

A Study on the Development Strategy of Luckin Coffee Based on Big Data

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Abstract: With the rapid advance of technology, people's lives are becoming more and more diverse. At the same time, people's demand for food is not only limited to having enough to eat. Therefore, food companies launch a wide range of products, which need to be marketed to consumers through various channels so as to bring maximum benefits to the company. With the rise of big data and the arrival of the Internet era, traditional marketing strategies have failed to attract the attention of young people. Therefore, companies are in urgent need of innovating in their marketing, satisfying their consumer groups, and following the current cultural trends. Luckin Coffee is a company with classic cases to study. So, this paper analyses the classic cases of this company and comes up with some recommendations for corporate development. The purpose of this paper is to analyze the strengths, weaknesses, opportunities, and threats of Luckin Coffee through SWOT analysis and summarize its marketing strategies and the reasons for its rapid success.

Keywords: Marketing strategies, Luckin Coffee, SWOT analysis

1. Introduction

Luckin Coffee is the largest coffee chain brand in China now. It opened its first shop in October 2017 in Beijing, China. The number of shops reached 1,000 in September 2018 and exceeded 2,000 in less than four months. The 3,000th shop landed in Hangzhou on 16 July 2019. By the end of 2019, Luckin Coffee had operated a total of 4,507 shops in China, successfully surpassing Starbucks' 4,100 shops in China and becoming the number one coffee shop chain in China [1]. Then, in May 2019, it was listed on the NASDAQ IPO (Initial Public Offering) with a total market capitalisation of US\$4.25 billion and set a new record for the fastest IPO in the world [2]. In January 2020, it launched its unmanned retail strategy with the launch of unmanned coffee machines and unmanned vending machines, at the same time, it announced that Luckin Coffee had become the largest coffee chain brand in China. Moreover, the HuRunReport published the "2019 Hurun China Top 500 Private Enterprises", which ranked Luckin Coffee at 132 with a market capitalisation of \$50 billion [3]. As of June 2022, the number of Luckin Coffee shops in China has exceeded 7,000 [4].

This paper first presents two issues facing companies today that are closely related to the Internet. Secondly, the paper analyses the business canvas of Luckin Coffee. Then, the paper uses SWOT analysis to conduct a comprehensive analysis of Luckin Coffee, pointing out the strengths and problems that Luckin Coffee has and still need to improve. Finally, the paper presents the existing

marketing strategy of Luckin Coffee, which provides insights into the development strategy of the industry.

2. The Raising of Problems

Coffee has been in the Chinese market for only about a hundred years and has now become an indispensable part of the daily life of some Chinese citizens. As a leading local coffee company in China, Luckin Coffee has many success stories that can help other companies with the same development goals find the right direction. The development of the Internet has led to the prevalence of new media, with television and newspapers facing abandonment because of their lack of appeal. While the old electronic media are being abandoned, there are also various new electronic media emerging, such as computers, mobile phones, and tablets. According to statistics, the number of Internet users worldwide has reached 4.9 billion by the end of 2021, representing approximately 63% of the world's population [5]. So, being able to use the Internet for information is no longer the ultimate goal for Internet users. They want more interesting, new, and trendy information that can catch their eyes. For this purpose, companies are confronted with the following main problems.

2.1. Identifying and Analyzing Consumer Groups

Different products appeal to different consumers, and likewise, diverse consumer groups require diverse marketing strategies to correspond. Using a marketing strategy aimed at a specific consumer group to another may have a counterproductive effect. On the one side, companies should identify the age group of their consumers, which is one of the determinants of consumer style. It is undeniable that younger people spend far more time using the Internet than older people. This allows companies to identify the media platforms on which they can promote their products. On the other side, identifying the gender share of consumers can help companies optimize their brand style. Research shows that women occupy a higher position in the consumer market than men, so an appropriate gender style may bring a better response.

