

Methods for Luckin Coffee to Develop its Core Competence

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ABSTRACT

Luckin Coffee, which is a new Chinese local coffee brand, opened its first store at the end of 2017, and then rapidly expanded. It only took one and a half years to break through 2000 stores and be listed on NASDAQ in the United States. Now, the number of offline stores exceeded 4500, overtaking Starbucks to become the largest coffee chain brand in China. However, due to the influence of its financial fraud and fiercer competition in the mid-range coffee market. It's more difficult for Luckin Coffee to expand and develop. This paper uses qualitative analysis and steps in business analysis to focus on the research of Luckin Coffee's existing marketing mix, analyzing the STP Strategy, and conducting SWOT Analysis. Then based on the result, the author suggests some improvement regarding the existing marketing mix to help Luckin Coffee develop its core competence. For Luckin's product, Luckin Coffee needs to increase brand depth, develop more best-selling products and use co-branding. For its place, Luckin Coffee needs to develop more immersive experience stores, strengthen the connections between offline stores and nearby customers, and change decorations. The suggestion can also be used for providing some ideas for the establishment and development of mid-range coffee brands in the Chinese market.

Keywords: *Luckin Coffee, Marketing Mix, STP Strategy, SWOT Analysis, Mid-range Coffee Brand.*

1. INTRODUCTION

In the past 5-10 years, the coffee market in China has grown rapidly, and the total size of retail coffee products and coffee consumed in cafes has increased from 22 billion yuan in 2014 to 75 billion yuan in 2020. However, in 2020, the per capita coffee consumption in China is 9.1 cups per year, which is significantly lower than that of South Korea (367.0 cups per year), the United States (327.4 cups per year), Japan (280.1 cups per year) and the global average (161.3 cups per year), which means there is still a large room for China's coffee market to grow [1]. In addition, with the constant increment of Chinese residents' personal income, there were more and more Chinese consumers.

Although the demand for coffee drinks is developing quickly, freshly brewed coffee does not account for much market share in China. In 2019, the market share of instant coffee accounts for more than 80%, and the proportion of freshly brewed coffee is only about 18%. This is because the other mainstream brewed coffee brands in China, such as Starbucks, are overpriced for

their products. The average price of Starbucks in China is \$4.60, or about 32 yuan. Owing to the fact that Starbucks offers a social space for its customers to socialize and communicate, the cost of rent expense, decoration depreciation, and offline service fees increase the total cost. However, the per capita disposable income at that time is 30,733 yuan, which means every day a Chinese resident can only afford approximately 2 cups of Starbucks at an average level [2]. Therefore, in this case, coffee is not a type of drink that people can consume on a daily basis, but instead it meets the needs of people to experience petty bourgeoisie, or create a "third space" for people to socialize. Nonetheless, the survey shows that most Chinese consumers believe that the reasons for drinking coffee are refreshing and tasty, not for social space and petty bourgeoisie [3].

Also, the main consumers of coffee are young people, such as white-collar and student groups, they pursue trends, have a high degree of acceptance of Western culture and products, and communicate frequently on the Internet. They do not like tea like the middle-aged group in China, and they also have the wealth to afford coffee.

Therefore, it has become the largest consumer group in the Chinese coffee market. For white collars and students, on one hand, they usually pack coffee to take to work or to the classroom. On the other hand, they have higher requirements for the taste of coffee. So, for the convenience issue, they do not need to purchase coffee that has a relatively high price but offers a good offline service; for the quality issue, they do not want to purchase instant coffee, which is poor in quality. It is precisely because of this that Luckin Coffee aims at the product positioning of the mid-range coffee brand. It aims to provide convenient and quality coffee products to customers, to make sure that everyone can afford to buy, and also convenient to buy good-tasting coffee.

