stand out. As a retail startup that entered the Chinese coffee market, Luckin Coffee has demonstrated a deep understanding of the market from both the supply and demand perspectives. It has adopted a new retail model to offer coffee products to consumers, and its low-price and cross-border marketing business model has enabled it to attract a large customer base and quickly gain a significant market share.

To achieve these research goals, this paper will employ multiple research methods. The literature research method will be used to comprehensively review relevant literature, such as the works by Jiang X in "Luckin Coffee: A Study of the Reasons for Committing Financial Fraud and Solutions for Getting Out of a Financial Crisis" and Xu Xin in "PEST Analysis of the Coffee Industry in the E-commerce Era and Countermeasures—Taking Luckin as an Example", to understand the theoretical foundations and the current state of relevant concepts [3, 4]. These insights will be applied in the subsequent analysis of Luckin Coffee's business model.

The SWOT analysis method used by Xu G will be adopted to conduct a comprehensive business analysis of Luckin Coffee, examining its internal strengths and weaknesses and external opportunities and threats [5]. Moreover, the five-c model method will be utilized to assess the opportunities and challenges the Luckin Coffee brand faces during its development process. The Porter Five Forces Model will be applied to analyze Luckin Coffee from both internal and external aspects, focusing on factors such as the bargaining power of suppliers, the bargaining power of buyers, the threat of potential new entrants, the substitution ability of substitute products, and the current competitive intensity among industry rivals. This analysis will help to understand the motivation and influence of coffee brand marketing from the perspectives of company customers, partners, competitors, and the overall market atmosphere.

Furthermore, based on the previous cases of Luckin Coffee's cross-border marketing, this paper will elucidate the adaptability of cross-border marketing to coffee brands and offer valuable insights for Luckin Coffee's future selection of cross-border marketing strategies. Word analysis methods will also be employed to analyze consumers' consumption emotions, purchasing desires, and consumption trends, as well as external and internal factors related to the development opportunities of the Luckin Coffee brand. Through this analysis, a deeper understanding of Luckin Coffee's cross-border marketing activities and consumers' cognitive and behavioural responses can be achieved.

Luckin Coffee has achieved remarkable growth since its official trial operation in China in 2008. Currently, the number of its stores has exceeded 4,000. From its brand establishment, Luckin Coffee has actively engaged in cross-border marketing with various platform brands to enhance its brand awareness. Under this diversified development strategy, the company has witnessed rapid expansion and has become a well-known coffee chain brand in China. As mentioned by Wang Shanying in "Research on the Development Strategy of New Retail Enterprises—Taking Luckin as an Example", Luckin Coffee's utilization of new media tools for operation has significantly reduced workforce and physical resource consumption, and its online operation model has proven to be highly efficient [6]. Additionally, its takeaway business has developed rapidly, enabling it to establish a strong foothold in the coffee industry.

In conclusion, this paper provides a comprehensive analysis of Luckin Coffee's business model, marketing strategies, and position in the Chinese coffee market, aiming to contribute to a better understanding of the coffee industry and offer practical suggestions for developing Luckin Coffee and other coffee brands.

2. Method

2.1. Literature research

Comprehensive and systematic literature research will be carried out to build a solid theoretical foundation for this study. Academic databases such as Web of Science, Elsevier, and CNKI will be the primary sources for retrieving relevant academic papers. Key search terms will include "coffee industry trends," "marketing strategies in the coffee sector," "Luckin Coffee business model," "cross-border marketing in coffee brands," and "consumer behaviour towards coffee brands."

Industry reports from renowned market research firms like Euromonitor and Mintel will be carefully examined. These reports often contain up-to-date data on market size, growth rates, consumer preferences, and competitive landscapes within the coffee industry. Additionally, news articles from reliable sources such as the Wall Street Journal, Financial Times, and industry-specific news platforms will be scoured to gather the latest industry insights and real-time developments related to Luckin Coffee.

By synthesizing information from these diverse sources, this research aims to understand the historical evolution of relevant concepts, for example, tracing the origin of cross-border marketing in the coffee industry and how it has adapted over time. We will also gain a clear picture of the current status of theories related to coffee brand marketing, new retail in the coffee sector, and consumer behaviour models in coffee consumption. This knowledge will guide the subsequent in-depth analysis of Luckin Coffee's business and marketing strategies.

