

Research on the Digital Transformation of the Coffee Industry

A Case Study of Luckin Coffee

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ABSTRACT

Digitalization is transforming every aspect of our life, and reshapes the ecology of doing businesses. Although some well-known enterprises feel the impact and are pressurized to transform digitally, many others take the initiative and actively embrace digital transformation. How to make the coffee industry adapt to the new wave of digitalization is a practical issue of great interests. This article has conducted a detailed analysis of the Luckin Coffee case, and focuses on five key areas: product positioning, online and offline operation, cross-industry marketing, brand dissemination and the "omni-presence" the branding strategy. In the end, we also offer some practical implications to better digitally transform the whole coffee industry.

Keywords: Digitization transformation, coffee industry, product positioning, online and offline operation, cross-industry marketing, brand dissemination, branding strategy, Luckin Coffee.

1. INTRODUCTION

With the rapid development of science and technology, Internet plus and the improvement of people's living standard, and the sudden outbreak of COVID-19, China's coffee market is treading through a difficult time and facing enormous changes. Affected by the epidemic, domestic consumption, investment, import and export fell significantly in the first quarter, of which the total retail sales of social consumer goods, social fixed asset investment and import and export growth fell by 20.5%, 24.5% and 15.9% respectively on a year-on-year basis. Although the traditional offline industries such as catering, hotel entertainment and transportation logistics have been impacted by the epidemic, online education, online office, online live broadcasting and other online industries have developed rapidly and have greatly alleviated the devastating economic woes. The novel coronavirus pneumonia has caused a serious negative impact on China's macro-economy, but it also triggered structural changes. The new retail industry with deep integration of online, offline, and logistics has ushered in a high growth rate during the epidemic^[1].

Although the short-term impact of the epidemic and the development of digitization will not have a great

impact on the industrial scale of the coffee market in recent years, it has had a significant impact on the consumption behaviors and preferences, eating habits and shopping methods of many domestic consumers. The 21st century is a period of rapid development of network information technology. Under such background, people's consumption habits quickly shift from offline to online, which not only provides convenience for people, but also further improves people's quality of life. In the past, the consumption trend of consumers was mainly based on the introduction of products by merchants. As long as the products introduced and promoted by merchants are popular and exactly what consumers will not hesitate to try. At present, with the advent of the digital information age, consumers pay more attention to the use experience of real users, rather than blindly listening to the exaggerated introduction of merchants. When paying attention to the user experience, consumers often focus on the user's real feedback and feelings in the use process. After a comprehensive investigation, the purchase decision is further determined. Therefore, the traditional coffee consumption mode cannot meet the diversified needs of today's consumers. In order to meet the new consumption needs of today's consumers, how to

make the coffee industry embrace the road of digital transformation has become a major pain point.

The battle for digital coffee has already begun. According to statistics from Statista, coffee consumption in China has increased from 3.1 million bags in 2017-2018 to 3.9 million bags in 2020-2021, an increase of 26%. According to the 2020 Coffee Consumption Market Insight Report, the consumption of freshly ground coffee in China is growing at a rapid rate of 23.5 percent to 37.3 percent every year, and the size of China's coffee market is expected to break the 1 trillion mark by 2025. Since Starbucks, the giant of the coffee industry, entered China for more than 20 years, neither South Korea's Man Coffee nor Britain's Costa Coffee has been able to shake the position of Starbucks in China. But in recent years, a rising star has emerged. Luckin Coffee with its mature online business and offline digital wireless scenario space closely combined with digital new retail model, for the traditional marketing concept and model of the coffee industry has a huge impact, with a fresh coffee industry and thinking system to define the new consumption idea and agree with the contemporary demand to consumers.

The focus of the existing literature mainly focuses on the trend and mode of digital to a country's sustainable development, smart city and green development of enterprises, and there are few studies on the transformation of coffee industry from the perspective of digital. As a result, this article conducts a case study on the influence of digitization on enterprise organizations and the success of Luckin Coffee as a result of digitization, as well as an in-depth excavation and analysis of its action mechanism. The main contribution of this paper is to highlight the decisive role of digital transformation in contemporary business model through the review and research of relevant literature on digital transformation and combined with the case study of Luckin Coffee, and strive to provide relevant experience and enlightenment for modern enterprises from the perspective of digitization in pursuing competitive advantage and enhancing enterprise value. So as to better promote the profound integration of the real and digital economies.