However, in 2020, Luckin Coffee is mired in financial fraud, leading to its delisting on the Nasdaq, poor revenue status and continued losses. What's more, other competitors have discovered the huge market for Luckin Coffee's product positioning. Like Manner Coffee, they also provide customers with convenient, cost-effective, high-quality coffee, and are growing rapidly [4]. Therefore, this paper wants to find the methods for Luckin Coffee to develop its core competence, turn a profit and enhance its brand influence to win in the fierce competition. This paper first analyzes the existing marketing mix of Luckin Coffee.

2. CURRENT MARKETING MIX

Due to its marketing goals and target customer segmentation, Luckin Coffee provides customers with high-quality coffee specially prepared according to Chinese tastes, and also provides tea beverages, such as milk tea, so that its sales range can reach young Chinese people who are not used to coffee. It will also provide light food, and dessert for its customers when they come to pick up their drinks.

The price of its product usually lies on 15-25 yuan, which is between instant coffee and Starbucks coffee. This price can satisfy most middle-income people's needs to buy coffee [2].

With regard to the place issue, because Luckin Coffee aims to provide its customer with convenient coffee, so it creates three types of stores, 92% of which are self-pickup stores. It is mainly located in high coffee demand areas, such as business districts and university campuses. It provides consumers with online ordering, a quick coffee making service, and allows consumers to pick up their own drinks, which will meet most of the daily drinking needs of its target consumers. 4% of the stores are kitchens, where couriers pick up coffee and deliver it to customers. 4% of the offline stores are relaxed stores, like Starbucks stores, which are opened in the shopping mall, to provide the customer a third place to socialize and relax [4].

For the promotion, Luckin Coffee mainly uses offline promotion like elevator advertising to enhance market penetration, and fission marketing to stimulate its old customer and to introduce new customer. For example, it rewards the old customers with coupons, who will introduce a new customer.[5] Therefore, customers are motivated to spread information and make recommendations. Actually, in this situation, the cost of acquiring a new customer is approximately two cups of coffee, which not only reduce the cost of advertisement, but also convert advertising and marketing expenses into benefits directly to its old consumers, which will also increase the customer stickiness.

3. STP STRATEGY.

STP Strategy can be used to identify those market segments, direct marketing activities to the segments that the marketers believe that their company can satisfy better than their competitors, and position their product offering so as to appeal to the targeted segments [6]. Luckin Coffee uses geographic, demographic, and occasion segmentation methods to segment its customers. For Luckin Coffee, its marketing objective is to make sure that its customer is affordable to buy, and convenient to buy good-taste coffee. Through the combination of the geographic and demographic segmentation, Luckin can easily find that the coffee customer is mainly in Tier1 and Tier 2 cities, and are normally between 15- 35 years old. Then using occasion segmentation to discover that most of the Chinese coffee customers consume coffee for refreshing effect and as a good taste drinking. The proportion of the need for social contact just accounts for 15% percent. So, they usually pack coffee instead of drinking it in the store. Therefore, owing to these factors and the attractiveness of the various segments, Luckin determines its customer as white-collar and student groups, which are identifiable, substantial and reachable. Then Luckin Coffee uses a more likely concentrated targeting strategy. It focuses all of its products, like coffee and other product like tea beverages on those white-collars and students consumer groups. However, tea beverages, light food can also attract a variety of consumers.

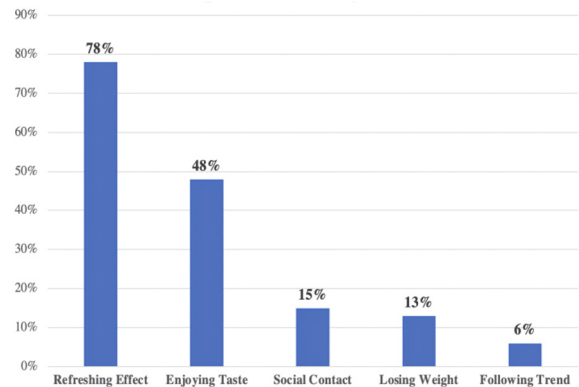


Figure 1. Purpose of Drinking Coffee [1]

