

The Analysis on the Marketing Strategy of Luckin Coffee in China

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ABSTRACT

As the increasing demand of coffee market, Starbucks, Pacific Oceans, Nescafé and other main gamers inside the coffee market are facing a great competition. But the pain point, expensive price, still cannot be effectively solved. However, the appearance of Luckin coffee solves this problem subtly. The paper mainly focuses on the situation that Luckin coffee is facing through PEST analysis. Besides, how Luckin coffee fits in and stands out the market from the angle of great discount, online and offline selling, and instant take-out system is another key point of this paper. According to the analysis, Luckin coffee takes a lot of advantages of the favorable external environment, such as policies and technologies. In addition, the marketing strategies benefit the development. Moreover, Luckin coffee brings a new conception of coffee-consumption to Chinese market, which defines coffee as a daily drink rather than the symbol of good taste or a noble life. That will further exert influences on the Chinese coffee market as well as bring changes to the dietary habits of Chinese people.

Keywords: Luckin coffee, Coffee market, high cost performance, pain point, coffee culture, acquire customers

1. INTRODUCTION

Luckin coffee (China) was founded on March 28, 2018. Under the new retail mode, the "online + offline" mode breaks a new gap in the coffee market. Luckin coffee, competing with Starbucks, enters the coffee market with a high posture of 1 billion yuan and takes only 244 days to become the "unicorn" in the coffee market. By the end of 2018, Luckin coffee had set up 2,073 physical stores in 22 cities across China, with 12.54 million customers and 89.68 million cups[1]. However, until the end of March 2019, the cost of Luckin coffee to acquire new customers reduced from 103.5 yuan to 16.9 yuan and the rate of decreasing achieved 84%. At the same time, the sales promotion cost decreased from 15.8 yuan to 6.9 yuan, showing a trend of narrowing its net loss rate. And the manager of the Luckin coffee, Zhiya Qian, expressed to accept situation, and said it was completely in line with expectations[2]. This paper will analyze how the Luckin company keeps and monetizes customers by providing a model. In this funnel model, the imported customers will be lost at one stage, and the remaining will continue to the next stage, layer by layer, until the final transformation is completed, which on behalf of the success of revenue. By using qualitative research, this paper provides the readers with potential reasons for the success of Luckin coffee and explains the motivation of this company's sudden entry into the market. This analysis is based on several theories. In addition, this analysis aims to arise inspiration of the peers, and serve as a reference for customers' engagement and retention.

2. EXTERNAL FACTORS

Chinese government always pursues a stable and controllable economic policy in order to maintain the economic prosperity and social civilization. Since 2019, the national macro policy continues to implement a practice fiscal policy, which aims at stabilizing aggregate demand. It also states that the capital market should build a standard, transparent, open, and elastic environment through a series of reforms, so as to improve the quality of listed company, thus promoting long-term fund. Moreover, Investment policy announces to relax market access, protect intellectual property rights, and advocate sole proprietorship, thus correlating the concept of overall opening. In fact, the purpose of unifying access standard is to try to use the market access system that regulates traditional economic forms to regulate the sharing economy as a new economic form. In essence, market access is still not separated from the traditional administrative approval system[3]. Therefore, market access relaxing gives more opportunities to innovative products. Under these policies, Luckin company has a strong capability in the coffee market.

Economically, it is also a good time for Luckin to enter the market. Nowadays, average inflation rate and employment rate are predicted to be on the rise. Okun's law points out that for every 2% fall in GDP relative to potential GDP, unemployment rises by 1%. In other words, there is an alternating relationship between unemployment and economic growth[4]. Under the stable and united economic environment, the income gradually increases. As a result, the market with inflation expands rapidly. Therefore, in the

general money market, people are eager to buy something with high quality and low price. So the current financing difficulties of Luckin company will be effectively solved soon by giving out lots of special discounts. Furthermore, new technology is one of the factors that Luckin company chooses this time to enter the market. Technologies that make life easier with less effort are regarded as a leader in innovation. The future of personalized business is also used by this principle of psychology. Looking back at all the innovations we have made, we all seek comfort and simplicity, echoing our lazy nature. The services and products of today's Internet economy continue to explain this truth. E-commerce allows us to sit at home with a finger can enjoy a variety of daily necessities and door-to-door services. In China, the omnipotent TaoBao and WeChat can solve all kinds of needs. The Luckin company actively responds to the spirit of continuous innovation, and provide people with a great deal of convenience. For example, the online and off-line sale significantly improves the efficiency of sale for the whole market and subtly reduces the costs of the company. The aroma technology has always been popular in the coffee market. Merchants have to pay a lot attention to the aroma and taste, when the coffee beans are just ground and the coffee is made. However, it is difficult to grasp this time, [5] and that is the biggest pain point among the coffee market. In other words, the coffee will taste differently over 30 minutes after the coffee is finished[6]. Fortunately, the appearance of Luckin company effectively solves this problem by teaming up with SF, a delivery system, to ensure that customers can receive their orders for coffee within 20 minutes, thus improving the taste of their coffee products, and offering the customers great convenience.

