

Two Giants of the Chinese Coffee Market Different Marketing Paths of Starbucks and Luckin Coffee

Yingxuan Chen^{1,a,*}, Jiayu Lin^{2,b}, Zhuoli Luo^{3,c}, Yuxuan Yan^{4,d}

¹*Shanghai Starriver Bilingual School, Shanghai, 201108, China*

²*School of Hispanic and Portuguese Studies, Beijing Foreign Studies University, Beijing, 100089, China*

³*Changjun High School International Department, Hunan, 410023, China*

⁴*Jinan Foreign language school international center, Jinan, 250108, China*

*a. tinacyx0920@qq.com, b. 2780417209@qq.com,
c. 1814627332@qq.com, d. yanyuxuan0312@163.com*

**corresponding author*

Abstract: Different coffee brands have joined the Chinese market in the last decade as the market has grown and the number of users has risen. The global coffee brand Starbucks and the regional Chinese coffee brands have always been able to occupy a higher market share against the context of a steadily growing number of competitors. This study uses a questionnaire survey to explore the causes behind this and applies 4Ps to compare and contrast the two coffee brands' marketing approaches as well as their advantages and disadvantages. Starbucks and Luckin Coffee shouldn't relax and take it easy on the Chinese coffee market; instead, they should innovate and improve their marketing strategies to keep hold of their current clients and continue exploring potential customers.

Keywords: marketing strategy, Luckin Coffee, Starbucks, 4P marketing mix

1. Introduction

The Chinese coffee market has expanded, making it one of the major regions in China as a result of China's economic development, upgrading of the consumption structure, and rising income levels of the population. According to the "2022 China Coffee Industry White Paper", China's coffee market had a value of 381.7 billion RMB in 2021 with a 27.2% growth rate compared to 2020 [1]. Although the Chinese markets occupied little percent of the global scale, it is expected to develop into one of the world's biggest coffee markets with prodigious potential.

Starbucks led the market as the core head of oligopoly until Luckin coffee entered the market in 2017. By the end of 2021, Luckin Coffee had 6,024 locations, overtaking Starbucks as the company with the most coffee shops in China. These two coffee brands compete as the industry giants and fiercest rivals in the Chinese coffee business. While Luckin Coffee represents the new sales model that prioritizes convenience and good value in the context of new retail, Starbucks is a representative of the classic coffee shop sales model, focused on establishing a space for customers to enjoy coffee.

Despite having quite distinct marketing strategies, both Starbucks and Luckin Coffee have had tremendous success in the Chinese market. The following paper will use the 4P marketing mix to

help analyze the similarities and differences between the two coffee brands' marketing techniques, as well as their benefits and drawbacks, and offer relevant suggestions for improvement.

2. Competitor Analysis

Starbucks has a huge scale in China, which is the fundamental reason why it is different from Luckin Coffee in terms of marketing approach. From an economic aspect, it is easier for Luckin Coffee to gain a foothold as a new brand entering the market and needing to fill a gap in the mid-priced freshly ground coffee market than to compete with the giant Starbucks at a price higher than 30 RMB. Starbucks had enough capital and investment since it had already gone public in 1992. Luckin Coffee not only has to attract new customers and ensure profitability, but also needs to take into account its own initial public offering (IPO) issues, capital operations, and data falsification issues. Overall, as a new company, Luckin Coffee has to face more challenges.

Table 1: Starbucks and Luckin Coffee Chinese mainland 2022 market scale [2] [3].

	Starbucks	Luckin Coffee
Quantity of stores	5500+	7000+
Quantity of employees	58000+	12000+
2022 Q2 net profit (dollar)	550 million	493.2 million
2022 Q2 net profit growth rate on a year-on-year basis	-14%	72.4%
2022 Q2 same-store sales growth rate on a year-on-year basis	-23%	41.2%

As the figure shows, Starbucks reported a net profit of 550 million dollars on the Chinese mainland in the second quarter of 2022, lowering net income by 14% and same-store sales by 23% year-over-year. This may be related to the rise of Luckin Coffee and the epidemic prevention control policy in China. However, Luckin Coffee received a 72.4% net profit growth under the same social condition. Its different stores-employees proportion indicates its “new retail” mode. The different marketing paths of these two brands led to the appearance of the data.

3. Definition of 4p Marketing Mix

4P marketing mix combines various marketing strategy decision variables to market a firm's products. By collecting information and analyzing data from the customers' demand and market competition, the firm decides the instruments and strategies to encounter needs and challenges. 4P marketing mix functions as a business model that combines all the marketing ingredients to assist the firm to achieve its goal not limited to profit, sales volume, market share, return on investment, etc. The 4P marketing mix includes four elements: Product, Price, Place, and Promotion [4].