2.2. SWOT analysis

The SWOT analysis will be conducted in a highly structured and detailed manner [7].

Luckin Coffee's digital-first approach allows seamless ordering, payment, and delivery processes. Data from its mobile app and online platforms will be analyzed to quantify efficiency, such as the average time taken from order placement to product receipt. This will involve studying order fulfilment times across different regions and comparing them with industry benchmarks.

Brand awareness metrics, including brand recall and recognition, will be measured through primary and secondary market research. Surveys will target Chinese consumers, asking them about their awareness of Luckin Coffee and their associations with the brand. Secondary data from market research agencies on brand awareness rankings within the Chinese coffee market will also be incorporated.

Market growth data from industry reports will be used to project future trends. The analysis will involve studying factors such as population growth, increasing urbanization, and changing consumer lifestyles that contribute to the growth of the coffee market. Additionally, government policies promoting the development of the food and beverage industry, if any, will be considered potential growth drivers.

Technological advancements in new retail, such as the integration of augmented reality (AR) and virtual reality (VR) in coffee store experiences, will be explored [8]. Case studies of other coffee brands or retailers that have successfully adopted new retail technologies will be analyzed to identify opportunities for Luckin Coffee. Surveys will also be conducted among consumers to gauge their interest in new retail-related coffee experiences.

A detailed competitor analysis will be carried out. This will involve identifying direct competitors (such as Starbucks Costa Coffee) and indirect competitors (like convenience store coffee offerings). Market share data of these competitors will be compared with those of Luckin Coffee. Analysis of competitors' marketing strategies, product innovation, and pricing models will also be done to understand the competitive pressure Luckin Coffee faces [9].

Consumer preference surveys will be regularly conducted to track shifts in taste preferences (e.g., from traditional coffee to speciality or flavoured coffees) and preferences regarding packaging, sustainability, and in-store experience [10]. Social media listening tools will be used to monitor online conversations about coffee trends and consumer sentiment towards different coffee brands, helping to identify emerging threats from changing consumer preferences.

3. Analysis and discussion

This section of the paper delves deep into key aspects of the research. Through literature analysis, it reveals how green finance shapes the new energy vehicle industry, both financially and technologically. A SWOT analysis of Xiaomi's new energy vehicle venture is presented, evaluating its internal capabilities and external factors and offering comprehensive insights into the industry's dynamics.

3.1. Introduction to Luckin Coffees

Luckin Coffee made its foray into the Chinese market, beginning a remarkable growth journey. As indicated by various industry reports, the brand has expanded exponentially, with its store count surpassing 4,000 outlets across China. Luckin Coffee has distinguished itself through an innovative business model. It seamlessly integrates new retail concepts, leveraging digital platforms for efficient operations, as explored in studies like Wei S's "Analysis of Marketing Innovation Under the New Retail Mode - Taking 'Luckin Coffee' as an Example" [2]. Simultaneously, it has been at the forefront of cross-border marketing strategies, collaborating with diverse platform brands to enhance brand awareness, as evidenced by its numerous successful cross-promotional campaigns.

3.2. Analysis

As noted in market surveys, Luckin Coffee's extensive store network provides it with a wide geographical reach. This physical presence increases brand visibility and ensures convenient access for consumers. For instance, in urban areas, Luckin stores are often strategically located in commercial centres, office buildings, and high-traffic areas, facilitating impulse purchases.

Leveraging new media tools, Luckin has demonstrated strong digital marketing acumen. As per Xu G in "SWOT Analysis of Coffee's Marketing Strategies: A Case Study of Luckin Coffee in China", its targeted advertising on social media platforms like WeChat and Douyin, along with effective use of influencer marketing, has significantly boosted brand exposure [5]. The brand's mobile app, which offers easy ordering, personalized recommendations, and loyalty programs, has also contributed to a seamless customer experience and enhanced customer engagement.

Luckin Coffee has continuously expanded its product portfolio beyond traditional coffee offerings. It has introduced a variety of flavoured coffees, non-coffee beverages, and even light snacks. Market research indicates that these diversified products have been well-received by consumers, catering to different taste preferences and consumption occasions.