3. UNIQUENESS LUCKIN COFFEES MARKETING STRATEGY

3.1 Great discount with coupons

The greatest pain point for customers in the coffee market is the expensive price. Among all the competitors, Luckin coffee rates itself as high cost performance. So the rise of Luckin Coffee is trying to breakdown, or eliminate, the traditional concept about price of coffee. This will be one of the characteristics of the inherence of Luckin's business model: the counterattack against the traditional coffee culture. Starbucks, the most competitive competitor of Luckin coffee, has always been the embodiment of coffee culture in the eyes of general public. (The market positioning of Starbucks in China and abroad is different; its positioning in China is premium product, which can be seen from the price, which is usually higher than the price of ordinary drinks in China.) However, this is the point Luckin has exploited. Starbucks' cultivation of the Chinese coffee market has resulted in the emergence of traditional segments of consumers: consumers with daily coffee drinking habits, people who use the public space to

socialize, and some coffee culture lovers. With the guidance of coffee culture, some minority groups are bound to go to boutique coffee. It is true that the public space from other areas of indirect competitors, such as the new soft drink Nayuki, can also provide a beautiful decorated space conducive to rest. But in any case, Starbucks still insists its tradition that makes itself impossible to be completely down, or to accept the mediocrity of coffee. So turning coffee products into drink, that means, making coffee products become popular commodities, is the secret factor contribute to Luckin's success. The sense of tradition and ritual that coffee culture represents has been changed when Luckin insists on its marketing strategy of continuously providing customers with coupons and chances to get a free coffee. In fact, there are still some arguments about the inequality between the user's value and company's financial value. However, most people drink coffee with a pragmatic mindset that the service is not the most important thing, as it is neither the trigger that makes them become customers of a coffee brand, nor the one that keeps them away from a coffee brand.

3.2 Analysis on online and offline selling and instant take out system

3.2.1 Acquisition

To achieve acquisition needs to select channels and improve exposure by expanding market on social media, the middlemen channel, and advertising. The most commonly used definition is user registration. For example, entering the mobile phone number to get the QR code on Luckin coffee App is a way to become a customer of Luckin. Luckin coffee has three main ways to acquire users. One is to offer free welfare. Luckin acquires customers through advertising that the first cup of coffee is for free as a hook to attract the first seeds. The next step is to pull new fission. That is Luckin's core approach to customer acquisition, which makes full use of the social circle of customers and invites new customers to get a cup of coffee. It works as follows. The old customers, who successfully let new customers buy Luckin products, can also get a cup of coffee for free. This mode effectively encourages customers to share Luckin advertisements and make free propaganda for Luckin. The last way is exchange. Luckin coffee will also link with other brands. In this way, Luckin can enable the other brands to have a lot investment in a cooperative way. Meanwhile, it can acquire customers.

3.2.2 Activation

Activation refers to making the customers feel the value proposition of the product. For example, the Luckin Coffee's core value is the high cost performance. So the way to realize the core value of Luckin coffee is to let

customers complete an overall order on Luckin coffee App. The action, from getting customers to activation, may include voucher, selection, order, payment, and waiting coffee. Each additional link, there will be an additional loss. For most online products, customer activation is an action equivalent to registration. How to define activation is a critical way to define the understanding of the products. Therefore, in order to activate more users, Luckin coffee needs to provide cost-effective coffee, subsidy, welfare, and coupons, thus promoting the customer to make the next purchase.