2.2. Identifying Hot Issues of the Moment

Hot issues are the focus of users. Also, companies need to change their communication strategies as hot issues change. First, companies need to conduct an in-depth analysis on the hot issue itself and find the entry point where their products fit best; second, based on the entry point, they need to combine the hot issue with the brand culture and design relevant communication materials; finally, they need to find the media platform with the highest audience for the hot issue and promote the brand through the content, thus drawing consumers' attention.

Luckin Coffee is a brand that is active in the new media. Meanwhile, the brand Luckin Coffee is the best publicity for the brand itself. Also, Luckin Coffee is widely discussed by consumers on the Internet and has even become an inseparable part of people's lives. There are always questions on how such brands can reap a high level of success. Therefore, this paper will analyse the development strategy of Luckin Coffee Company.

3. Business Canvas

3.1. Consumer Groups

Luckin Coffee targets the low and middle end of the market, with the main consumer groups being white-collar workers and young people. It is known that most of the traditional companies mainly serve expensive coffee products, helping the high-end customer groups to effectively show their social status. However, these companies are unable to meet the consumption needs of the younger

consumer groups, which occupy a larger proportion of the social consumer groups, thus leaving a huge market gap for Luckin Coffee. Therefore, Luckin Coffee has set its sights on affordable coffee and has become a pioneer of "coffee for the common consumers" [6].

3.2. Sales Channel

The sales channel of Luckin Coffee is mainly the online app combined with the offline shop. The model is that consumers use the Luckin Coffee app to place orders for the coffee they want in advance, use mobile payment, track the production of the product in real time, and then arrive at the shop to collect the coffee after the app notifies them that the product has been made, truly realising a series of "contactless transactions". It also offers a variety of dining options, including takeaway, pick-up, and dine-in, and the takeaway is promised to be delivered within 30 minutes, allowing consumers to drink when they want to.

4. SWOT Analysis

4.1. Strengths

As shown in Figure 1, there are three main strengths of Luckin Coffee. First, Luckin Coffee has a reasonable product marketing strategy. Luckin Coffee analyses user profiles. The app is used first to obtain user data and locate target groups, then by analysing different groups of people, Luckin Coffee designs products for different user groups and develops relevant operational strategies to meet the needs of different consumer groups [7]. Second, Luckin Coffee has good brand communication. Luckin Coffee often advertises its products on the most popular internet platforms. It also responds to feedback from platform users on different products to understand the needs of the platform's users and launches targeted limited products (regional limited, seasonal limited, etc.). Besides, Luckin Coffee also looks for IPs that fit with its own products for co-branding to attract consumers who like the IPs. Examples include the Coconut Cloud Coffee co-branded with Coconut Milk of Coconut Tree Company and the packaging co-branded with the famous anime Jojo's Wonderful Adventure.

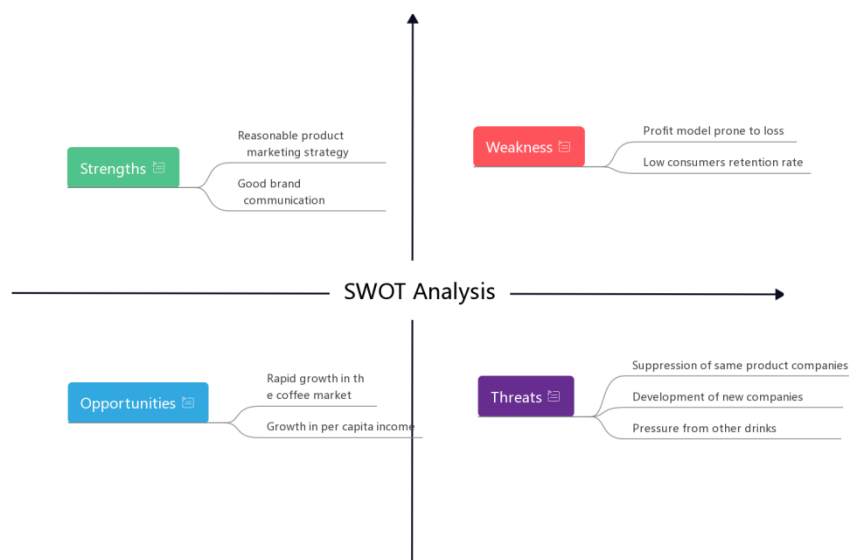


Figure 1. SWOT analysis of Luckin Coffee.

