

Research on the Marketing and Business Operation Model of Chinese Coffee Brands

- A Case Study of Luckin Coffee

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Abstract: As a rapidly emerging coffee chain brand in the Chinese market, Luckin Coffee has attracted a lot of attention for its low-price strategy and rapid expansion mode. Luckin Coffee's low-price business model realizes the dual goals of price concessions and high-quality products, which challenges the business model and profitability of the traditional coffee industry. Luckin Coffee adopts a unique operation model that makes it stand out in a competitive market. According to the study of Luckin's profitability model and the comparison of the coffee industry, this research analyze the business logic and operation principle behind it. Through low-priced sales, Internet+ model, efficient supply chain management, diversified product portfolio, and rapid expansion of the number of stores, Luckin Coffee has successfully constructed a competitive business model and operation principle, which lays the foundation of its rapid rise in China's coffee market. Meanwhile, there are problems with Luckin Coffee's business model, and this study makes recommendations for its future development.

Keywords: business model, pricing strategy, peer comparison, Luckin Coffee

1. Introduction

In the Chinese market, consumer demand for coffee is growing rapidly and becoming popular. The competition in the coffee market is fierce and has entered a white-hot, Luckin Company, founded in 2017, is a Chinese chain coffee company, the founder of which, Qian Zhiya, once served Chinese Internet giant Alibaba, founded Luckin Coffee with the initial intention of allowing more Chinese consumers to taste high-quality coffee, and hoping to build a retail coffee brand with an efficient operation model through Internet technology Luckin Company has adopted the Luckin has adopted the "Internet+" business model, vigorously utilizing technological means in all aspects of coffee formulation, production, and sales, and realizing the integration of online and offline, which has greatly improved the production efficiency of coffee and the experience of consumers. In particular, Luckin aimed at the youth consumer group and stood out in the fierce competition, focusing on low-priced products and becoming the first chain coffee brand to break 10,000 units. After that, Luckin launched "9.9 Yuan Coffee" with a downward price and upward quality [1]. Compared with the industry, "9.9 yuan" is so low that people question how it is profitable. In the case of quality

assurance, Luckin has given a low price to a variety of explosive coffee. Utilizing the consumer psychology of "woolgathering" and "catching up with the fashion", it has gained more consumers. The business model of Luckin Coffee is different from the traditional coffee market. By using innovative methods such as online sales, takeaway delivery and self-pickup, Luckin provides affordable and convenient services to meet the needs of many consumers. Meanwhile, Luckin Coffee also uses technological tools such as big data analysis and precision marketing to optimize operations and enhance user experience. The business model of Luckin Coffee has positive significance in accelerating the development of China's coffee culture and promoting consumption upgrading and has brought a certain impact on the traditional coffee market. This paper analyzes how Luckin is profitable with such a low price through its classic marketing case analysis and comparison with the same industry. Analyze the business logic and operating principles behind it and provide a reference for realizing efficient profitability.

2. Product Strategy of Luckin Coffee

The product strategy of Luckin Coffee is diversified and innovative, and its user profile has shifted from white-collar workers to more popular young people. It has also tapped into users' needs and formed a unique and competitive product strategy through diversified product lines and cost-effective pricing strategy.

2.1. Diversified Product Lines

The main products of Luckin Coffee can be divided into drinks and desserts, and its coffee series includes Americano, espresso, cappuccino, and other traditional drinks. After analyzing the big data of online orders, it was found that Chinese consumers preferred milk coffee. Luckin quickly made adjustments to its product strategy, no longer pursuing the traditional coffee framework planning products but truly adapting to the needs of Chinese users R & D products, the successive launch of thick milk latte, velvet latte, raw coconut latte, raw cheese latte, and other explosive models. And in the "tea" track has also launched a special combination of flavors such as "cheese +" and "fruit +," which is loved by many young people. In addition to drinks, Luckin Coffee has also launched a variety of pastry options. Its main products include cakes, breads, desserts and so on. Provide consumers with as many choices as possible [3].