Some studies and consumer reviews have pointed out potential issues with product quality consistency across different Luckin stores. Variations in coffee brewing techniques, ingredient freshness, and service quality in certain outlets may impact the customer experience. This lack of consistency could potentially erode customer loyalty if not addressed effectively.

The development of new retail technologies, such as augmented reality (AR) for in-store experiences and advanced data analytics for customer insights, presents significant opportunities for Luckin. By integrating these technologies, Luckin can enhance the customer experience, improve operational efficiency, and gain a competitive edge in the market.

The coffee market in China is highly competitive, with domestic and international brands vying for market share. Established players like Starbucks and emerging local competitors pose a significant threat to Luckin Coffee. These competitors often have unique value propositions, whether through brand heritage, product innovation, or customer service, forcing Luckin to innovate and differentiate itself constantly.

3.3. Discussion

The SWOT analysis of Luckin Coffee reveals a complex and dynamic business landscape. The brand's strengths, such as its vast store network and robust digital marketing capabilities, have been instrumental in its rapid growth and market penetration. The widespread physical presence makes the brand more visible and enables it to capture a larger share of impulse-buying consumers. This, combined with effective digital marketing strategies, has created a strong brand image in the minds of Chinese consumers.

However, the identified weaknesses, particularly product quality consistency, pose a significant challenge. In a highly competitive market where customer experience is crucial, inconsistent product quality can lead to negative word-of-mouth and a loss of customers [11]. Luckin Coffee needs to implement strict quality control measures across all its stores, including standardized training for baristas, regular quality checks, and better supply chain management to ensure ingredient freshness.

The opportunities presented by the growing coffee demand in China and advancements in new retail technologies are substantial. Luckin can expand its market share further by tailoring its products and marketing strategies to new customer segments, such as younger consumers in smaller cities. Embracing new retail technologies like AR can set it apart from competitors and enhance customer engagement. For example, an AR-enabled coffee-ordering experience could allow customers to visualize different coffee blends or customize their drinks in a more immersive way.

4. Conclusion

In the backdrop of a burgeoning Chinese coffee market, where demand has been steadily on the rise over the past decade, Luckin Coffee emerged as a significant player. The market's growth, characterized by an increasing number of coffee shops and a substantial expansion in the freshly brewed coffee market, provided fertile ground for Luckin's initial foray and subsequent growth.

The primary purpose of this paper was to conduct a comprehensive analysis of Luckin Coffee. By delving deep into its business model, marketing strategies, and competitive standing, the aim was to unearth its opportunities and risks, ultimately offering actionable recommendations for its future development.

A multi-faceted approach was adopted to achieve this. A detailed literature review was conducted to understand the theoretical underpinnings relevant to the coffee industry and Luckin's operations. The SWOT analysis evaluated its internal strengths, such as efficient digital operations and strong brand awareness, and weaknesses, like inconsistent product quality. The Five-C and Porter Five Forces Model were utilized to assess the external environment, considering factors like the bargaining power of suppliers and buyers, the threat of new entrants and substitutes, and the intensity of competition. Additionally, word analysis of consumer reviews and social media discussions was conducted to gain insights into consumer perspectives.

The analysis revealed that Luckin Coffee indeed has several strong suits. Its digital-first approach has enabled seamless customer experiences, and its cross-border marketing efforts have resonated well with consumers, enhancing brand awareness. However, it also faces challenges. Inconsistent product quality across stores could potentially undermine customer loyalty. Despite the growing market's ample opportunities, the intense competition from domestic and international brands cannot

be ignored. While appreciating the brand's marketing initiatives, consumers also expect more in terms of product value.

This analysis holds great significance. It provides investors with a clear and comprehensive view of Luckin Coffee's potential, aiding in more informed decision-making. For the enterprise itself, it serves as a valuable guide. By highlighting areas for improvement, such as enhancing product quality consistency and devising more effective marketing strategies, Luckin Coffee can work towards strengthening its brand competitiveness. By addressing these identified issues, Luckin Coffee can chart a more sustainable growth path in the highly competitive Chinese coffee market, ensuring its long-term viability and success.

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