

# ***The Economic Impact of Celebrity Endorsements on Coffee Brands: Taking Luckin as an Example***

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**Abstract:** This study aims to analyze the economic impact of celebrity endorsements on Luckin coffee brands. The research question focuses on identifying the main changes in sales and evaluating the extent of the economic influence brought about by celebrity endorsements. To conduct this study, the researcher will collect and analyze various factors, including Luckin's product sales data before and after the endorsement period, consumer experience and feedback, and evaluations from industry experts. Celebrity endorsements have become a popular marketing strategy for many companies worldwide, including those in the coffee industry. By leveraging popular public figures to endorse their products, companies hope to gain greater brand recognition and increase sales. However, the effectiveness of celebrity endorsements has always been a topic of debate in the literature. Some studies suggest that celebrity endorsements can significantly boost sales and enhance brand image, while others argue that it may not always be effective. In this study, the researcher aims to investigate whether celebrity endorsements have had a positive economic impact on the Luckin coffee brand. The main objective is to determine the magnitude of the effect of celebrity endorsements on sales and other economic indicators. The findings of this research may provide valuable insights into the effectiveness of celebrity endorsements in the coffee industry, which can be used by marketers and brand managers to develop and improve their marketing strategies.

**Keywords:** celebrity endorsements, economic impact, product sales, brand impact, brand positioning

## **1. Introduction**

With the expansion of market demand for coffee brands, the competition in the coffee brand market has become increasingly fierce. Brands like Luckin Coffee have improved economic benefits through star endorsements. Celebrity endorsement is like a marketing and communication tool between the brand and consumers. It can find potential consumers, stimulate their interest, and expand coffee sales. At the same time, after the brand has formed the corresponding brand image, it is conducive for the brand to attract consumer groups with similar value systems, which is also a reasonable marketing means. YUE and WANG think that as a typical rhetorical activity, advertising must first make the potential target reach psychological recognition in order to prompt the potential target to take action [1]. Finally, Chen said the choice of brand spokesperson is due to the audience's "empathy

effect". When people like a role, they will invest their emotions into the products related to the role. Therefore, many brands use stars as brand spokespersons and enhance the reputation of products with the help of star images [2]. According to the interaction relationship, in fact, the celebrity spokesperson also has an impact on the brand positioning. The image of a star spokesperson also embodies the brand image, so celebrity endorsement can bring a lot of economic effects to the coffee brand.

Calvo-Porrall, Rivaroli and Orosa-González believe that a celebrity endorsement is a marketing tool and it is also a communication tool because consumers are willing to spend money to buy the endorsement products of their favourite celebrities, which is conducive to making the brand more attractive and attracting potential customers [3]. WANG and HU believe that the brand's visual image is not only the visual carrier of brand shaping but also the communication medium that reflects the internal value of the brand, which also enhances consumers' impression of the brand and further promotes the brand culture [4]. XU, MENG, and XU point out that after the brand forms a brand image, it is conducive to attracting consumer groups with similar values [5]. Enterprises can also use some reasonable brand strategies to attract fans. Du believes that when stars do not know enough about products, endorsing products will bring a risk of misleading consumers [6]. Zhao, Liu, and Ma explained that China's coffee market is currently in a state of rapid growth, and production and consumption are growing [7]. According to data, the annual growth rate of China's coffee consumption is much higher than the average level of the world's coffee. Therefore, China's current demand for coffee is excellent and will significantly impact the world market.

Firstly, the author is going to analyze the changes in China's coffee market share through collected relevant data charts. Secondly, this research is conducted by analyzing the age of consumption of Luckin, identifying the audience for Luckin coffee, and examining the relationship between the two based on the popularity data of the spokesperson. Finally, based on the changes in Luckin's annual financial statements in recent years, the author analyzes the impact of spokespersons on its operating income. And this article will utilize relevant data from the Forward Economist application, Luckin's official website, and other websites to chart and analyze it.

## 2. Findings

From the statistics and forecast of the market scale of China's coffee industry from 2016 to 2023, it can be seen that the overall ranking of China's coffee market shows a trend of stable expansion. Hou said that only a few years ago, there are many people think that coffee has no future in China, Chinese people prefer tea, do not like to drink coffee, but in just a few years, coffee has become a new wind in the eyes of investors, it looks promising [8].