4. 4p Marketing Mix

4.1. Product

4.1.1. Product Novelty

Starbucks frequently releases new items that become quite popular with the changing of the seasons in an effort to draw customers, such as the toffee hazelnut latte, which is well-liked by customers. In addition, Starbucks has made its distinctive mooncake and rice dumpling goods available in time for traditional Chinese festivals including the Mid-Autumn Festival and the Dragon Boat Festival. The

items come in Western flavors like New York cheesecake and have an appearance that blends completely with traditional Chinese festivals [5]. As a result of this perfect fusion of Eastern and Western traditions, the products have won over a lot of Chinese enthusiasts.

Luckin Coffee updates its goods quite quickly, and the majority of them have unusual titles, like the recently released "late summer sea salt latte," which is extremely hot. Luckin Coffee has introduced 111 new products in 2021, although they are introduced swiftly, they are of very high quality. According to our survey, 50% of customers who adore Luckin Coffee think the company's goods are to their taste.

In addition to their primary coffee products, Starbucks and Luckin Coffee both sell beverages and desserts, which makes these two coffee-based companies even more competitive in the market for coffee. Luckin Coffee updates its products more quickly than Starbucks. However, one of the key factors contributing to Starbucks' popularity in China is the localization of its products with Chinese traditional culture.

4.1.2. Product Derivatives

Derivatives of a product are a brand's symbol and are also associated with the product. In order to appeal to clients with various tastes and potential customers, derivatives typically employ brand features and have brand elements.

In addition to drinks and food, Starbucks also sells bags, coffee cups, thermoses, straws, and toys. Some of these variants include seasonal or holiday-themed new products, items that are only offered temporarily, and traditional product designs in August 2021. Under the theme of environmental conservation, Starbucks introduced a very attractive recyclable straw in four different colors with a really adorable small decorative pattern. This product sold out immediately after it was introduced. Since 1997, Starbucks has utilized red cups during the holiday season that still feature the brand's logo on the body but also feature Christmas decorations to boost sales with a unique look. Starbucks has also entered the market for coffee that is ready to drink. Starbucks' mermaid-themed brand image can capture customers' attention to its canned coffee products, whether they are sold in small convenience stores or big-box retailers. This sales technique makes the brand known to a wider variety of potential customers by utilizing the product's public visibility. This means that the frequent presence of this product will make more and more people know and imitate the behavior of consuming this brand. Starbucks ready-to-drink coffee bearing the brand's logo also acts as a frequent trigger, making it easier for consumers to recall the brand name of the coffee company even if they do not visit a Starbucks store to buy coffee [6].

Luckin Coffee has done a good job with its derivatives as well. In August 2021, Luckin Coffee released a combination of branded cups and well-known celebrities, including a free "Meet Haoran" blind box with the purchase of a Luckin Coffee deer straw cup, to push derivatives usage [7]. The fact that Luckin Coffee's product was so popular that it even caused the company's website to crash. It demonstrated the effectiveness of its marketing strategy.

Both Luckin Coffee and Starbucks have created distinctive variations of their products. Starbucks offers several different brand derivatives, with new products being introduced in accordance with the seasons and special occasions. These products typically have decorative and functional values, which are crucial elements in attracting customers. Coffee cups make up the majority of Luckin Coffee's product adaptations. Superstars in various sectors like Liu Haoran and Gu Ailing, are frequently involved in order to increase brand recognition and draw in customers through the celebrity effect.

4.2. Price

Founded in 1971, Starbucks has swept the world with its high price tag, making it a luxury item. The average price of a Starbucks drink is over 30 RMB which is relatively expensive in the coffee industry. Starbucks consumers are mostly corporate white-collar workers or college students with spending power. The high price and recognition of Starbucks give it social currency attributes, representing high consumption and high quality of life, thus gaining consumer stickiness. Social currency, mentioned in the book *Contagious* written by Jonah Berger, means anything that brings desired positive regard from others [6]. Consumer stickiness, which is extended from sticky marketing created by Grant Leboff in the book *Sticky Marketing* published in 2012, “is a fundamental underlying principle of consumer engagement” [8]. According to our survey, 50.75% of the respondents who prefer to drink Starbucks chose “brand dependence” as the reason for their preference, while only 14.52% of the respondents who prefer to drink Luckin Coffee chose this option in the same question. Unaware by most consumers, their spontaneous “brand dependence” is called consumer loyalty, “a deeply held commitment to rebuy or patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same-brand set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior”, in marketing [9].