2.2. Pricing Strategies

Luckin Coffee has chosen a low-price positioning as a way to attract more consumers. Compared with other coffee brands, the price of Luckin Coffee is generally low, and there is often a variety of promotional activities. The average price of Luckin Coffee is around \$20, which is 10% to 15% lower than its competitors, in order to attract more consumers and increase market share. The company has priced all of its coffees basically the same to make it easier for consumers to choose and reduce decision-making time. Overall, Luckin Coffee's pricing strategy is characterized by low prices. It pursues a "volume is king" strategy, attracting more consumers by lowering prices and rewarding loyal consumers with coupons and points. This strategy is in line with the consumption psychology of Chinese consumers hits the needs of the middle class and enhances consumer stickiness [4].

2.3. Personalized Coffee Experience

Luckin Coffee pays special attention to personalized coffee experiences to provide consumers with diversified coffee choices and customized services. The staff of Luckin Coffee Flash stores are professionally trained to recommend the right coffee recipes and brewing methods based on

consumers' tastes and preferences, providing a quality coffee experience [5]. This personalized service not only improves consumer satisfaction but also enhances the brand's competitiveness and reputation.

2.4. Rapidized Payments

With the popularity and development of mobile payment, more and more people are choosing to use their cell phones to make payments. As one of the largest coffee chain brands in China, Luckin Coffee has launched its own mobile payment tool - Luckin Coffee Wallet. As a mobile payment tool, Luckin Coffee Wallet allows users to complete payments more conveniently and quickly when purchasing goods. By scanning the QR code or NFC technology, users can complete the payment operation with just one swipe or by approaching the device. There is no need to carry cash or bank cards, eliminating the need to wait in line for checkout time during the shopping process. It also brings users a wide variety of favorable activities. When using the Luckin Coffee Wallet to make purchases, users can enjoy a series of discounts and benefits.

In addition, Luckin Coffee Wallet also supports a variety of payment methods, such as Alipay, WeChat Pay and UnionPay, and users can choose the appropriate payment method according to their preferences and habits. This variety of payment methods provides users with a more flexible and convenient consumption experience.

3. Channel Strategy of Luckin Coffee

Rexchip's channel strategy mainly includes both online and offline aspects, combining mobile apps, e-commerce platforms, store physical channels, etc., with the goal of improving consumer retention and increasing revenue, which is also an important reason for its rapid expansion and market share growth.

3.1. O2O Model

Luckin combines offline physical stores and online mobile apps, with the online channel playing the role of reservation and payment. Consumers can order online, choose pickup or delivery service from the next store, and pay through Luckin's mobile app without waiting in line. This allows consumers to make reservations in advance and conveniently access the coffee products they need. Luckin combines offline physical stores with online mobile apps to provide customers with more convenient choices by placing orders through the Luckin App and choosing pickup or delivery services at the next store. Secondly, Luckin's offline stores serve as a place for actual consumption and experience, where consumers can pick up food and enjoy coffee at Luckin's stores, providing them with the opportunity for on-site dining and socializing experience. Finally, Luckin delivers orders through its own logistics or in cooperation with third parties, enabling consumers to receive the purchased coffee products at the time and place they specify. In addition, Luckin also provides online after-sales service channels, which are convenient for consumers to make returns, exchanges, complaints, and other operations [6].

3.2. Distribution of Outlets

According to the 2022 financial report of Luckin Coffee, as of the end of 2022, the number of Luckin Coffee stores amounted to 8,214, of which 5,652 were self-operated stores and 2,562 were affiliated stores. Among them, 2,190 new stores were opened in the year 2022, a year-on-year increase of 36.4%. Rexall adopts a high-density store distribution strategy to better meet the needs of consumers' neighborhoods and business districts, increase brand exposure, and enable more

potential consumers to learn about and purchase Rexall's products [7]. Rexall stores are mainly located in China's first and second-tier cities, such as Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Suzhou, etc., covering a variety of locations such as urban business districts, office buildings, airport and high-speed rail stations, shopping centers, and around schools. Luckin has continued to increase its market share through new outlet layouts.