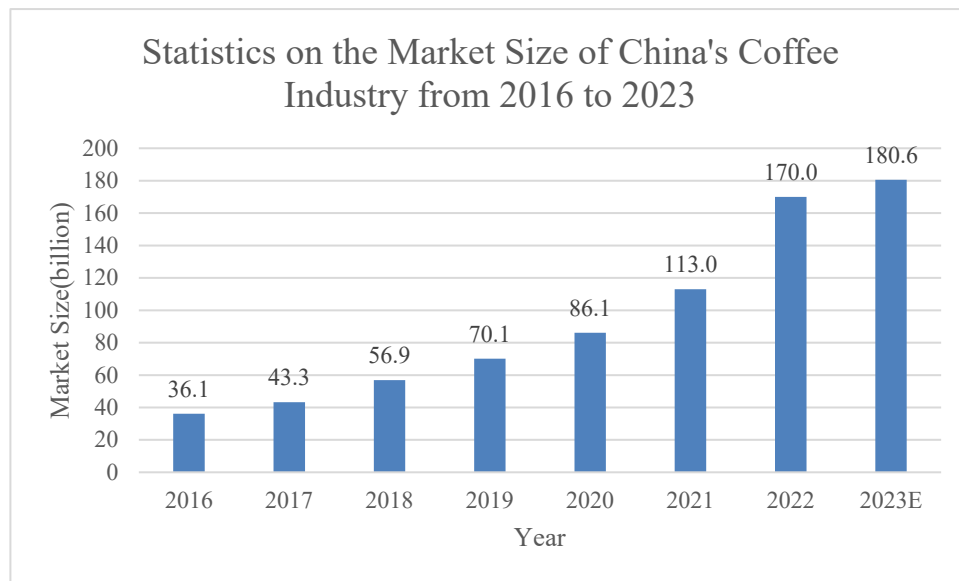


Figure 1: Statistics on the Market Size of China's Coffee Industry from 2016 to 2023.

According to the distribution chart of the number of offline stores of Chinese coffee in 2023, Luckin Coffee ranks first, which shows that its brand's number of offline stores is very considerable. The large number of offline stores owned by Luckin Coffee highlights its commitment to providing convenient and accessible locations for consumers to enjoy their coffee products. By strategically opening a substantial number of stores, Luckin Coffee aims to capture a larger market share and meet the increasing demand for coffee among Chinese consumers. Luckin Coffee's extensive offline store network also helps enhance its brand visibility and recognition. With more stores, the brand becomes increasingly visible to potential customers across various cities and regions in China. This enables Luckin Coffee to build a strong brand image and establish itself as a trusted and popular coffee brand among Chinese consumers. Meng said that the continuous expansion of China's coffee market and the proposal of the "new retail" model in the Internet era have made the coffee industry face new challenges and opportunities[9].