Age Distribution of Coffee Customers

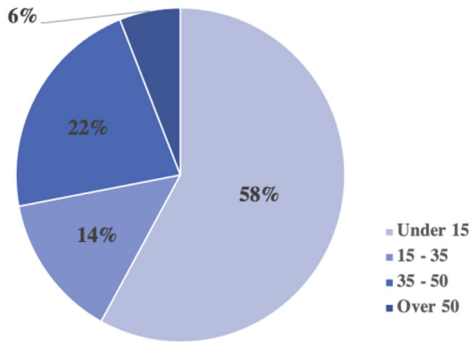


Figure 2. Age Distribution of Consumers [2]

City Distribution of Coffee Customers

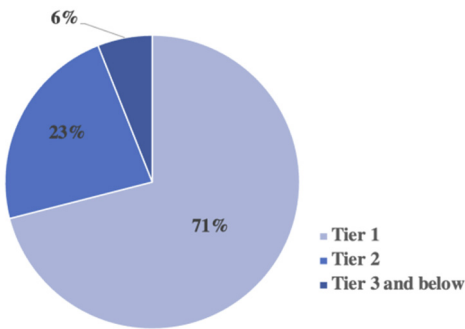


Figure 3. City Distribution of Consumers [2]

4. SWOT ANALYSIS

4.1. Strengths

4.1.1. Reasonable Product Pricing Strategy.

Luckin Coffee's pricing strategy is simple and effective, which not only attracts a large consumer group, but also builds its own strong price barriers. The average price of Luckin Coffee's products is between 15 to 25 yuan that favors the target consumer, and is between the high-range coffee brands such as Starbucks and instant coffees such as KFC and McDonald's, which fully reflects the cost-effective strategy of its products.

4.1.2. Effective Promotion Strategy.

The promotion strategies of Luckin Coffee are through online and offline advertising, star effect, word-of-mouth communication, and other promotional means, and ultimately increase sales.

The online promotion method is fission marketing in the form of subsidies. Compared to the drawbacks of advertising costs paid to advertise agencies, and the actual marketing effect remains unknown, fission marketing converts advertising costs into customer benefits in known circumstances [7]. Therefore, Luckin

Coffee receives huge traffic, has a high brand acceptance, and also rapidly expands the storefront.

Offline promotions use elevator advertising to enhance brand awareness and market penetration to achieve product publicity effects and occupy the purpose of users' minds. They take advantage of the popularity of celebrities such as Liu Haoran, Zhang Zhen, and Tang Wei, to accelerate consumer awareness of the brand and strengthen the publicity of the brand. Their advertisements can be seen at the bus stops, subway stations, and cinemas [8].

4.2. Weaknesses

4.2.1. The recognition of the brand is low.

Since the marketing methods of Luckin Coffee in the early stage are mainly based on customer acquisition, many consumers uninstall the APP after experiencing the new rewards, resulting in the need for enterprises to continuously issue preferential subsidies, and consumers rely on their subsidies. So, customers do not have a deep understanding of brand culture, loyalty and recognition of brands need to be further improved.

4.2.2. Product quality cannot be guaranteed.

Although Luckin Coffee adopts Arabica coffee beans, Shelley brand automatic coffee machines and coffee flavors with Chinese characteristics, due to the rapid expansion, some stores have problems such as poor coffee quality and taste, and inadequate staff service, leaving a bad impression on customers and adversely affecting the brand image [9].

4.3. Opportunities

4.3.1. The huge coffee market in China.

According to the statistics, the average number of cups of coffee cups consumed in China is much lower than that of developed countries. And more and more people from love instant coffee to freshly brewed coffee, due to the growing pursue of good quality and taste [10].

4.3.2. The growing consumption level of the Chinese.

It means the consumer can spend more money on purchasing coffee. They can afford to purchase freshly brewed coffee as a daily drink to satisfy their various needs, such as refreshing effects or social contactation.