3.3. Collaboration Strategy

Luckin has partnered with several large supermarkets, convenience stores, and express delivery companies to supply Luckin's products to these venues, expanding the coverage of the products and improving the channels and exposure opportunities for the products. Luckin cooperates with several leading e-commerce platforms in China, such as Meituan and Hungry. Luckin can sell its coffee products on these e-commerce platforms, lowering the cost of sales, and even if it sets up stores, it can also realize online ordering and delivery through the e-commerce platforms. At the same time, it cooperates with logistics companies, such as DHL, SF, etc., especially in terms of orders and goods distribution, to continuously improve the efficiency of logistics and distribution and enhance customer service acceptance. In addition, Luckin also actively carries out brand content marketing campaigns, public welfare activities, improve customer word-of-mouth evaluation strategy, and opens their own Luckin stores as a third-party brand for marketing sponsorship, and tries to cross-border cooperation with other enterprises [8]. For example, Luckin cooperated with Moutai to launch the "soy latte," which detonated on the whole network on the day of its release and quickly became a hot search on various social platforms. Luckin Coffee nationwide 10,000 stores synchronized online only on September 4, Guizhou Maotai and Luckin Coffee's co-branded coffee "Sauce Latte" launched on the market, hit "sold more than 5.42 million cups, sales broke 100 million" on the first day of sales results [2].

3.4. Directly Managed and Franchised Models

Luckin has adopted the directly managed store model to rapidly expand and control the quality of products and services and franchised stores to expand brand influence and market share. Through the combination of direct management and franchise models, Rexall has realized rapid expansion and wider market penetration. The directly managed model ensures brand consistency and high-quality service, while the franchise model promotes Luckin's coffee culture and products in more areas. This dual-mode business strategy helps Luckin Coffee maintain flexibility and innovation in the competitive market, while controlling costs and maximizing consumer satisfaction [9].

4. Marketing Strategy of Luckin Coffee

4.1. Youthful Brand Image Building

Luckin has chosen Haoran Liu, Sean Xiao and Gu Ailing Eileen as spokespersons to attract the target group. Luckin mainly in order to create a youthful label, invite high visibility, or have a wide range of social influence and other aspects of the prominent performance of the spokesman can help enterprises to establish more distinctive, personalized features and more in line with the target consumer groups taste preferences and other aspects of the image. At the same time, "Line Dog (Maltese)," "Maotai," and other familiar brands co-branded to create exclusive coffee to attract the interest of young people. The spokesman conveys the style and characteristics of the company's brand concept combined and then enhances the overall brand image.

4.2. Precise Placement

Centered on the target population, new stores accurately place advertisements, private domain diversion, using public numbers, small programs, and other accumulated traffic into the white body APP platform, to achieve the accumulation of platform traffic. The company's target group is mainly large enterprises and white-collar people in medium and high-end office buildings, with the help of intensive building advertising and the initial establishment of user brand awareness. Luckin Coffee positions itself as the coffee of the whole scene, accompanying customers in various scenarios such as office, study, meeting, thinking, party, driving, and so on. Luckin Coffee's market positioning focuses on the main groups who pay attention to fashion, convenience, and affordable prices. In order to meet this target customer group, Luckin Coffee has diversified its product design and adopted a different sales strategy from competing brands. For example, it offers incentives such as free coffee during the promotion period to attract consumers. In addition, Luckin Coffee also tracks and analyzes user behavior through big data analysis and formulates preferential policies to attract more users.

4.3. Fission Marketing

Luckin realizes user growth through mature social relationships by making the first order free and sharing a gift. Emphasize sharing. Bring new users through the sharing behavior of old users to reduce costs. Second, postpaid rewards. The original prior to the new customer advertising costs, broken down into the old user recommended incentive fees and new user registration incentive fees, the old user driven by the interests of spontaneous dissemination of fast, high conversion efficiency. These rewards basically take the postpaid mode, and users can only get rewards after registering or completing the behavior, thus reducing the risk of corporate advertising [10]. At the same time, Luckin chooses precise placement: centered on the target group, new stores accurately place advertisements, private domain diversion, using public numbers, small programs, and other accumulated traffic into the white body APP platform to achieve the accumulation of platform traffic. Attract the target group.