The following structure is arranged as follows: the second part is the literature review related to digital transformation, which is carried out from three aspects: digital transformation has brought impact to traditional industries, digital transformation in terms of organizational structure and successful digital transformation as a competitive advantage. The third part is a case study to analyze the success of Luckin Coffee from the perspective of digitization. The fourth part is the discussion of this paper.

2. LITERATURE REVIEW OF DIGITAL TRANSFORMATION

With the rapid development of science and technology, digitalization has become an important force driving technological change and strategic innovation of enterprises. According to IDC FutureScape, released by IDC on October 28, 2021, more than half of the global economy will be built on or affected by digitalization in 2022. According to the latest report, the compound growth rate (CAGR) of direct digital transformation investment will increase to 16.5% in 2022-2024, up from 15.4% in 2019-2024, and will account for 55% of overall ICT investment by the end of 2024.

China's economy is undergoing profound changes, and scientific and technological innovation is becoming more and more important for economic development. The digitalization of industries has been accelerated, and the leading role of the digital economy has been further consolidated. In 2020, industrial digitalization accounted for 80.9% of the digital economy, and digitalization is deeply empowering all walks of life. A series of new products and models based on digital capabilities have injected strong impetus into China's post-COVID-19 economic revitalization, and also provided new ideas and new paths for the development of enterprises in the post-COVID-19 era. For Chinese businesses, digitization has become a powerful grasp and a vital driving force in boosting their competitiveness in the global economy. FAST fashion brand UR, for example, expedited the expansion of its e-commerce business in reaction to changes in the sales end triggered by the outbreak, covering 300 locations across China within 15 days. Then, through a digital upgrading of the internet platform, UR has created a three-dimensional shopping experience by connecting online and offline.

Digital transformation refers to the innovation process of enterprises using digital technology to adapt to the highly changing digital environment by reshaping the enterprise vision, strategy, organizational structure, process, ability and culture. Digital transformation has become a national strategy since 2021. The 14th Five-Year Plan proposes to embrace the digital era, activate the potential of data elements, promote the building of a cyber power, speed up the building of a digital economy, a digital society and a digital government, and drive changes in the mode of production, way of life and way of governance through digital transformation. The plan clearly proposes that the proportion of added value of core industries in the digital economy in GDP will rise to 10% in five years. It also proposes to speed up the establishment of an industrial technological innovation system with enterprises as the main body, the market as the guidance, and the deep integration of industry, university, research and use. It also promotes cross-border innovation and supports the development of innovation consortia such as digital technology open

source communities. The "5G+ Industrial Internet" project will be implemented to promote cloud and platform services for industrial enterprises and equipment. It has provided national strategic guidance for the digital transformation of enterprises, and it has become a social consensus to accelerate the use of digital technology to promote industrial transformation and upgrading. At the same time, the "14th Five-year Plan" also proposed sustainable and high-quality development, to achieve carbon peak by 2030, carbon neutrality by 2060, and digitalization can drive low carbon, is an important way to achieve carbon neutrality.

2.1 Digital transformation has brought impact to traditional industries

In recent years, digitalization has deeply affected all walks of life. In particular, due to the outbreak of the epidemic at the beginning of this year, the development of digitalization has been accelerated, and it is extremely urgent for enterprises to carry out digital transformation. Digital transformation is a highly complex work involving the whole company. Developing a digital transformation strategy is the key to enterprise success. The strategy defines all tasks and activities related to organizational digital transformation^[2]. As a high priority management challenge, digital transformation strategy is a priority on the leadership agenda. Before digitization, managers need to carefully evaluate the company's existing technical capabilities and determine the required new capabilities^[3].

The digital revolution not only brings great industrial reform and prosperity, but also has a great impact on traditional industries. Many people and enterprises are worried about the possibility of unemployment in many professions in the future due to the development of the digital revolution. However, some scholars have pointed out that some occupations labeled as high risk still contain a large proportion of human work that is difficult to be replaced digitally^[4]. Under the efforts of Internet construction and code innovation of numerous users, the growth and innovation of information technology are ignited. Nowadays, the Internet has strong innovation ability, so one of the characteristics of digitalization is that self-technological change and innovation will occur under the drive of numerous audiences^[5]. Existing a lot of research in proved that the digital revolution to the technological innovation and efficiency of modern enterprise reform has a huge contribution, digital will indeed bring influence and impact for the traditional industry, but can through technical innovation, and create more jobs for workers training to compensate for the unemployment effects on people's life^[6].

