

The Application of Disruptive Innovation in China's Coffee Industry: A Case Study of Luckin Coffee

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Abstract: Through the case analysis of Luckin Coffee, this paper discusses how the company implements disruptive innovation in the Chinese coffee market in order to proliferate and change the traditional market pattern. The paper first introduces the concept and characteristics of disruptive innovation, and explores the research status of disruptive innovation at home and abroad and the application cases in different industries. Subsequently, the paper analyzes in detail the successful experience of Luckin Coffee in product innovation, business model innovation and technology innovation. The company has achieved the goal of product combination innovation, the integration of online and offline marketing strategy, the innovation of order and delivery mode, and the application of mobile applications and digital delivery system to achieve the goal of subverting traditional coffee chains. The conclusion of the paper emphasizes the importance of disruptive innovation, and Luckin Coffee case proves that innovation is one of the key factors for success, and also provides favorable inspiration and reference for other enterprises. Disruptive innovation is a dynamic and changing area with a positive impact on the sustained growth of businesses and the economy.

Keywords: Disruptive innovation, Luckin Coffee, Innovation strategy, Market, Customer

1. Introduction

In the 21st century, the global economic pattern is undergoing profound changes, and scientific and technological innovation constantly promotes the progress of all walks of life[1]. With the increasingly fierce market competition, enterprises must constantly seek ways to innovate to remain competitive. Among them, disruptive innovation, as a concept beyond traditional innovation, redefines how companies evolve, survive and succeed. Disruptive innovation is different from incremental innovation, which is an improvement based on existing products or services, while the former challenges traditional ways, subverts market rules and reshapes the industry landscape[2-3]. This innovative approach breaks through the existing thinking framework and is usually driven by new companies entering the market or new departments within the existing companies. It not only changes the product or service itself, but may also involve the business model, consumer experience, supply chain and so on.

Disruptive innovation has been widely used in various industries, but there is a lack of a case study in the coffee industry that illustrates the importance of disruptive innovations. Therefore, the purpose of this study is to deeply explore Luckin Coffee as a representative case of disruptive innovation. This

study will analyze the business model and operation strategy of Luckin Coffee, with special attention to its innovative elements, to reveal how this innovation has changed the competitive landscape of the traditional coffee industry. Through detailed case analysis, this study will trace the development process of Luckin Coffee, revealing the disruptive innovation strategies behind it, and how they can be successfully implemented to succeed in a competitive market.

The significance of this research is to provide practical cases of disruptive innovation and valuable lessons for enterprises. Disruptive innovation has changed traditional business models, from retail to finance, healthcare and more [4]. Through in-depth case analysis, this research can gain profound insights into the successful elements and strategies of disruptive innovation, so as to provide reference and inspiration for other enterprises to help them better cope with the challenges of industry change and innovation. In addition, this research provides academia with a deeper understanding of the concepts and applications of disruptive innovation. By analyzing the Luckin case, this research can provide specific practices of disruptive innovation in the coffee industry, providing a critical case for future research to get a more comprehensive understanding of how this innovative concept shapes the business environment.

2. Literature Review

2.1. The concept of disruptive innovation

Disruptive innovation [5-6], also known as "disruptive technology", is a revolutionary model of innovation that goes beyond incremental innovation and redefines the rules and routine practices of existing industries. Disruptive innovation is often driven by emerging companies or new divisions within existing companies, with the goal of disrupting traditional markets and reshaping the industrial ecosystem. Disruptive innovation often involves the introduction of new technologies, business models, or products to meet the unmet or neglected needs in the market. Christensen et al.[7] divided disruptive innovation into new market disruption and low-end disruption. The first disruptive strategy requires the creation of a new market that can serve as a base for disruption or identifying current "non-users" who are potential users but are locked out of the market for some reason. The second disruptive strategy is based on the disruption of the prevailing business model or established product or technology from the low end of the market.

2.2. Characteristics of Disruptive Innovation

Disruptive innovations often provide high-performance products or services at a low cost [8]. This allows them to better meet the unmet needs of the market and attract a wider customer base.

Disruptive innovation typically develops through exploring crevice market and gradually permeates into mainstream market [9]. It may first attract new customers who are not met by existing solutions, and then expand its market share to gradually replace traditional solutions.

Disruptive innovation is often accompanied by innovative business models [10]. Emerging companies may adopt different business strategies, such as subscription, sharing economy, or platform model, to meet different market needs.

Disruptive innovation is designed to help customers create value. It is customer value-oriented and realizes the radical change impact on existing customers to establish a value proposition on customer thinking [11].

2.3. Research status in China and abroad

The theory of disruptive technology was first proposed by Bower and Christensen in 1995[12]. Then, in 2003, Christensen and Raynor replaced "disruptive technology" with "disruptive innovation" in *The Innovator's Solution* [7]. Disruptive innovation was defined as the integration of a technology originally introduced in a simple application at a lower market price range, based on the development of a product or service [13]. Disruptive innovation first targets non-mainstream markets, then gradually transitions to mainstream markets, and finally disrupts mainstream markets with the introduction of new products and services. This is a powerful and innovative strategy that can help companies gain a competitive advantage.