5. Future Development Strategy of Luckin Coffee

Luckin Coffee faces fierce competition from competing brands such as Starbucks. Especially in first-tier cities, Starbucks has long been in a dominant position, whether it is the number of customers, or the market share is very large, user loyalty and stickiness, the current status of China's economic development, the volume of three and four tier cities is huge, especially in the Internet era, the consumption ability of urban white-collar workers, the concept of consumption is more advanced, even if the development of small and medium-sized cities is not as good as the big cities, but the overall consumption capacity to meet the development needs of Luckin Coffee. Meet the development needs of Luckin Coffee. Starbucks' next expansion direction will also be the third and fourth-tier cities. Luckin should seize the opportunity to develop the sinking market in a timely manner to continuously improve the quality of service, expand marketing channels and brand influence, and compete with other brands in a variety of aspects to achieve sound business growth. Luckin Coffee has adopted a low-priced strategy to attract consumers, which has indeed driven the company's rapid growth to some extent. However, this low-price strategy also brings some problems. First, the low-price strategy may lead to a loss of brand image. Luckin Coffee is positioned as a fast coffee chain, and low prices are an important means of attracting consumers. However, low prices are often perceived to be associated with low quality and cheapening. Some consumers may be skeptical about the quality and service level of Luckin Coffee and choose other high-end coffee brands. The low-price strategy may lead to increased competition in the market. Luckin Coffee's low-price war has attracted the attention of other competitors, and some of them have started to lower their prices to

compete for market share. This will further weaken Luckin Coffee's competitive advantage and make it difficult for it to sustain profits and growth. Finally, there is a potential risk in Luckin Coffee's profitability model. According to statistics, Luckin Coffee provided more than 1 billion yuan of subsidies in the early stage as a way to stimulate consumers. Subsidies make consumers dependent, become the main reason for consumption, and dilute the cognition of the brand proposition. Once the late cancellation of subsidies, brand loyalty to be considered in the product quality cannot be guaranteed under the premise of customer retention difficulty increases, loss of coffee after the reduction in demand, the revenue cannot make up for the previous loss of costs will lead to the collapse of the capital chain, the survival and development of the enterprise crisis. Product quality is king. Luckin Coffee must continue to invest in research, development, and training to ensure product quality and service quality [11]. Then, Consumers have different word of mouth about the taste of Luckin coffee, and the quality of coffee is uneven. Luckin's continuous expansion of franchising, blind faced with differentiated features is not obvious, lack of innovation and other issues, if you rely only on the size of the store, without focusing on brand personality and positioning, will inevitably lose the trust of consumers. Starbucks's offline marketing model, store design, layout, and local cultural integration degree are deep by different geographical consumers. Providing consumers with a third space makes the Coffee not only a place to drink coffee but also a place to socialize. Luckin Coffee's target group is urban white-collar; its market positioning in the unique style of coffee products and Internet genes, so most of the stores are in the office building, but do not combine with the professional atmosphere inside the largemouth, the decoration does not highlight the concept of modern, simple, friendly, clean and efficient, failed to give white-collar workers with enough visual impact, it is difficult to compare with Starbucks. And Luckin Coffee since the unlimited scene strategic planning and brand building, is increasingly focusing on the construction of their own store temperament.

6. Conclusion

In today's competitive market, Luckin Coffee has successfully seized the market opportunity with its unique business model and efficient operation model. The pricing strategy of Luckin Coffee mainly focuses on low prices to form a unique pricing model, product strategy, and channel strategy, selling coffee products at relatively low prices to attract more consumers. Gaining market share in the highly competitive beverage market, it is able to realize profitability and improve the competitiveness of the enterprise while meeting the needs of consumers. It should be noted that Luckin Coffee's low-price strategy is not without risk. Low price positioning may have a negative impact on profitability and may also lead to a corresponding decline in the demand for product quality, service level, and user experience. Therefore, when developing and executing its pricing strategy, Luckin Coffee needs to make sure that it provides sufficient value to consumers while offering a low price to maintain its brand image and competitiveness. To cope with the fierce market competition, Luckin Coffee will continue to expand the number of self-operated and affiliated stores and attract quality partners through the bring-a-store franchise model. At the same time, the Company will increase its investment in branding, supply chain management, and digital research and development to ensure efficient, robust, and sustainable operations.

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