

Problems and Countermeasures in the Chinese Coffee Industry

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Abstract. In recent years, the coffee industry in China has been expanding continuously, and consumers' demand for coffee has also been increasing significantly. However, the industry is also facing multiple challenges. Therefore, it is of practical necessity to study the main problems it is currently facing and analyze its solutions. This article focuses on studying the development status of the coffee industry in China and summarizes the three major problems at present: Firstly, the industry is highly homogeneous, and the competition is extremely intense, which has brought negative impacts; Secondly, the upstream supply chain of the domestic coffee industry is fragile. Most coffee enterprises rely on imported raw materials. Thirdly, at present, it is difficult to develop the lower-tier markets and change consumers' perceptions regarding coffee. In response to the above issues, this article has proposed corresponding solutions. Studies have shown that through brand innovation to reduce homogeneity, shorten the supply chain, receive government support, integrate into the lower market and reduce the development costs in that market, etc., it is possible to effectively alleviate the current predicaments faced by the Chinese coffee industry. This article effectively clarifies the problems currently faced by the Chinese coffee industry and provides several solutions. The research results can help the Chinese coffee industry alleviate some of the problems it is currently encountering, remove obstacles, and facilitate its faster development, as well as promote the more prosperous development of the industry.

Keywords: Chinese coffee industry, homogenization, supply chain, lower-tier cities.

1. Introduction

The consumer goods market is the core hub in the global economic system that connects production, consumption and trade among countries. It supports the economic cycle of the entire world. It not only meets the daily needs of residents but also promotes economic growth and industrial innovation. Its significance is self-evident. In terms of scale, the global consumer goods market reached 41 trillion US dollars in 2024, and its annual growth rate remained stable. Secondly, the consumer goods market has a strong driving effect, directly stimulating manufacturing, logistics and sales industries, and forming a vast production and sales chain.

Coffee holds a special position in the consumer goods market. First of all, its sales volume and market resilience are both very high. The global market value of coffee amounts to hundreds of billions of dollars and is the second-largest traded commodity in the world. Coffee can be sold as a

high-end product, or it can also be regarded as a daily necessity for some consumers due to its stimulating and refreshing effects and is considered an "affordable luxury". Secondly, coffee holds special cultural significance. People tend to start their day by having a cup of coffee in the morning to refresh themselves. In some areas, afternoon tea is also served with coffee. In some high-level conversations, coffee is also served to the guests, which is a symbol of status. From this, it can be seen that the consumption stickiness and frequency of coffee are also very high. With the rise of well-known Chinese coffee brands such as Luckin Coffee and Cotti Coffee, the Chinese coffee industry has already attracted worldwide attention. The Chinese coffee industry is currently in a stage of rapid expansion and intense competition. It is developing at a rapid pace and has great potential, but it is also facing many challenges.

This article has identified and analyzed the three main problems currently faced by the Chinese coffee industry: Firstly, the current competition in the Chinese coffee industry is extremely intense and highly homogeneous; Second, the upstream supply chain is weak, and many coffee companies still rely on imported raw materials. Thirdly, developing the lower-tier markets is challenging, but these markets hold great potential. Then, this article provides some solutions to the above three issues. For instance, it suggests creating brand culture to reduce homogeneity, shortening the supply chain to strengthen the upstream supply chain and reduce costs, and entering the lower-tier markets, etc. This article can, to a certain extent, help alleviate the current predicament faced by the Chinese coffee industry. By implementing the solutions proposed in this article, it can effectively reduce homogeneity, build a stronger domestic upstream coffee bean supply chain, and help the coffee industry penetrate the lower-tier markets, thereby creating new sales growth.

2. Problems

2.1. Price competition and homogenization competition

In recent months, many coffee shops in China have participated in a "drink price war", such as Luckin Coffee and Cotti Coffee [1]. This means that each coffee shop sells its products at low prices on online platforms, so that a cup of Americano can be purchased for as little as 9.9 yuan or even less [2]. Due to the intense competition among these coffee shops, this has also posed a challenge to their profits. Appropriate price competition is beneficial to the development of the industry. However, the current "price war" tends to be overly competitive, which is not a good thing for the profits of each coffee brand.

Currently, the products sold by many coffee shops in the Chinese coffee industry have similar flavors, packaging, designs, and store appearances. Regarding the flavor, most coffee shops nowadays mainly offer "milk-based coffee", and some may add some fruit flavors as well, so the flavors are quite similar. Additionally, the marketing models of the products are similar. They are mostly promoted through IP collaborations, such as Luckin Coffee frequently collaborating with various IPs. This causes the brand personality to become blurred and makes it difficult to build user loyalty. Finally, the store decoration styles of many coffee shops are similar, resulting in a lack of uniqueness in the consumer experience.