Wu Pei[14] believes that disruptive innovative products must provide a higher consumer surplus than mainstream products, so the network externality of innovative products must be enhanced. This means that innovative products need to build a good ecosystem while attracting consumers to enhance their market position. Wu Pei also pointed out that the research on disruptive innovation needs to take into account many factors, such as innovation subject, technological track and innovation model.

In the context of technological globalization, the window of opportunity has become an essential tool for the rapid development of later developing countries. According to Perez's theory[15], latecomer countries have less chance to catch up in mature technologies, but are more likely to catch up in emerging technologies. Therefore, with the rise of a new round of scientific and technological revolution, disruptive technologies emerge in an endless stream, and the research on the catch-up opportunities for disruptive innovative technologies has become a hot topic.

2.4. The application cases of disruptive innovation in different industries

Disruptive innovation is widely used in various industries. Successful disruptive innovations have emerged across industries, from technology, healthcare, finance to retail and entertainment. For example, Tesla's electric cars have revolutionized the auto industry[16], bike-sharing has changed the urban transportation structure and the way people commute through the sharing economy model[17], and Netflix has disrupted the traditional television and film industry as a digital streaming service[18]. These cases provide valuable lessons and lessons for businesses in different industries to address changing market and technological challenges.

3. Methodology

Literature analysis method: Mainly through online search and literature review, the domestic and foreign information on new retail innovation management is organized. Based on various research results, combined with the actual cases of Luckin Coffee, this study hope to get new views and inspiration.

Case analysis: Analyze the case of Luckin Coffee to find the regular practices of new retail innovation management, so as to provide a reference for entrepreneurial opportunity identification, new retail + Internet enterprises and enterprise business model transformation.

4. Luckin Coffee case analysis and discussion

4.1. Background introduction of the Luckin Coffee case

Luckin Coffee, founded in 2017, is a local coffee chain company in China, headquartered in Hangzhou[19]. The company, co-founded by founders like Liu Chang, aims to subvert traditional coffee consumption habits and enable a Chinese coffee culture to flourish. Luckin's founders look at

the vast potential of the Chinese coffee market, especially the coffee consumption trend that is rapidly emerging among young people.

Luckin Coffee is known for its rapid expansion rate, and the company has rapidly grown into one of the largest coffee chains in China in just a few years. Its development process involves financing, going public and continuously expanding its network of stores to meet the needs of consumers across China. In addition, Luckin has launched a variety of innovative products and services, such as mobile payment, online ordering and special consumer experience, to win a wide customer base.

4.2. The disruptive innovation path of Luckin Coffee

4.2.1. Luckin Coffee's disruptive portfolio innovation

(1) Product diversity

Luckin's products include not only the diversity of coffee, but also the introduction of speciality drinks and light food, such as sandwiches, cakes, etc., the use of light food to drive the demand for coffee. Moreover, Luckin Coffee often launches new products, such as the recently launched osmanthus Longjing latte and soy sauce latte, so that some people who like to drink tea or alcohol but have no habit of drinking coffee like coffee. The core of this strategy is not just the innovation of the product itself, but how to skillfully match those products to their target market. Therefore, the use of Luckin Coffee is actually a new-market disruptive strategy in disruptive innovation. Luckin coffee combines the product portfolio with the "light coffee" crowd in the office scene, forming an innovative combination of product supply and market demand.

The essence of this strategy is to transform traditional tea into new tea, from street leisure drinks to drinks in the office scene. By matching the office scene with tea drinks products, Luckin Coffee has successfully integrated office tea drinks and coffee consumers, providing different types of consumers with products to meet their needs. This strategy not only attracts new customers, but also maintains loyalty to existing customers.

(2) Price competitiveness

Luckin Coffee uses a price competition strategy to make high-quality coffee affordable, thus encouraging more people to try the coffee culture. Luckin found that those users in the office scene did not match the coffee. These users can't spend a lot of time savoring a cup of coffee at Starbucks as they do in the afternoon because they're busy working and considering a budget. Compared with the average price of more than 30 yuan per cup at Starbucks, the positive price of Luckin Coffee is only about 28 yuan, but coupled with the issuance of coupons, the price of a cup of Luckin beverage is only about half of that of similar products at Starbucks[20]. Therefore, the office has become an ideal place for Luckin Coffee to "combine innovation". In addition, recently, after Luckin Coffee stores in China exceeded 10,000, it will issue a 9.9 yuan coupon to consumers every week, which makes more people tend to buy Luckin Coffee. This is actually Luckin Coffee using the low-end disruptive strategy of disruptive innovation

Unlike traditional coffee chains, Luckin does not have an expensive venue cost, so they can offer more affordable coffee. They focus on providing cost-effective coffee to match the user needs of the office scene, a strategy that makes traditional coffee chains tricky and has to learn from Luckin's business model.