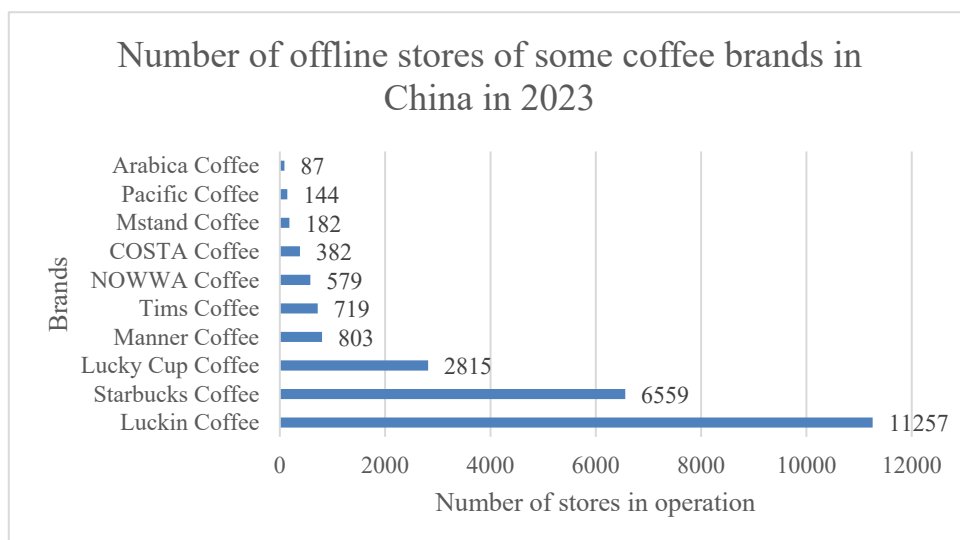


Figure 2: Number of offline stores of some coffee brands in China in 2023.

From the analysis of Luckin's annual statements, it can be seen that its operating revenue has increased steadily after Valley Ailing and Tang Wei were selected as spokespersons.

Table1: Partial Data of Ruixing Coffee's Income Statement from 2020 to 2022.  
(Currency: CNY)

|                   | (FY)2022/12/31 |        | (FY)2021/12/31 |       | (FY)2020/12/31 |          |
|-------------------|----------------|--------|----------------|-------|----------------|----------|
| Total revenue     | 66.89%         | 13.29B | 97.48%         | 7.97B | 33.34%         | 4.03B    |
| Operating revenue | 66.89%         | 13.29B | 97.48%         | 7.97B | 33.34%         | 4.03B    |
| Gross profit      | 108.56%        | 4.76B  | 2202.14%       | 2.28B | 44.45%         | -108.61M |

From the proportion of its audience of Luckin in the new first and second-tier cities, we can judge that it has more student consumers, and the company staff is also its leading consumer group. Thus, it is not hard to find that the primary audience of Luckin Coffee is the young group.

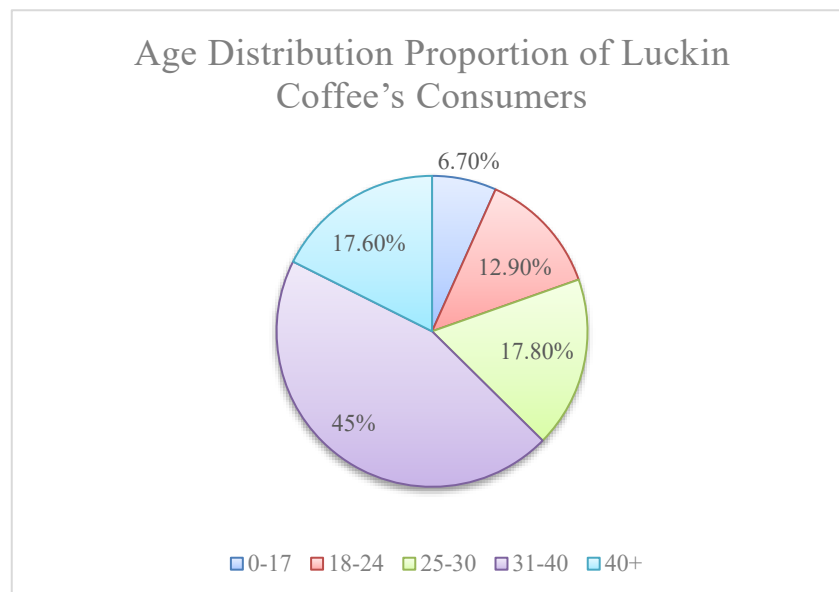


Figure3: Age Distribution Proportion of Luckin Coffee's Consumers.