2.2. Supply chain

First of all, as of now, the main production area of coffee beans in China is Yunnan, accounting for 99% of the total domestic coffee production [3]. However, the planting scale is limited, and the

output fails to meet the demand. Secondly, the quality and stability of domestic coffee beans need to be improved. They are unable to meet the requirements of mid-to-high-end brands for raw materials.

Furthermore, for the current domestic coffee bean cultivation, the profit distribution is extremely uneven. The income of coffee farmers is very low, which leads to a lack of motivation for continuous investment and development. In some areas, trees have even been cut down and replaced with other crops.

However, the temperature and climate in foreign countries are more suitable for growing coffee beans. Therefore, many enterprises choose to import high-quality coffee beans from abroad, such as Arabica coffee beans. However, at present, due to issues such as reduced production in Brazil and fluctuations in international futures prices, the cost pressure on enterprises from importing coffee beans has significantly increased.

2.3. Lower-tier markets

The total sales volume of coffee in first- and second-tier cities is high, but the market is gradually approaching saturation. Therefore, the lower-tier markets have become a new growth point and a focus of attention for the Chinese coffee industry [4].

However, for consumers in the domestic lower-income market, firstly, they may not be particularly sensitive to coffee culture and the flavor of coffee. Instead, they prefer "coffee-flavored beverages", such as products that are more like milk tea and have a sweeter taste. Therefore, the sales volume of black coffee in this market will be relatively low.

Secondly, consumers in the lower-income market are more sensitive to prices and tend to seek products with better value for money. However, this also reduces the profit margin of coffee shops. Moreover, in this market, the local reputation and acquaintance relationship network of coffee shops are quite important. Consumers will trust the products recommended by their acquaintances around them and then make purchases.

As a result, more people will know about this brand's beverages, and the sales volume will naturally increase. But the premise of this method is to get more consumers in the lower-income market to recognize the brand's coffee beverages, so as to achieve the next step of promotion.

3. Countermeasures

3.1. Differentiated market

To distinguish different coffee brands, each brand needs to develop its own unique identity, tell the unique story behind its brand, clearly define its positioning, make consumers recognize the brand, establish an emotional connection with the brand culture, and thereby attract consumers to purchase the brand's products, rather than just buying a cup of coffee.

Focus on product innovation and improvement is also an important method. The brand needs to invest funds and effort in transforming the traditional "coffee and milk" combination into a more novel and flavorful blend, such as appropriately integrating tea elements, Chinese-style snacks with coffee, breaking the homogeneity, and at the same time promoting Chinese traditional culture, so as to make more consumers interested in it [5-6].

While innovating, quality needed to be paid attention to as well. The quality of coffee should be strictly controlled, from raw materials to finished products. Every step is meticulously improved to create mid-to-high-end products. More well-known coffee enthusiasts will recognize this brand and even help promote it.

To break the homogeneity of store appearances, brands can build coffee shops in bookstores, art exhibitions, and scenic spots, allowing consumers to turn their coffee-drinking time into a moment of relaxation and enjoyment. They can also view coffee as a good companion for appreciating masterpieces and beautiful scenery, thereby giving coffee meaning. In addition, coffee shops can offer activities such as coffee-making courses and coffee tasting events, enriching consumers' experiences and enhancing their consumption stickiness. Furthermore, it is also possible to segment the consumer groups to meet the needs of different consumers. For instance, for fitness enthusiasts, specialized beverages rich in more protein can be provided. For mothers with children, providing small playgrounds for their children to play in would allow the mothers to have a moment of relaxation. This would also attract more people to pay for it.

Adhering to the concepts of environmental protection and public welfare is effective. The brand demonstrates its commitment to environmental protection by using degradable materials and recyclable packaging, as well as providing green energy in its stores, allowing consumers to see the contributions the brand has made to protecting the environment. Furthermore, the brand makes contributions to society by engaging in more charitable activities, such as donating funds to impoverished areas. By adopting these methods to drive values rather than merely focusing on products, brands can better resonate with consumers and thereby increase sales.

3.2. Strengthening the upstream supply chain

If more coffee brands choose domestic coffee beans, the most important thing is to improve the quality of domestic coffee beans. By improving the varieties of coffee beans, promoting refined planting management, and enhancing processing techniques (such as introducing fermentation technology), the quality, yield, and stability of domestic coffee beans can be enhanced. Only in this way can more domestic coffee enterprises recognize the coffee beans grown domestically, trust their production and quality, and thus successfully switch to using domestic raw materials and break away from reliance on imports [7].