4.2. Weaknesses

As shown in Figure 1, there are two main weaknesses of Luckin Coffee. First, the profit model of Luckin Coffee is prone to a loss. Second, the consumer retention rate of Luckin Coffee is low. The aim of Luckin Coffee was to open up the market in the early stages, so many low-price discounts were introduced to attract consumers. However, in the later stages, the discounts were no longer maintained and there was a partial loss of consumers. In order to retain consumers, Luckin Coffee had to launch new discounts from time to time, but at the same time, it reduced Luckin Coffee's profits and even brought losses. However, for some consumers, Luckin Coffee, as an FMCG (fast-moving consumer goods) coffee shop, lacks the diversity of a traditional coffee shop in spite of its convenience. Therefore, the brand positioning of Luckin Coffee is still in a vague state, the shop atmosphere is not strong, and the consumption habits of customers have not been established, so it is difficult to form customer stickiness [6].

4.3. Opportunities

As shown in Figure 1, there are two main opportunities for Luckin Coffee. First is the rapid growth of the coffee market. More and more people are exposed to coffee as a beverage. Coffee has been moved away from being a luxury item or a "rich person's drink", and has entered the lives of ordinary people. Luckin Coffee has responded to this feature by using its own affordable coffee products to penetrate the market of low to mid-range consumers. Second is the increase in per capita income. People's pursuit of quality of life has increased and coffee, once a symbol of status, has naturally become one of the items that reflect the high quality of life.

4.4. Threats

As shown in Figure 1, there are three main threats to Luckin Coffee. First, the same products from other companies surpass that from Luckin Coffee. For example, Starbucks, which has been in the Chinese market for more than two decades, has a brand concept and high-end product quality that has enabled it to have more than 4,000 shops in first-tier and second-tier cities in China. The convenience that Luckin Coffee focuses on is undoubtedly a great threat to Starbucks, so Starbucks has developed a takeaway function (Brown Express) with it. This proves that the convenience of the internet and takeaway is no longer unique to Luckin Coffee. Second, more and more new companies develop rapidly. These new companies learn from the experience of industry predecessors such as Luckin Coffee to achieve rapid expansion in the early stages. And in the later stages, they focus on consumers' demand for the coffee itself, constantly launching new products to constantly satisfy consumers' sense of freshness and attract them to consume. Third, the development of other types of drinks will bring more pressure on Luckin Coffee. It is known that China has a long history of tea culture which has given rise to many new tea culture industries, such as HeyTea and Ancient Tea. These companies also occupy the same internet advantage as Luckin Coffee. Moreover, tea culture has a long history in China while the coffee industry has only been in the Chinese market for about 100 years. Therefore, as new beverages are developed with tea beverages, the beverage industry in China will approach saturation and the impact on the coffee industry will be intensified [8].

5. Luckin Coffee's Choice on the Development Strategy

5.1. Framework of the Development Strategy

Based on the analysis of Luckin Coffee's business canvas and SWOT analysis, this paper chooses the four-part action framework of the blue ocean strategy formulation to analyse the development strategy formulation of Luckin Coffee (Table 1).

Table 1. A four-step action framework for Luckin Coffee's Blue Ocean strategy.