Nonetheless, price alone cannot solidify consumer loyalty. Starbucks simultaneously uses other strategies to strengthen the relationship between the brand and consumers. For example, customers often are sold membership cards when purchasing coffee in stores. When purchasing an annual membership card, coupons are regularly issued to the app account, there are exclusive benefits for members on their birthdays. Another example is that sometimes Starbucks will waive delivery fees to stimulate spending and encourage ongoing consumption. In addition, the Starbucks app uses the game leverage mechanic to accumulate stars after users spend money. They become Gold Star members that enjoy more benefits through accumulating spending, which also reflects Starbucks' social currency attributes.

While building brand loyalty with certain consumers, Starbucks passively gives up a part of its potential users who are not willing to pay for Starbucks' high prices in the meantime. According to a 2019 survey by Frost & Sullivan, only 26% of respondents were willing to buy freshly ground coffee for more than RMB 30 and above [10].

The disadvantage of Starbucks is exactly the advantage of Luckin Coffee. With the insight that China's freshly ground coffee market has huge room for development, Luckin Coffee entered the market in 2017. Most of its product prices are around 15-25 RMB, filling the gap in China's affordable freshly ground coffee market. Luckin Coffee uses the strategy of “the first cup being free” to attract new users to sign up for an account for subsequent purchases. Luckin Coffee has the same product quality as Starbucks but at half the price, which meets the demand of regular coffee drinkers for the price, naturally taking away some of Starbucks' customers and attracting new ones. Moreover, Luckin Coffee requires a free delivery fee. The new retail model used by Luckin Coffee is more focused on takeaway and online ordering than the traditional offline purchase model, and the free delivery fee seems more attractive. The no delivery fee strategy used by Luckin Coffee is more friendly to buyers who demand coffee every day than Starbucks' approach to stimulating purchases, and is coherent with Luckin Coffee's low price positioning.

4.3. Place

4.3.1. Market Scale

As of June 2022, Luckin Coffee nationwide has exceeded 7,000 stores according to data from Luckin Coffee's official website. At present, Starbucks has opened 5,400 stores in more than 200 cities in mainland China, according to the data from Starbucks' official website. Compared with the number of stores, Luckin has more stores than Starbucks, and Luckin Coffee has only started its offline trial operation in January 2017, and its store expansion is faster than Starbucks.

4.3.2. Store distribution

The two brands have different positioning, different prices, and different target groups. The consumption level of the region where Starbucks is located is relatively expensive. The main consumer groups are middle and high-income people with higher education and requirements for quality of life. Luckin's pricing is relatively cheap, and the main consumer groups are relatively popular, mainly young people and professionals.

Starbucks' main location is in large shopping malls, high-end office buildings, city centers, and other places with a large number of customers with purchasing power. Using the principle of visibility, the store will be opened in a conspicuous position outside the window, so that consumers can see the green iconic mermaid logo at a glance. Luckin Coffee, on the other hand, has opened coffee shops in universities, offices, and communities that have a high demand for coffee, and accurately targets its customers.

4.3.3. Store Environment

Starbucks has made every effort to create a "third space" between home and work, each store is spacious and comfortable, and the coffee drawings on the wall, the lyrical music, and every little detail are continuously implanted into consumers, creating a relaxed and warm atmosphere. Many people don't drink coffee for the sake of drinking coffee, but to experience the feeling that Starbucks brings, which is in line with the slogan of Starbucks China's official website: use every cup of coffee to deliver Starbucks' unique coffee experience. Compared with Starbucks, Luckin's coffee space is relatively small. The mode can reduce rent and furnishing costs as known as fixed costs and assist Luckin coffee to expand quickly. Luckin Coffee has in-depth cooperation with takeaway and logistics companies to facilitate customers' self-collection and stay-at-home needs. It is more convenient to order from an app or a small program that is self-service throughout the whole process, which is more in line with a modern and fast-paced life.

4.4. Promotion

4.4.1. Starbucks

Customers can't see many Starbucks ads on the streets in China, and Starbucks ads and company product videos can only be observed by searching on Starbucks official customer website and other video social networking sites. However, Starbucks has taken its marketing to the extreme in other ways.

