

Analyzing the Marketing Strategy of Coffee Retail Industry: Case from Luckin Coffee

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Abstract: Coffee retailing is an emerging industry, the market is rapidly expanding, and competition is intensifying. Luckin Coffee was founded in 2018. In just five years, Luckin Coffee has become one of the most successful companies in China. In October 2017, Luckin Coffee opened its first shop in Beijing and was listed on NASDAQ in the US on 17 May 2019. By July 2022, Luckin Coffee will already have more than 7,000 shops. It owes its success to the effective marketing strategy it has adopted. In this paper, the various marketing strategies used by Luckin Coffee can be summarized as celebrity endorsement strategy, promotion of a large number of coupons, development of marketing campaigns in Luckin Coffee's app, promotion on public domain platforms, and marketing on Wecom are analyzed in depth. In addition, questions are raised, and recommendations are given for these marketing strategies in this paper.

Keywords: marketing strategy, coffee retail industry, Luckin Coffee

1. Introduction

Luckin Coffee has emerged rapidly in China in recent years as a new chain of retail coffee brands. Founded in July 2017, Luckin Coffee started its offline trial business in January 2018. It quickly cut into the market with a new retail model that integrates online and offline and a diversified marketing approach based on social e-commerce. And it has taken a pro-people approach, seeking to provide the best service to its customers regarding value for money and high-quality coffee. Luckin Coffee is one of the most successful marketing cases in China, if not the world [1], using different marketing techniques to capture the market and continuously increase sales and revenue. In 2018, Luckin Coffee's single store revenue was 19.5, 20.3, and 22.5million in the second, third, and fourth quarters, respectively, and 20.2, 30.7, and 41.9million in the first, second, and third quarters of 2019 [2]. Luckin Coffee's revenue is generally on an upward trend. As of June 2022, the number of Luckin Coffee stores in China has exceeded 7,000 [3].

2. Background

Luckin Coffee is facing a huge industry scene. The coffee industry is hugely profitable in China, with profits reaching 3 billion in 2016, and the country's huge population is the basis for high profits [4]. With a population of 1.4 billion, the coffee industry is undoubtedly delighted that the Chinese market has enough space to host the birth and development of new businesses. In addition, the Chinese people,

who have been absorbing foreign culture due to the reform and opening up, are also very adaptable and looking forward to the birth of domestic coffee brands. Such an attractive prospect gave birth to Luckin Coffee. However, when Luckin was born, he faced an unprecedented threshold in the industry. Starbucks, the giant in the coffee market, was its biggest competitor. Its shops in China alone amount to 3,600 plus in 2019, capturing over 70% of the market share [5]. Other brands, such as Costa Coffee, are also not to be underestimated. These competitors present a huge market threshold for Luckin Coffee. And the history of coffee as an imported product is widely known. Subconsciously, people in China trust foreign brands of coffee more and feel that foreign brands are more authentic. This has undoubtedly made it more difficult for Luckin Coffee, a local brand, to gain a foothold in the domestic market.

Moreover, milk tea, the alternative to coffee in the Chinese market, is a popular choice among Chinese people. In such a difficult situation, how to stand out, create a rising trend and capture a considerable market share is what the developing Luckin Coffee is constantly thinking about. The first thing it needs to consider is how to increase sales quickly. Luckin Coffee required a series of first sales orders to quickly capture the market and increase customer stickiness to achieve product sales. This will lay the foundation for its customer base to accept the brand and achieve initial results gradually.

3. Marketing Strategy

The marketing strategy used by Luckin Coffee is the Celebrity endorsement strategy, Marketing Activities, and marketing in different Marketing scenarios. Marketing Activities are divided into coupons and activities in Luckin Coffee's app. For marketing scenarios, Luckin Coffee markets on public and private platforms, respectively.