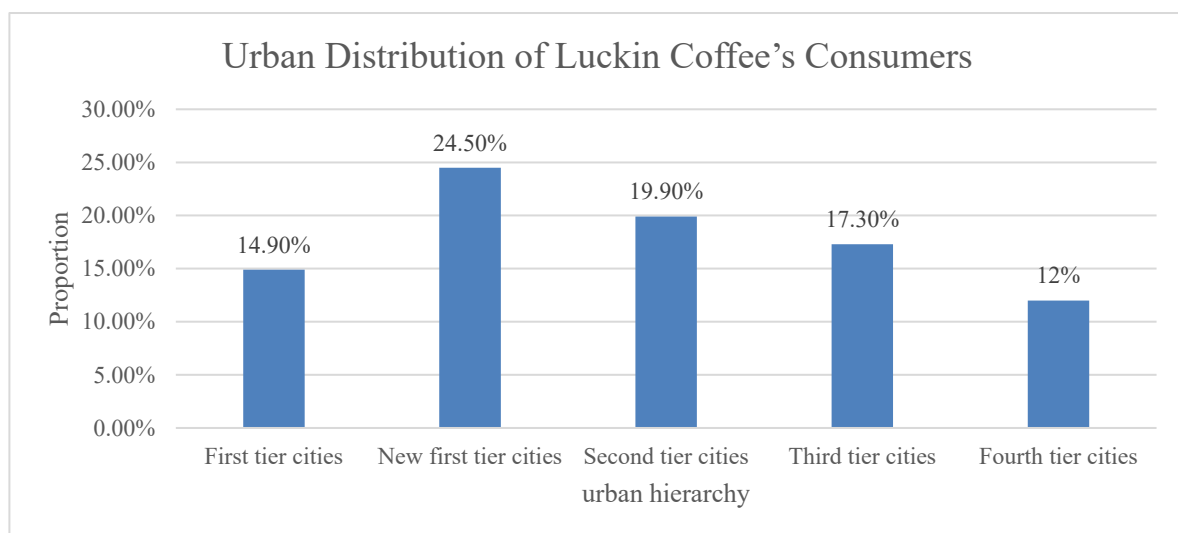


Figure 4: Urban Distribution of Luckin Coffee's Consumers.

Then the following pie chart also argues that nearly half of the consumers are influenced by celebrity endorsements to purchase coffee, suggesting that the process of deciding on buying which brand of coffee is influenced by the impact of celebrity endorsements.

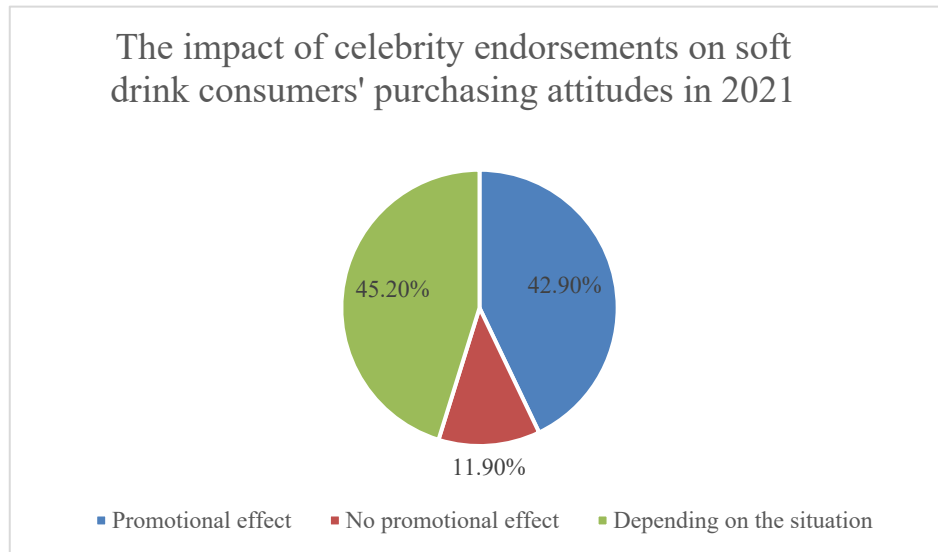


Figure 5: The impact of celebrity endorsements on soft drink consumers' purchasing attitudes in 2021.

### 3. Discussion/Analysis

According to the collected data, relevant data analysis shows that the consumption scale of the coffee market is expected to exceed 200 billion yuan in 2025. China's coffee consumption is currently in a state of rapid growth, with an average annual growth rate of 15% [10], far exceeding the average yearly growth rate of the world. Moreover, the consumption of raw coffee in China increased from 116900 bags (60kg) in 2003 to 304500 bags in 2018, with a compound annual growth rate of 24.28%. However, during the same period, global coffee consumption had a compound annual growth rate of only 2.58%, and the growth rate of the Chinese coffee market was almost 10 times that of the world [11]. As a result, China's coffee market is proliferating. And Luckin stands out among many coffee brands. That is because Luckin Coffee broke the listing record of American Stock Companies in less than two years and quickly seized the vacant position in the coffee market. And its marketing strategy of selecting celebrity endorsements deserves this in-depth analysis.