4.4. Threats

4.4.1. Exclusion of industry giants such as Starbucks.

As Starbucks has long occupied the Chinese market, it attracts customers with a service model of providing customers with a social third space, forming a market monopoly position. Now it has also joined the reform tide of the mobile Internet era, and is forming a cooperation with Ali, relying on the takeaway distribution system to try the new retail model and meet consumers' pursuit of convenience.

4.4.2. Tea beverage competition market.

Hi tea, Nesher's tea, and other Internet celebrity beverage brands with explosive new products, topic popularity, store layout and other strategies that continue to cater to the public consumption psychology, will have a constant impact on Luckin Coffee.

5. ANALYSIS OF THE MARKETING MIX AND FUTURE IMPROVEMENTS

5.1. Price

Based on Luckin Coffee's data for the four quarters from the second quarter of 2018 to the first quarter of 2019, the author divides the total cost into coffee raw material cost and store cost. Store costs include rent expenses, labor expenses, equipment depreciation, and other variable costs. Thus, they form the actual total cost of a single cup of Luckin Coffee. As shown in the chart below, the majority of customers in the market prefer to pay 16 to 25 RMB for a cup of coffee, which is similar to Luckin's coffee price. Secondly, based on the cost analysis of different fixed costs like rent cost 2.55 yuan per cup, labor cost 4.07 yuan per cup and variable cost such as coffee cost 4.7 yuan per cup, the author can derive that the total cost of a cup of Luckin Coffee will be no less than 15 yuan [2]. Therefore, the existing price strategy can not only ensure that Luckin Coffee will not lose money with the increase in product sales, but also ensure that the price range of Luckin Coffee meets consumer demand.

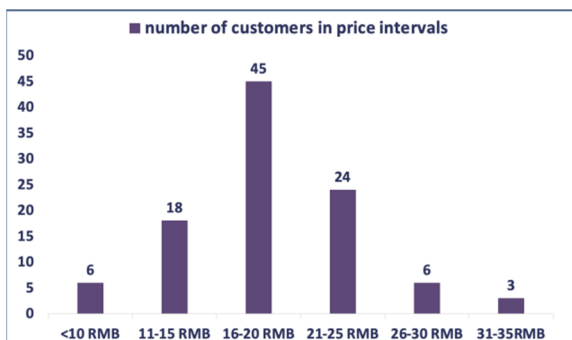


Figure 4. Number of customers in price intervals [2]

5.2. Promotion

The current promotion strategy of Luckin Coffee is already efficient and effective. According to Luckin's financial statistics reports, the author analyses the relationship between revenue and promotion expense. It is found out that while the promotion expense declines significantly and remains in a low level, the revenue continues to grow in a steady way. This can be a strong implication that Luckin has already implemented an effective and cost-efficient promotion strategy.

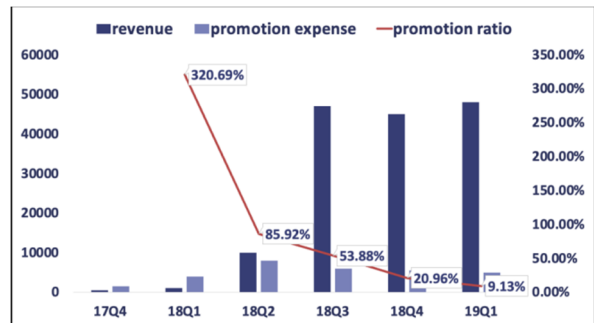


Figure 5. Promotion expenses and promotion expense rates continue to decline[2]

5.3. Product

The types of best-selling products are quite insufficient compared to the existing competitors. Until now, only the raw coconut Coffee Latte can be treated as the best-selling product of Luckin. However, the biggest rival, Starbucks, has well-known products which can be easily remembered by consumers, such as, Caffe Mocha, Star Drink, and the Frappuccino series. Also, the innovator's advantage of a creative product could disappear quickly since many followers will quickly replicate the similar types of products to the market [11].