3.1. Celebrity Endorsement Strategy

The celebrity endorsement strategy is a powerful strategy used by Luckin Coffee to increase brand awareness, reliability, and sales of its products. Studies have shown that celebrities' strong visibility, appeal, and other attributes increase brand recognition [6]. Luckin Coffee has used the celebrity endorsement strategy, employing stars such as Zhan Xiao, Ailing Gu, Wei Tang, and Haoran Liu. These stars are all obvious and influential in China. In the case of Zhan Xiao, he represents "attractiveness", is a famous actor and singer, and is also known as a "traffic star" because he has a vast and loyal fan base, with over 30 million followers on social media platform Weibo. In addition, Zhan Xiao's fans are known to be "extremely bonded" as they are very supportive and willing to pay for the products he endorses. Whenever Zhan Xiao endorses a consequence, that product's sales will increase tremendously. This is the first reason Luckin Coffee chose Zhan Xiao: to increase sales significantly. Secondly, the number of purchases made by his fans also shows that Zhan Xiao's team is highly professional in selecting brands that his fans can buy confidently. The second reason is that Zhan Xiao is the spokesperson for Luckin Coffee, which reflects the brand's reliability. As for Ailing Gu, she is an athlete with high "popularity" and personal charisma. Her popularity comes from the fact that she is the winner of two gold medals in the Winter Olympics. She is renowned because the Winter Olympics were a weakness for China in terms of sports, and Ailing Gu's presence has made China competitive in the Winter Olympics, making her recognized and loved by the Chinese. Therefore, by choosing the popular Ailing Gu as its spokesperson, Luckin Coffee can enhance the brand's credibility and create a good reputation for the company. It is also worth mentioning that athletes usually have a positive attitude towards life, which gives Luckin Coffee a brand image of self-improvement. All in all, the celebrity endorsement strategy has been a success for Luckin Coffee, and the hiring of these

celebrities has been beneficial as their characteristics have increased awareness, recognition, and product sales for Luckin Coffee.

3.2. Marketing Activities

Coupons. Luckin Coffee uses a marketing technique of promoting huge e-coupons on a large scale to capture the market quickly. How to catch a market soon? The answer is lower prices. This is because customers tend to prefer lower prices when quality is guaranteed. Therefore, Luckin Coffee chose to promote e-coupons to the public to gain a higher market share. The success of Luckin Coffee's e-coupons is mainly attributed to three factors. The first is the convenience of e-coupons, which means that people can use them with their mobile phones. Nowadays, mobile phones have become a necessity in people's daily lives, and e-coupons are attached to mobile phones, so customers do not have to worry about losing their coupons compared to physical coupons. The second is that the range of coupons available at Luckin Coffee can often result in products being half or even more than half the price.

Compared to Starbucks' higher product prices, Luckin Coffee's goal is to turn coffee into a beverage and make it affordable for the public to buy Luckin Coffee's products at a lower price [7]. The reason for this is that very few people in China drink coffee for the ritual and premium feel or to taste the aroma of the coffee. Therefore, the lower price of the product is more attractive to Chinese customers. In addition, people looking for coffee need a specific financial base. Research shows that in 2015, housing accounted for 70.1% of household assets in China and continues to grow [8]. This means that most Chinese people only appear to be wealthy because most of their assets come from real estate, while the proportion of tangible liquid assets is small, leaving them with little money to spend. Hence, the Chinese do not spend much money on their daily expenses, but they often buy goods when they are on offer. Another factor is that coupons have the effect of reducing customers' sensitivity to price. With coupons, consumers develop a sense that they are getting a bargain since they do not need to buy at the product's original price. In conclusion, the coupon strategy of Luckin Coffee caters well to the consumption characteristics of most Chinese people, which has dramatically increased the sales of the product and contributed to the success of this company.

Developing Marketing activities in Luckin Coffee's app. Luckin Coffee creates a variety of marketing campaigns in its unique app. Firstly, it uses a free first-order strategy to attract customers to download the app, and secondly, it has a variety of activities to attract customers to the app. For the first activity, Luckin Coffee uses a points tier strategy - customers earn points for every order they place with Luckin Coffee. Then they move up a tier to reach a certain number of points, and the higher the tier, the greater the benefits.

For the second activity, Luckin Coffee has launched a medal campaign, divided into a Mission medal and an Honor medal. Each medal has a unique and well-made design. For the Mission Medal, a customer who lights up a Mission Medal will be awarded the title of "Coffee Star" for the month, which requires the customer to be in the top 20 for the number of orders placed at the same Luckin Coffee shop during the month. For the Medal of Honor, Luckin Coffee has designed an exclusive Medal of Honor for each product series, which requires a certain number of purchases from the same series of products to be awarded. The target group for this medal campaign is customers who have a hobby of collecting different sophisticated medals while drinking coffee. These other marketing campaigns have driven sales of Luckin Coffee. The deeper reason is that Luckin Coffee has captured the characteristics of people who like to fight. When people place multiple coffee orders at a shop, the Luckin Coffee app will indicate that they are still a few orders away from being on the list, people will increase their purchases to be top 20, but at the same time, others are also rising their demands, which triggers competition between people. It is like the "snipe and clam fight, the fisherman gets the

profit", and Luckin Coffee is the "fisherman"; the profit is the increase in sales. In addition, these medals come with coupons, which motivate people to make their next purchase.