Selecting the appropriate celebrity endorsements has brought considerable economic income to Luckin and improved its previous financial crisis. According to the third quarter financial report released by Luckin in December 2021, the total net income of Luckin Coffee in the third quarter of 2021 was 2350 million yuan, an increase of 105.6% over 1143 million yuan in the same period of 2020. The total revenue increased significantly. The net loss was 23.5 million yuan, a year-on-year decrease of 98.6% [12], and the operating profit margin of the store rose to more than 25%. Sun mentioned that in 2020, due to some reasons, Luckin Coffee's sales performance has been affected, which in turn affects Luckin Coffee's brand. Therefore, at this time, Luckin needs to make some changes to recover the impact of such mistakes, and the method of selecting brand spokespeople has an immediate effect [13]. It can be seen that Valley Ailing's endorsement has played a driving role in the growth of the operating revenue of Luckin Coffee. In addition, this has also been called by many media as an excellent strategy to improve the working conditions of Luckin after the fraud of Luckin's financial statements.

Selecting famous people as brand endorsements can also broaden the brand's awareness. Celebrity endorsements are a communication tool between brands and consumers. Through celebrity

endorsements, the brand can promote the brand with the help of celebrity effect, and the brand can find its potential consumers [1]. During the Olympic Games, 3070423 pieces of public opinion information about "Valley Ailing" appeared on the whole network. The information peak occurred on February 8; Valley Ailing won the gold medal in the Freestyle Skiing platform in the Winter Olympic Games. On that day, more than 14450000 related information appeared on the whole network, nearly half of the total information. At this time, Valley Ailing also significantly impacts the promotion of Luckin's brand awareness because her "Olympic champion" and "Luckin" spokesperson labels let many people know about Luckin. At this time, Luckin also launched the "Valley Ailing recommendation" topic. According to the fan effect, many Valley Ailing fans buy Luckin coffee to support their idol.

Choosing appropriate celebrities as brand spokespeople can help Luckin clarify its brand positioning. According to the distribution of Luckin's consumers, they are mainly white-collar workers and students. It can be seen that their audience groups are relatively young, so young celebrities such as Valley Ailing and Liu Haoran in the new era are very consistent with Luckin's brand positioning. At the same time, Valley Ailing, as the Olympic champion, is also known as a talented girl. Her image in front of the public is very positive, friendly and energetic. People would like to call her "my friend", which also solves the brand positioning problem for Luckin. Now people can determine that Luckin is a coffee brand favoured by young consumers when they see Valley Ailing, and it attracts more young people to buy Luckin's coffee.

#### 4. Conclusion

With the rapid development of China's coffee market, Luckin Coffee has been established for a very short period of time. But because of some desirable business strategies, such as selecting the appropriate endorsements, its operating income has been improved, and at the same time, it has broadened the brand awareness, created a good brand image, and found the correct positioning for the brand, these strategies all attract more young people.

Therefore, according to the above analysis, the author can conclude that celebrity endorsers can bring economic effects to the brand by improving product sales, broadening brand awareness and giving appropriate brand positioning.

This study has achieved some meaningful results and findings, though some limitations must be noted. Firstly, there are limitations in sample selection, as this study only used samples from specific groups or regions. Thus, the generalizability of the research results may be affected. Future research can expand the sample range and consider a wider audience for Luckin to increase the external effectiveness of the study.

Secondly, this study used a lot of data analysis, but other methods and tools may produce different results. Therefore, future research can explore other methods and tools to validate and enrich current research results.

In addition, there are time and resource limitations in this study. There may be some time constraints during the research process that prevent in-depth research on certain aspects. In addition, due to resource constraints, including financial and human resource constraints, the scope and depth of research may be limited to some extent. Thus, future research can comprehensively overcome these limitations and explore related topics.

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