In the period of epidemic prevention and control, whether it is the application of big data in tracking the spread of the epidemic, the emergence of new technologies such as drone temperature measurement, or

the growth of new industries and models such as online office and online entertainment, the digital economy has shown great vitality. Traditional industries have to pay more to adapt to new market rules. As a new economic form, digital economy represents the development direction of new productivity. It is becoming the driving force of transformation and upgrading, and also the commanding height of a new round of global industrial competition. For example, Didi Taxi's "subscription and payment" platform enables people to use economical or luxury cars at will without having to spend a lot of money to buy the ownership of a car. Pick up the phone, after different models and mileage estimates, you can know how much money I need to spend on this trip, and the deal can be done instantly. The traditional taxi industry based on GPS positioning technology, big data analysis, cloud computing and other technologies has been successfully transformed into a new digital industry, which is deeply loved and widely used by everyone. Therefore, how to carry out digital transformation of traditional enterprises is not the ultimate goal of enterprises, but an important way to realize the strategy of enterprises, digital transformation is urgent.

2.2 Digital Transformation in Terms of Organizational Structure

Whether the organizational structure of an enterprise is reasonable or not plays a vital role in the survival and development of the company. No matter the organization structure is disordered or unreasonable, it will lead to the low efficiency of the company. The reasonable setting of organizational structure can ensure the clear division of labor and responsibilities of the entire organization, and ensure the normal operation of each department. In recent years, enterprises in almost all industries have taken a series of measures to digital transformation and explore the advantages of digital transformation and the profits it can bring to enterprises. Enterprises generally need to formulate a digital transformation strategy to integrate the coordination, implementation and development of digital transformation within the whole company. From a business perspective, the use of new technology often means a change in value creation. These issues relate to the impact of digital transformation strategy on enterprise value chain, that is, the extent to which new digital activities deviate from core business^[7]. Although organizational change will bring strong competitiveness to enterprises and maintain long-term development of the organization, it will also bring huge management challenges to enterprises^[8].

The third digital wave has fundamentally changed the way a business or organization operates and creates value. Companies are increasingly launching digital strategies and reinventing their business models. As an important part of digital strategy, reshaping organizational structure is a necessary step. If an

organization fails to keep up with changes in the market, it will be overtaken at any time. Even if the organization itself has done nothing wrong, its traditional advantage over a crossover competitor can quickly crumble.

Related scholars^[9] put forward and discussed decentralized autonomous organizations, related technological drivers of blockchain to change the market and intra-organization contracts, and how blockchain can reduce certain types of transaction costs while introducing additional costs that do not exist in traditional contracts. Blockchain technology also provides a new way to mitigate or avoid certain types of agency costs associated with contracting with an agency within a company. The reasonable setting and efficient implementation of organizational structure can ensure the clear division of labor and responsibilities of the entire organization, ensure the normal operation of each department, and ensure the smooth flow of the entire organization management process. In the short term, enterprises may hit a wall due to new market rules and new technologies in the process of digital transformation and face great uncertainty of development, but the transformation of new organizational structure can help enterprises play a key role in the future development in the medium and long term.

2.3 Successful Digital transformation as a competitive advantage

From the point of view of enterprises, customer-centered is the key for enterprises to survive in the market competition. With the advent of the digital wave, the problem of user information asymmetry has been greatly improved, and the maximization of customer perceived value has become the orientation, which has fundamentally changed the traditional production-oriented business economic model, and brought enormous challenges and new opportunities to the operation of enterprises. Different from the competition mode in the traditional industrial development period, the core competitiveness of enterprises in the digital economy era has changed from traditional "manufacturing capability" to "service capability + digital capability + manufacturing capability". With the help of digital transformation, the non-replicability of enterprise success is also an important tool for enterprises to face domestic and even international competition.

In addition, the rapid development of economic digital transformation enables enterprises to create corresponding algorithms and analyze a large amount of consumer data through big data, machine learning and other methods. Digitisation has transformed the concept of the market from a public physical space where buyers and sellers interact, incentivized by pricing mechanisms, to a data-rich environment created by buyers and suppliers together through new digital technologies. Data-rich platforms provide companies with the ability to

characterize their consumers not only based on relevant preferences based on price, but also based on personal taste, convenience, and so on. Because the marginal cost of replicating and transmitting data-rich digital products around the world is almost zero, their pricing is influenced less by marginal cost and more by value optimization for network users. In other words, as long as the relevant data of this large number of consumers can be accurately predicted, key business decisions such as pricing and operation may no longer require human input, but can be automated through machine learning, and companies can improve consumer surplus through customized prices. When predicting high demand more accurately, firms have been able to offer lower prices^[10].