3.3. Marketing Scenarios

Public Domain Platform. Luckin Coffee uses public domain platforms to promote its products, such as Taobao, Jingdong, Xiaohongshu, Meituan, Dazhongdianping, TikTok, etc. These platforms have a massive volume of users themselves. Luckin Coffee has registered its accounts on these platforms to promote its products on a large scale. Take TikTok as an example; on TikTok, Luckin Coffee publishes video ads for its products. Different styles of content are filmed in commercials, such as those highlighting product features, comics, commercials about festivals, etc. Then Luckin Coffee places purchase links on the video pages to guide customers to buy. In addition, Luckin Coffee cooperates with net celebrities who have traffic on TikTok, allowing them to create an advertisement about Luckin Coffee products in their style. When these videos attract the fans of these net celebrities, they will buy Luckin Coffee products, increasing product sales. It is also worth mentioning that the promotion of Luckin Coffee in the public domain can further increase brand awareness through "marketing fission" [9], which allows traffic to converge and direct customers to the private domain platform.

Private Domain Platform. Luckin Coffee uses Wecom to promote and increase sales. Wecom (previously named Wechat Work) is a product developed based on and dependent on WeChat, which means that companies can have their own WeChat account. As of 2022, WeChat has 1.24 billion users [10], and these tremendous numbers of users are potential customers for Luckin Coffee. The advantage of using Wecom over traditional public platforms is that it enhances the interaction between companies and their customers, breaking away from the traditional one-sided focus of customers on the company and creating a face-to-face model that brings companies closer to their customers [11]. Luckin Coffee has captured this approach and is implementing it well. It has set up QR codes everywhere in each store to make it easy for customers to add their WeChat accounts. Secondly, Luckin Coffee's shop staff will guide customers to add Luckin Coffee's Wecom. By 2021, Luckin Coffee will have more than 1.8 million users in the private domain (source: Tencent News). In the single chat with Wacom and customers, Luckin Coffee will recommend suitable coupons based on the customer's past product purchase preferences. In addition, after adding Luckin Coffee's WeChat account, customers will be pushed to the shop group closest to them. In the group, Luckin Coffee will send different coupons every day, which will be sent intelligently - according to the local weather, season, working hours, etc. By 2021, the number of people joining the Luckin Coffee group is increasing by more than 600,000 per month. After Luckin Coffee introduced private domain users, the monthly repurchase rate and the frequency of consumption of Luckin Coffee increased by 28% and 30%, respectively (Source: Sohu News). All in all, the enormous increase in sales of Luckin Coffee on the private domain platform is attributed to capturing the precision and personalization of the customer.

4. Questions and Suggestion

4.1. Coupons

Luckin Coffee uses large coupons to increase customer stickiness, but it is not feasible for a company to continuously use coupons to attract customers. Once Luckin Coffee stops using coupons, it will lose many customers. The first reason is that customers have become accustomed to using coupons to buy products, and psychologically they have come to believe that the price of Luckin Coffee is supposed to be so cheap that they will hold the opinion that it is overpriced and switch to other coffee

shops. The second reason is that the prolonged promotion of large coupons and that Luckin Coffee is still profitable will lead customers to believe that the product is not high-quality. This is because the public knows that the best quality products cannot be bought at low prices.

Here are three suggestions for this. 1. Lower the price of some items if coupons are removed. In the higher-priced coffee circuit, Luckin Coffee cannot compete with Starbucks, which already has an established chain. 2. Reduce the size of the coupon offer without removing the coupon. Customers will be able to adapt to this change better than if only coupons are removed.

4.2. App

The marketing campaigns in the Luckin Coffee app are so overwhelming that most people do not have more energy to research them. One reason is that Chinese people have been working long hours in recent years, on average, between 2000 and 2200 hours per year [12]. The second reason is that the short-form video industry has grown so rapidly in recent years that most people are more willing to spend the little free time they have watching short videos [13].

In this regard, the following three suggestions are made: simplify the app's marketing activities. It is recommended that Luckin Coffee make its activities easy to understand and not cumbersome to operate; Reduce the frequency of pushing activities; Extend the deadline for activities.

5. Conclusion

This paper focuses on the different marketing strategies used by Luckin Coffee. It also raises questions and gives suggestions on the current marketing situation of Luckin Coffee.

The marketing strategies are as follows: celebrity endorsement strategy; promotion of large coupons; developing marketing campaigns in Luckin Coffee's app; promotion on public domain platforms; marketing on Wacom.

Luckin Coffee is successful marketing because the marketing campaign has almost covered people's lives. The coffee industry is a crowded field with the coffee giant Starbucks and other big chains such as Costa Coffee, Peet's Coffee, Pacific Coffee, and others. These brands have a specific history, having been established earlier than the 21st century. In addition, China is famous for its tea, and in the past, most Chinese people did not have the habit of drinking coffee. The success of Luckin Coffee, a Chinese brand established in the last few years, penetrating the coffee industry and achieving such success is due to an extraordinary series of marketing strategies.

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