So, Luckin can increase its brand depth. Depth is the number of product lines offered by a firm [12]. As a coffee brand, traditional coffee like Americano has higher requirements for raw materials, but specialty coffee such as Frappuccino tastes softer and is more acceptable to most Chinese consumers. Consequently, Luckin needs to increase brand depth in specialty coffee, dig deeper into product development and create best-selling products to increase its brand influence.

Luckin Coffee should develop more best-selling products, so it can constantly keep its competitive advantages. For example, it can add new products quarterly, keep them on the menu if they are successful hits, and replace them the next quarter if they are not so influential. By changing the menu on a seasonal basis, it can constantly try new products and cut products that do not sell well in time.

Luckin can also use co-branding to combine products with traditional Chinese culture to create a unique brand culture, which is the advantage of a local Chinese brand,

compared with foreign brands such as Starbucks. For example, it can design a co-branded coffee cup and launch co-branded drinks together with the Palace Museum. The most important factor in co-branding is that the consumers of each of the brands turn out to be the same. Luckin coffee and derivatives products of the museum both are targeted at young people, who are pursuing trends and in favor of traditional Chinese culture. So, it can make Luckin coffee's product widely popular among youths.

5.4. Place

Almost all the coffee shops of Luckin Coffee only provide the consumer with the very basic services to buy and drink coffee. Customers may feel bored easily and visit the store less frequently. However, many coffee shops now provide a wide range of complementary services to customers. Some coffee stores put some cute cats with whom the customers could play with while drinking coffee and waiting in the queue. Starbucks stores display many delicate coffee-related merchandises in the shop to form a more involving atmosphere to attract the customers.

Therefore, Luckin can open more immersive experience stores in the core business districts of important cities. As the paper mentions in the marketing mix, its stores are mainly self-pickup, which accounts for 92% [2]. Although this mode greatly reduces the cost of operating stores and can meet the needs of customers to take away drinks, it is hard for Luckin to improve the diversity of the customer service and attract new customers. For example, Luckin can design theme stores that can show the process of making coffee from coffee beans, its brand history, brand mission, and provide Instagram-Worthy Location and social gathering space to extend the network effect of social media.

Luckin should also strengthen the connection between offline stores and customers in nearby areas. As the paper mentions in Marketing Mix, Luckin uses fission marketing, which rewards the customer, who introduces a new customer [9]. However, this approach cannot effectively improve the repurchase rate of new customers. For example, instead of randomly issuing coupons, Luckin can let each offline store create a WeChat group and issue welfare coupons in this group. At the same time, Luckin's new promotional activities can also be posted in the WeChat group. This will not only ensure the repurchase rate of customers but also form a consumer community that allows consumers to share their favorite coffee and give advice to the store.

6. CONCLUSION

Because of Luckin Coffee's unique marketing goals, it aims to provide convenient and quality coffee, which can satisfy most of Chinese coffee consumers' demands,

since most Chinese coffee consumers are white-collars and students, who usually pack coffee to the study or work place instead of drinking it in the store, and the purchasing power of them is limited. So, it expanded rapidly and has attracted a large number of young people's attention. However, more and more competitors, including Starbucks, have found the middle-range coffee market, and constantly change their market strategy to satisfy the customer needs. Therefore, except for the competitive price strategy, Luckin Coffee must devote itself to building a strong connection between its customers and the brand, and also enhancing the brand image on its customer to increase its customer stickiness. Only then will Luckin Coffee truly develop constantly and have a place in China's promising coffee market in the future. However, due to the lack of data, this paper does not discuss the factors that influence consumers' purchase of coffee, and the magnitude of each factor's influence. Future research can analyze the influencing factors of consumer decision-making through quantitative analysis, so as to provide more effective decision-making suggestions.

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