3. CASE STUDY: LUCKIN COFFEE'S SUCCESS FROM THE PERSPECTIVE OF DIGITALIZATION

The traditional offline coffee outlets still dominate the coffee market in China at present. It creates a comfortable situation through the offline mode, so as to leisurely enjoy meals or a cup of afternoon tea. Coffee shops not only provide various flavors of coffee, as an indispensable selling point, bread, dessert and flower tea drinks are also welcomed by the majority of consumers. Some operators even provide breakfast, therefore, it is rarely done online. In addition to reading magazines and fax machines in the traditional coffee shop, it also provides consumers with a large number of reading themes in the coffee shop. Because traditional cafes emphasize the comfort of consumers, they usually pay more attention to the atmosphere in the store. Although offline coffee stores are usually equipped with online takeout order delivery services, they only stop at the level of commodity trading, and the traditional coffee marketing model also has the pain points of inconvenient purchase, high price and high labor cost. With the emergence of COVID-19 and the vigorous development of the digital economy, Luckin coffee, a coffee enterprise integrating the online and offline operation into the digital business mode, has impacted on the traditional coffee industry mode dominated by offline stores, and has been favored by many consumers.

3.1 Unique brand positioning

Brand, as the prerequisite experience and cognitive feeling for consumers to contact products first, is extremely important not only for the feeling of physical properties of products, such as price and appearance, but also for the value recognition of corporate culture, such as product service and concept^[11]. With the vigorous development of today's fierce market environment, the individuation and diversification of products are sharp tools to attract more consumers, and an excellent brand positioning and design can increase the personalized characteristics of products, and play a role in attracting

customers and increasing popularity^[12]. Luckin Coffee brand name is "Luckin", with the meaning of "lucky and auspicious", at the same time to create a festive atmosphere. Luckin Coffee mainly adopts intellectual and low-key blue. Through the slogan of "This cup, who doesn't love this cup", Luckin Coffee has promoted the small blue cup to the public, adhering to the vision of "making a good coffee that everyone can drink and drink". Luckin Coffee's logo is an elk, highlighting its unique brand design; The elegant and noble characteristics of milu match the positioning of coffee products in the whole country. Luckin Coffee mainly targets white-collar workers, so the nobility of its logo milu deer and the main color blue are perfectly matched with target consumers, and also reflect the high-quality lifestyle. In addition, the coffee is made with high-quality arabica beans, advanced coffee machines and supporting equipment.

3.2 Online + offline, fission marketing + store expansion

Luckin Coffee use "online APP" + "offline cache store" pattern^[13], through online social fission, free of charge, discount coupons, buy coupons and other subsidies, to attract new customers to purchase order, to help make Luckin Coffee propaganda to point with surface, main force of coffee consumption -- a second-tier city white-collar crowd. Digital marketing, rapid social fission, rapid coverage of targeted users. At the same time, the two-way operation of online and offline reduces a lot of intermediate links and costs, but also effectively improves the operation efficiency of enterprises. Once, luckin Coffee's App soared from the 70th place to the first place in only one month, which shows the success of its two-line promotion and marketing methods. Luckin Coffee, which launched in early 2018, took just one year to create a national coffee brand valued at \$2.2 billion. In 2018, Luckin Coffee opened 2,064 stores in China, with a total revenue of 763 million yuan. Starbucks, which entered China in 1999, now has nearly 4,000 stores in China, which shows the rapid expansion of Luckin Coffee stores.

3.3 Cross-industry marketing

Luckin Coffee also catches the eye in the way of cross-border marketing cooperation, entering into the major factories where employees work and carrying out various forms of cross-border cooperation. Through crossover Tencent, Millet, etc., improve the brand tone. In April 2018, Luckin Coffee with QQ in tencent building opened a flash of coffee shops, large data with an organic combination of digital technology such as face recognition, a bright, brush face brought coffee free of charge in addition to the staff welfare, rui xing and tencent also conducted joint coffee cup, custom menu and a series of cross-border cooperation. In July of the same

year, Luckin opened a pop-up shop in Xiaomi's office area, paying tribute to Xiaomi with "This cup, to love". Open offline stores to the Forbidden City. It is said to be the only coffee chain brand in The Forbidden City in China. The opening of luckin Coffee shop in the Forbidden City has created a big news in the industry and aroused heated discussion among netizens, who went to experience it.