Stores Differentiation:

Starbucks stores are diverse. Starbucks stores downtown look professional and trendy, while Starbucks store on an old street looks older, cohering to the big atmosphere. Whether customers look at Starbucks from the outside or walk into the store, it will look exactly like the environment it is in. The most impressive one is the Starbucks in the Gu Gong. In 2001, Starbucks planted its promoting

banner in Gu Gong, which is the palace of China's emperors. On the surface, the opening of a Starbucks branch in the Gu Gong in Beijing facilitates the convenience of food and beverage for Chinese and foreign tourists and also enhances the dignified atmosphere and the sense of the gravity of the Starbucks brand. At the same time, it also reflects the openness and inclusiveness of the Palace Museum in Beijing. From the practical analysis, the number of visitors to the Gu Gong in Beijing has been very large, among many foreign tourists. It's also an ironclad guarantee for Starbucks' revenue. Starbucks has successfully adapted its appearance to the general environment. So when a Western-style coffee shop is decorated in a classical Chinese style, it no longer seems out of place in the Gu Gong.

4.4.2. Luckin Coffee

(1) Coupon Reminder

Luckin is a startup coffee company that is not as old as Starbucks but is no less popular in China. How to promote effectively? When people visit Luckin's official customer website and buy a coffee, new coupons arrive in people's accounts almost every day, motivating coffee purchasing. Not only the number of discount groups is very large, but also the discount intensity of coupons is huge. The coupon reminder functions as a trigger for shopping. Of course, people don't give up on such practical things. This has naturally become a topic in people's mouths. Consecutive coupon notification benefits creating long-term customer relationships.

(2) Celebrity Effect

Early insight into potential stars and signing them is an ability of Luckin Coffee. For example, in 2021, Luckin Coffee signed Ailing Gu, who had not yet participated in the Beijing 2022 Winter Olympics and won a gold medal for China. In 2022, Ailing Gu's popularity rises tremendously, attracting a large number of fans. Hence, the endorsement of Luckin Coffee also attracted a lot of attention from fans, successfully attracting today's young office workers who like her. When people see their favorite stars endorsing Luckin Coffee, even though some people don't like coffee, they start to try to enter Luckin's "family" from then on.

(3) Co-branding

However, celebrity endorsement is not the best method for testimonials now since people know the comment is not realistic enough. According to our survey, 72.87% of survey respondents chose "recommendations from others" as the reason for trying new products. People are more likely to trust the recommendations of their family and friends because they are more objective in their evaluation of products. While celebrity effect is gradually being undermined, Marketers are turning to co-branded marketing more often instead of using celebrity marketing. According to a 2022 July monthly report of a marketing data analysis organization called Social Touch Insight, celebrity endorsement marketing declined 16.5% on a year-on-year basis, and co-branding marketing increased 23.1% on a year-on-year basis [11].

Luckin Coffee has used the co-branding mode to get high returns. For instance, Luckin Coffee has a cooperation with a Chinese coconut milk brand "YeShu". Though "YeShu" is an old national brand, it has been high on meme fever. Luckin coffee seized the business opportunity and created a coconut cloud latte in association with "YeShu" whether its design and packaging design all refer to the "YeShu" packaging. It has caused a high level of conversation. In the Announces Second Quarter 2022 Financial Result of Luckin Coffee, Coconut Cloud Latte sold 24 million cups since its launch in April, with total store revenue reaching 400 million RMB.

5. Comparison of Starbucks and Luckin Coffee

The findings of the survey and the analysis above show that Starbucks and Luckin Coffee have significantly different product novelty, update rates, prices, and brand concepts, but both have developed their distinctive marketing strategies that are well-received by customers.

Starbucks' advantages include a classy store setting, luxury coffee products, first-rate service, and a membership program based on customer spending levels. These all offer consumers access to social currency. Starbucks succeeds in evoking strong emotions in its customers, and as a result, it has developed from just a location where people go to buy coffee to a place where they can relax and escape the daily grind. Starbucks offers cups, straws, bags, and other items with its unique mermaid logo, as well as Starbucks ready-to-drink coffee in convenience stores to increase brand visibility, provide consumers with an incentive to consume the brand, and draw in new customers. A crucial marketing tactic for attracting Chinese customers is Starbucks' localization approach in China. The localization of Starbucks' products and store design successfully blends Western and traditional Chinese cultures, which appeals to the majority of Chinese customers.

Numerous customers have been drawn to Luckin Coffee by its quick and simple purchasing process, affordable coffee goods, quick product updates, and celebrity effect. Being a customer of Luckin Coffee means getting fantastic daily discounts and occasionally getting to try its new goods. People can easily purchase Luckin Coffee in advance on their mobile devices and receive freshly made coffee immediately or very fast have it delivered to their home. Luckin Coffee is expanding its brand awareness and attracting more potential customers by collaborating with celebrities.

Both Starbucks and Luckin Coffee have a wide range of products, including excellent coffee, snacks, sweets, and other consumables like milk, soda, and juice. Word-of-mouth for both coffee companies has spread widely because of the branded derivative items they offer. Though there are still some problems with the sales plan.