3.2.3 Retention

Retention and motivation are consistent goals. Luckin gives regular benefits, making customers consistently pay attention. In turn, customers continue to consume, thus forming consumption habits. Retention and motivation are consistent goals. While activating users, it also improves their retention. For example, In the main interface of Luckin App, apart from the options of ordering service like pick up and takeout, the special offerings are still attracting customers' attention. After clicking on it, people can see the cooperation between Luckin coffee and several banks as well as the cooperation with online shopping App-Jingdong, thus launching the preferential activities, such as using bank credits to exchange for drink coupons, mortgaging cash, and 10 yuan off the first order. In this way, it not only maximizes the activities and demands of partners, and reduces the external burden of consumers by means of "consumption first, payment later", which is a new way for Jingdong's promotion. Besides, but also credits exchange. In this way, Luckin can also "reap where one has not sown."

3.2.4 Revenue

There are many sources of revenue: paid application, in-app payments, and advertising. Luckin has hired many Chinese celebrities such as Tang wei, Chang zhen, and Liu haoran, using celebrity effect to improve customer retention. In terms of benefits, the use of celebrity can accelerate the spread of spread awareness and make the image of products more vivid under the psychological level. Therefore, customers can be cultivate to be exploited by the mind of imitation and respect, thus completing the buying process. In advertising psychology, it points out that customers are easily addicted to the following and respecting action. This is known as crowd mentality. In other words, the use of advertising is the use of customer's mentality. In this way, customers will be more likely to accept the products. Under the current trend, the celebrity effect is almost listed in every company as an indispensable way to for marketing strategy. In addition, this effect still has potential to be more flourishing and benefits the future development. What is more, revenue comes directly or indirectly from customers. Therefore, improving the

activation and retention that mentioned above is necessary foundation. Only if the customer base is large, the revenue will be possible to go up.

3.2.5 Referral

The way that Luckin coffee referral include two aspects. One is the pursuit of convenience: when old users invite new users, they can get another drink for free. The other is to "make fun of it." On May 15, 2018, Luckin Coffee published an open letter to Starbucks. The letter listed several major charges against Starbucks, including pressuring potential competitor, monopolizing, and threatening Luckin coffee suppliers. According to the statistics from the world's leading market survey, the market sharing of Starbucks was 57.7% and 58.6% in 2016 and 2017, respectively; especially under the chain operation, the market sharing of Starbucks has already achieved as high as 78.8% and 80.7%. According to the anti-monopoly law, if an operator's market sharing in the relevant market reaches the half, the operator can be presumed to have a dominant market position. This hot argument effectively makes the brand gain wide attention [7]. Anyway, both show the fierce competition in the domestic coffee market. Although Starbucks still has obvious advantages in traditional, Luckin company makes a breakthrough by offering delivery system in the niche market.

4. CONCLUSION

With the great discount, online and offline selling, and instant take out system effectively, Luckin coffee takes the customers to an innovative coffee concept and brings a breakthrough for whole coffee market. From the perspective of traditional coffee market, Luckin subtly solves the pain point and promises high cost performance, thus effectively maximizing customers' satisfaction. Furthermore, this novel way not only acquires new customers, but also makes regular customers to re-purchase the product of Luckin with priority. It is predicted that Luckin coffee will be replaced by retailed coffee from convenience store in the long run Currently, the loss of Luckin is still conform to the scale of anticipation. For the future development of Luckin company, Jenny Zhiya Qian, chief executive officer of Luckin coffee commented: it will be focus on rapidly becoming well recognized, trendy, mass market brand and continuing to grow products, improve brand value, expand the scale of platform, and create more value for the customers. In fact, on January 8, 2020, Luckin coffee held a strategic press conference, released the intelligent unmanned retail strategy, and launched the Luckin Coffee express which further covered the network and got closer to customers. This fully automatic machine not only greatly minimizes the cost of physical store, the transportation management, and the wage of employers, but also promises the ongoing outputs and selling process of Luckin products. In this way,

building The Luckin Express is a practical and critical way in the long term. According to statistics from the State Statistical Bureau, the GDP of all provinces and cities ranked 1st in guangdong, 2nd in jiangsu, 4th in zhejiang and 11th in Shanghai in 2017. Therefore, regions with high per capita GDP have more vending machine exports. Similarly, economic development promotes the development of the vending machine industry. Researches show that when the per capita GDP exceeds 10,000 US dollars, the vending machine market will show an explosive growth[7]. It can be seen from the data of the State Statistical Bureau that the per capita gross domestic product of our country has been rising every year, which can be easily speculated that Luckin's appearance in 2019 had a great advantage. If the per capita gross domestic product continues to develop at such a trend, the company will have a great profit potential. Although the current Coronavirus has a significant impact on global stock markets and per capita production, these effects are reversible in the long run.

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