3.4 Deeply focus on the brand promotion at the digital level

Luckin Coffee mainly chooses the way of precise advertising in brand communication channels. In the first three months of 2018, Luckin Coffee invested more than 8 million yuan in wechat moments advertising, with more than 100 million exposure times and a total exposure of more than 45 million people. Offline, we focus on mass advertising, sign stars, and put advertisements in office buildings and communities in major urban areas, covering a large number of white-collar workers. The online advertising is mainly oriented by wechat LBS, repeatedly attracting volume around stores. After a large number of brand advertisements are exposed, accurate LBS advertisements are pushed through wechat based on the existing store scope, and elevator advertisements are distributed on a large scale both online and offline for office white-collar workers^[14]. Through effective brand communication, the brand culture and value orientation are shown to consumers, and customers quickly identify with the brand.

3.5 Branding strategy of "Omni-presence"

Different from the "social space" of traditional coffee brands, Luckin pays more attention to meeting the coffee consumption needs of users in different scenarios. Luckin Coffee put forward "infinite scene" brand strategy^[15], regardless of the user in city business center, the university campus scene, or railway stations, airports and other scenes, Luckin Coffee consumption characteristics of accurate analysis of various scenarios, and accordingly with the flagship store, enjoy a leisurely shop, cache store different types of stores to achieve all-round coverage of consumer scene, To bring users a richer consumption experience.

Luckin launched coffee delivery service in cooperation with SF Express. Coffee delivery breaks the "social space" of traditional coffee brands, making coffee consumption more free and convenient. Unlimited Scene allows users to buy coffee on the App and pick up coffee by themselves or by delivery. On the one hand, it taps into more potential Internet users and consumption space in the coffee market. On the other hand, it significantly reduces the operating costs of physical stores and defeats the traditional space premium through the infinite scene of the Internet.

4. CONCLUSIONS

With the rapid development of science and technology, enterprises need to have the ability of perception in environmental scanning, collect user information by using new digital technology and digital equipment, and perceive market changes by using development and analysis ability^[16]. Through the innovation process of digital technology, for example, through digital transformation and innovation, Luckin Coffee carries out fission marketing, store expansion, cross industry marketing, accurate positioning and wide dissemination of its own brand, so as to adapt to the highly changing digital environment, so as to achieve its success. Luckin Coffee's success is certainly not unfounded. How to use cloud computing, big data and other new technologies in the new digital era to further improve, transform and upgrade the traditional coffee industry is a key issue that we need to pay attention to now. The 21st century is an era of rapid development of information technology. Digital marketing pays more attention to the application of technology than traditional marketing, and data management of products, logistics and customers is realized by using a variety of digital means. Collect and forecast customer demand information, use different strategic means to subdivide different customers, and provide diversified products according to their diversified needs, and upgrade the supply chain and service to meet the diversified needs of customers as far as possible.

Luckin Coffee has well explored potential customers' needs from a digital perspective, provided diversified services for users on the basis of ensuring high-quality products and efficient service, and established a good brand image, so as to become a successful enterprise in the development of the current new coffee retail model. As digital constantly grow and mature, established companies like Starbucks, have client base, covering more abundant resources, such as size digital optimization may also gave rise to its more powerful competitive advantage and value creation, how to deal with the future "digital" everyone in the digital, everyone situation of new challenges and keep up with the trend of the coffee industry new market, In the future, how to make good use of digitalization to serve the goal of enterprise value co-creation and realize the development of collaborative innovation in product market and capital market is a long-term topic worthy of attention.

The main contribution of this paper is to review and summarize the literature research on digital transformation, and conduct research combined with relevant cases. The article highlights the decisive role of digital transformation in contemporary business model, and provides experience and enlightenment for modern enterprises in the practice of pursuing competitive advantage and improving enterprise value from the perspective of digitization. In this paper, the main

limitation is that only qualitative method is used for analysis, without further use of quantitative methods for demonstration. Only the case study of Luckin coffee in this paper is not universal and easy to be questioned. In the later research, the data of relevant digital listed enterprises will be collected, and further research will be carried out from a quantitative perspective combined with relevant quantitative tools, and more universal conclusions will be drawn for reference of relevant industries and companies.

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