Eliminate	Enhance
Third space	Coffee value for money
Reduce	Create
Shop fit-out	Internet Marketing
Rent	App platform
Manpower	Consumer targeting

The blue ocean strategy is created by companies to explore uncharted territory, characterised by the fact that they can create industries that do not currently exist and that they do not need to benchmark themselves against predecessors or competitors. The four-part action framework is the work of Prof. Kim and Prof. Mauborgne. They have developed a tool for analysing blue ocean strategies. The four actions are "Eliminate, Reduce, Enhance, and Create", which are interrelated and relevant. Companies need to use these four steps to increase consumer revenue while generating new demand, thus gaining a new growth strategy for their businesses [9].

5.2. "Unlimited Scenes" Strategy

Unlike the "third space" development strategy of Starbucks, the main focus of Luckin Coffee's shop expansion is the "unlimited scenes" strategy. The two strategies are quite different. Firstly, the concept of the "third space" originally means a shopping and leisure venue. In the 1990s, Starbucks introduced a new concept of the same name, which was to provide people with a place to relax after work and in their spare time. The main strategy of Starbucks for this was to launch special shops with special features that most shops did not have, thus making people feel welcome. For example, pet-friendly shops are those where pets can be brought in and pet-friendly creamers are available for free for customers to pick up for their pets. For Luckin Coffee, on the other hand, its main focus on portability does not apply to the expansion of third-space shops. This is because most of the consumers of Luckin Coffee are people who place their orders in advance and get their coffee and leave. They do not spend too much time sitting in the coffee shop to drink it slowly, so Luckin Coffee should focus on the simplicity of its shops, i.e. the "infinite scenes" strategy. This strategy is implemented by including only coffee-making equipment and branded decorations in the shops, which greatly reduces shop costs and maximizes profits. Coffee machines are also included in Luckin Coffee, which reduces the cost of professional baristas for some shops [10].

5.3. Good Value for Money

Luckin Coffee is cost effective. A cup of coffee in Starbucks is 30-40 RMB per capita, which is too expensive for most Chinese people to enter the mass market. In contrast, Luckin Coffee's price is clearly more suitable for the consumption level of most Chinese people. Moreover, Luckin Coffee regularly subsidises its users in the app and reduces the price, once again lowering the threshold for consumers to spend. At the same time, Luckin Coffee has not given up on the pursuit of quality.

Luckin Coffee has its own coffee bean roasting base, which is sourced from the original source, and every step is done by Luckin Coffee staff to ensure quality and quantity. Luckin Coffee also sometimes launches novelty or classic coffee beans for consumers to taste, thus promoting coffee culture and Luckin Coffee's important position in the coffee market.

6. Conclusion

Based on the study of food companies, this paper selects a typical Chinese emerging company, Luckin Coffee, as a case study to briefly introduce the background of Luckin Coffee's development and to collate its capabilities. This paper analyses the strengths, weaknesses, opportunities, and threats of Luckin Coffee through the SWOT analysis method, and explores Luckin Coffee's development strategy. As a result, the author draws the following conclusions.

First, internet technology is the core of Luckin Coffee. Today, big data mastery, AI technology and other technology operations have become the trend of development of various enterprises. The success of Luckin Coffee in mastering user portraits through the app is undoubtedly a major boost to its development.

Second, the coffee market is close to saturation, consumers' choices are constantly increasing, and their requirements for product quality are also getting strict. Therefore, in order to increase consumers' stickiness to the brand, Luckin Coffee needs to improve product quality while taking into account the cost of the product, so as to attract more consumers to buy products that are cost-effective.

Third, Luckin Coffee needs to find the right control of the market economy. The initial market expansion may bring inevitable short-term losses, but in the later expansion, the market forecast needs to be controlled so as to achieve sustainable development and maximise corporate profits.

Fourth, brand publicity is undoubtedly an indispensable part of market expansion and today's Internet era has brought various platforms for enterprises to promote their brands. Therefore, while achieving cost-effective coffee and maximising profits, Luckin Coffee should also focus on the publicity of its brand, thus attracting more consumers.

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