Secondly, in order to achieve the goal of increasing both production and quality, domestic coffee farmers must also benefit from this process. Brands can attempt to directly collaborate with domestic coffee farmers, shortening the supply chain. This way, the income of coffee farmers can be guaranteed, and the profits of coffee farmers can be expanded. As a result, coffee farmers will be more willing to expand production areas and increase domestic coffee output. More brands will start to purchase domestic coffee beans from Yunnan, thus breaking away from reliance on imports.

Thirdly, efforts should be made to enhance market awareness, so that all enterprises can realize that domestic coffee beans are no worse than imported ones. Coffee brands that use Yunnan coffee beans need to emphasize the fact that they use domestic raw materials, so that more consumers can know that the quality of Yunnan coffee beans is highly reliable, and feel proud of supporting domestic products, thereby developing a certain level of awareness and acceptance of domestic raw materials.

Fourthly, the government actively promotes the upgrading and transformation of the coffee industry by enacting relevant policies, such as providing subsidies for domestic coffee bean production and strengthening trade protection measures. At the same time, it collaborates with industry associations to ensure fair competition and market order in the coffee sector.

3.3. Lightweight operation and local integration

The difference between the lower-tier markets and first- and second-tier cities lies largely in the fact that consumers in the underdeveloped markets are more sensitive to prices. Therefore, the price of coffee beverages should ideally be kept at around 10 yuan [8]. However, in order to ensure profitability and increase profits, the "special products" can be priced at around 18 yuan. For instance, blending coffee with Chinese tea, Moutai liquor, Chengdu pepper, etc., these flavors that are closer to consumers' daily lives can make them interested in them [9]. In addition, the brand introduces new packages, such as offering coffee with bread or special pastries (like almond cookies), or even selling them in combination with light meals.

From the perspective of the store model, firstly, in terms of store size, the stores should ideally be of a small-scale format. This can help reduce costs, for instance by establishing some pop-up stores. Secondly, in terms of location, the store can be set up beneath a large enterprise or company, or beside a school. In this way, students and office workers can use coffee as a refreshing and invigorating item and make regular purchases; or it can be used as a reward for their studies or work, and it is conveniently located close by, making it easy to purchase.

Brands can also establish a coffee cart model. For instance, they can sell their products at various music festivals, scenic spots, and town night markets. At the same time, they can increase product diversity. For example, in summer, they can sell coffee-flavored ice cream or coffee-flavored specialty snacks around scenic spots and music festivals. This not only reduces costs but also attracts customers.

The marketing model also needs to change. In lower-level markets, the method of conducting sales through WeChat group chats is much more effective than other application-based promotion methods. WeChat groups are used for product promotion and group buying. They can recruit group leaders for the group purchase, give them regular dividends, and have them regularly provide promotional coupons, time-limited activities, and free sample tasting events for the group members. This makes the method of familiar person promotion easier to expand the customer base, cultivate repeat customers, and establish a good relationship between the staff and consumers.

In addition, the staff should also maintain good relationships with local customers. For example, they can simply sit in the store for a while every day. They can also hold regular coffee tasting courses and offer free experiences to members, such as making coffee, parent-child activities, etc.

At the same time, through these activities, consumers also came to realize that coffee is not an unattainable luxury product but can become a necessary item in people's lives [10]. In this way, the coffee shop can integrate into the local community instead of being regarded as an "outsider" that consumers do not want to try.

4. Conclusion

The rapid development of the coffee industry in China has brought about numerous challenges. This study addresses the three core issues faced by the coffee industry. Firstly, regarding the issues of intense competition and severe homogeneity, this article argues that brands can achieve differentiation through innovations in beverage flavors, the creation of brand culture, the establishment of brand values, and the development of creative store styles. Secondly, in order to strengthen the upstream raw material supply chain, the analysis shows that shortening the supply chain, allowing coffee farmers to have reasonable profits, increasing the yield and quality of coffee beans, and government intervention and support can effectively solve the problem of the fragile upstream supply chain in the country. Finally, this article suggests that by recruiting local people to

establish WeChat group-buying communities, frequently holding events, and reducing the size of the store, it is possible to better integrate into the lower-tier market and create new sales growth. In conclusion, this article not only clarifies the three major problems currently faced by the Chinese coffee industry but also proposes a number of countermeasures to help the industry overcome its development obstacles, thus contributing to the more prosperous development of the industry.

This article has the following shortcomings. Firstly, the research is mainly based on secondary data and macro-level data analysis, lacking genuine feedback from coffee industry consumers and practitioners. Future research can be conducted through large-scale questionnaire surveys or interviews for analysis and study. Besides, this study lacks universality. The main reason is that it only analyzed leading brands such as Luckin Coffee. Although they are representative, they cannot reflect the current development status and problems faced by some small coffee brands. Therefore, there are limitations in analyzing and solving their development issues. These limitations also provide directions for subsequent research.

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