Starbucks markets itself as a luxury coffee brand, yet some customers have been turned off by the high cost of its goods. Additionally, Starbucks is unable to continue opening new locations like Luckin Coffee due to the high rents in its stores' typical locations in busy commercial areas and the high cost of store construction.

Even though Luckin Coffee's small locations are convenient for ordering, customers rarely linger after picking up their food there, so Luckin Coffee is unable to evoke the same strong emotions in customers as Starbucks. Additionally, unlike Starbucks, Luckin Coffee does not sell its own coffee beans or ready-to-drink coffee in convenience or supermarkets, so customers do not think of the brand outside of Luckin Coffee's establishments.

6. Conclusion

To sum up, Starbucks and Luckin Coffee have diverse marketing strategies. Starbucks has a broader range of derivative products and launches new products based on holidays and events, while Luckin Coffee has a faster update rate compared to Starbucks. Starbucks has a social currency attribute in terms of price, while Luckin Coffee focuses on price performance. Starbucks is committed to creating a third space between home and work, and has a larger store area, while Luckin uses a new retail model that focuses more on mobile ordering and delivery, and therefore has a smaller store area. Starbucks adapts to local conditions and uses different decoration styles in different locations to blend in with the local environment, while Luckin Coffee uses strategies such as message alerts, celebrity effects, and co-branded marketing to market its products. Nonetheless, the weaknesses of both brands are also obvious. Starbucks implicitly gives up some of its potential customers because of its high prices, and because of its large stores and high renovation costs, there is no way to open as many stores as Luckin Coffee. Starbucks could consider opening kitchen stores, given the growing demand

for take-out. Luckin Coffee has no emotional marketing like Starbucks and no instant coffee for sale in supermarkets. Luckin coffee can consider broadening its product chain so that its products appear in other places besides its own stores.

In this paper, the order of product, price, promotion, and place are respectively analyzed. This paper analyzes each P in detail, compares and integrates the data obtained, and obtains sufficient conclusions. With the deepening of the content of the paper, the analysis of the paper is more thorough. The paper specifically analyzes the two companies in the marketing of different means. Although the two companies are analyzed separately in this paper, the amount of data information collected in this paper is not large enough. Therefore, this paper needs more market survey data for a deeper analysis. Furthermore, this paper does not involve food costs, storage costs, transportation costs, and other practical factors. The recommendations made need to be implemented as long as they are economically achievable.

References

- [1] ELE.ME (2022) 2022 China Coffee Industry White Paper. ELE.ME.
- [2] Starbuck (2022) Starbucks Report Q2 Fiscal 2022 Result. Starbucks Investor Relations. DOI: https://s22.q4cdn.com/869488222/files/doc_financials/2022/q2/Q2-FY22-Earnings-Release-5_3_2022-Final.pdf
- [3] Luckin Coffee (2022) Luckin Coffee Inc. Announces Second Quarter 2022 Financial Result. Luckin Coffee. DOI: <https://investor.lkcoffee.com/static-files/7ee24727-85c4-4ff3-b63b-31989a5d485b>
- [4] Abrams, Rhonda (2000), *Successful Business Plan: Secrets and Strategies*, (Palo Alto; California: Running 'R' Media), xxix, Sec. II p 47-288.
- [5] Xing, Y. , Mou, X. (2022) *Exploration of Starbucks Marketing Strategy*. *Co-Operative Economy & Science*, 14: 80-81.
- [6] Berger, J. (2013) *Contagious: Why Things Catch On*. Simon & Schuster, New York.
- [7] Shen, Y. , Zheng B. , Zong, Y. , Wu Z. , Chen Y. , Zeng, Y. (2020) *Comparative Analysis of Marketing Models in the Coffee Industry under the "New Retail" Model - Taking Starbucks and RuiXing Coffee as Examples*. *Modern Business*, 29: 17-18.
- [8] Leboff, G.(2011) *Sticky Marketing: Why Everything in Marketing has Changed and What to do About it*, London.
- [9] Oliver, R. (1999) *Whence Consumer Loyalty*. *Journal of Marketing*, 63: 34. DOI: https://foster.uw.edu/wp-content/uploads/2016/07/12_Oliver_1999.pdf
- [10] Luckin Coffee (2019). *Luckin Coffee Listing Prospectus*. Luckin Coffee.
- [11] Social Touch Insight (2022). *Battle Monthly Report | July Marketing Market is not yet Recovered, Domestic Beauty, Men's Skincare Counter Trend up*. Social Touch Insight.