4.2.2. Disruptive innovation of business model

(1) Online and offline integrated marketing strategy

Luckin Coffee's mobile application is not only an ordering and payment tool, but also a platform for interaction with customers. With the app, customers can participate in promotional activities, earn points and coupons, interact with companies and participate in loyalty programs. This strategy of

online and offline integration not only improves customer stickiness, but also increases customer interaction and participation, making customers more inclined to choose Luckin Coffee rather than competitors.

(2) Innovation of order and delivery mode

Luckin Coffee has introduced the order and delivery mode, providing customers with more convenient purchase options. Customers can order coffee through the mobile app, choose their delivery address, and wait for the delivery man to deliver the coffee to the door. The innovation in this model allows Luckin to meet the needs of customers who cannot go to physical stores, while boosting sales.

4.2.3. Disruptive innovation in technology

Luckin's mobile app not only provides convenient ordering and payment functions, but also improves the entire ordering and transaction process. Customers can easily navigate menus, customize coffee options, pre-order, reduce waiting times, and improve the overall user experience. The digital ordering system also enables Luckin to collect orders and consumer data in real time that are used to improve services and products.

Luckin Coffee uses data analysis to understand consumers' purchase history and preferences, and provides them with personalized recommendations. This not only improves customer satisfaction, but also increases the value of each transaction. In addition, data analysis also helps Luckin coffee to predict demand in advance, reduce waste, and improve operating efficiency.

4.3. Luckin Coffee's disruptive innovation strategy

4.3.1. Market positioning and opportunity identification

In the early stages of Luckin's disruptive innovation, the company's founding team recognized the huge potential of the Chinese coffee market, especially among middle-aged and young professionals in second-and third-tier cities. They realize that traditional coffee chains are mainly focused on big cities with slightly high-end markets, while most Chinese consumers are still relatively unfamiliar with coffee culture. This provides Luckin Coffee with an opportunity to enter the market. Luckin has managed to target high-quality coffee, but is more price-sensitive. They offer competitive prices, attracting those who originally thought coffee was expensive. In addition, they identified specific consumer needs, such as fast and convenient service and high-quality takeaway coffee.

4.3.2. Competitive strategy with traditional coffee chains

Traditional coffee chains are often characterized by high rents, high cost renovations and expensive coffee beans. Luckin has adopted a very different strategy, reducing rent and decoration costs by opening small convenience stores and Internet sales, and reducing coffee bean costs through its own coffee supply chain. This breakthrough strategy allows them to offer affordable coffee.

Unlike traditional coffee chains, which rely on physical stores, Luckin has expanded its sales channels through online platforms and food delivery services. This diversified sales strategy allows them to better meet the diverse needs of consumers, especially during the outbreak, when food delivery services have become critical.

4.3.3. Technical level strategy

Luckin sees data analysis as a critical business strategy. They collect large amounts of consumer data, through mobile apps and order systems, including purchase history, preferences, and behaviors. These data are used not only to make personalized recommendations, but also to develop marketing

strategies and promotions. Data analysis helps them to better understand customer needs, improve products and services, and achieve lean operations.

Luckin is actively seeking partnerships with technology companies to continuously improve its mobile applications and order systems. They are constantly introducing new technologies, such as artificial intelligence and big data analytics, to improve the user experience and operational efficiency. Scientific and technological cooperation and innovation enable Luckin Coffee to maintain its leading position in the technology field, further strengthening its disruptive innovation strategy.

5. Conclusion

Through the in-depth analysis of the disruptive innovation cases of Luckin Coffee, the following conclusions can be drawn: Luckin Coffee has successfully entered and overturned the Chinese coffee market with disruptive innovation as the core market. The company has achieved remarkable results in a short period of time through various innovative strategies.

On the product side, Luckin focuses on offering a variety of products, such as Deer tea, to match them with their target market. Luckin Coffee combines the product portfolio with the "light coffee" crowd in the office scene, forming an innovative combination of product supply and market demand. The company's business model innovation is one of the keys to its success. The integration of online and offline marketing strategies, order and delivery modes, and mobile applications provide customers with convenient purchase choices and improve the shopping experience. Luckin's technological innovation, especially in mobile applications and digital ordering systems, has changed the way traditional coffee chains operate. Innovation in data analysis and personalized recommendation enable the company to better understand customer needs and provide personalized services.

In short, the case of Luckin Coffee shows the power of disruptive innovation, and how to successfully enter and change the traditional market through unusual thinking and innovative strategies. The success of the company proves that innovation is one of the critical factors for success in the highly competitive industry, and also provides favorable inspiration and reference for other enterprises.

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