



Comparison of the Market for Starbucks and Luckin—How Did Luckin Rise

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Abstract. For a long time, Starbucks had almost the entire coffee market in China. However, this situation has been disrupted by the emergence of local coffee brand Luckin, which has given Starbucks a powerful rival in the Chinese market. In less than three years, Luckin has more stores in China than Starbucks, and is almost as well-known as Starbucks. The market positioning and marketing strategy behind Luckin's compared with Starbucks in such a short period of time can be systematically studied. In this research, the 3C (Company, Competitor, Customer) and 4P (Product, Price, Promotion, Price) of Starbucks and Luckin were studied. This study found that Luckin was able to compete with Starbucks quickly because its market positioning was different from Starbucks. Luckin's products were also cheaper and suitable for Chinese people's tastes. Therefore, Luckin not only expanded its coffee market, but also attracted some of the original Starbucks customers. Unlike Starbucks, which focuses on word-of-mouth marketing, Luckin uses a retail model that integrates online and offline marketing, and promotes it on social media through mobile apps, influencers, and celebrities. However, Luckin's strategy of offering discounts to attract customers at a loss is unsustainable and needs to change for the sake of profitability and brand loyalty. This paper may offer some references, for the market positioning and marketing strategies of premium coffee and affordable coffee brands in China's coffee market.

Keywords: Starbucks · Luckin · 3C · 4P · Promotion · Market

1 Introduction

Starbucks has long been the leader in China's coffee market since it entered the country in 1998. Local coffee brands in China were unable to stand out from the competition with Starbucks until October 2017, when a local coffee brand called Luckin emerged. Different from Starbucks, Luckin aims to take over the coffee market quickly and offers cheaper coffee. In addition, Luckin offered various coupons or special offers to attract customers, even at the cost of losses. In just 17 months, Luckin had more than 2,300 stores in China [1]. At the same time, Starbucks' overall transaction volume declined in 2018. Luckin is now a strong competitor to Starbucks in the Chinese coffee market. This paper uses 3Cs and 4Ps to analyze and compare the market positioning and marketing strategies of Starbucks and Luckin. Starbucks and Luckin, as representatives, may have reference meaning for the market positioning and marketing strategies of premium coffee and affordable coffee brands in China's coffee market.

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2 Three C Analysis of Starbucks and Luckin

2.1 Company Introduction of Starbucks and Luckin

Founded in 1971, Starbucks has a long history. Currently, Starbucks is the world's largest coffee chain, adhering to the concept of quality coffee, quality service. Starbucks aims to create a high-end and good brand image and adopts the direct business model. In 2020, Starbucks' net income was \$19.16 billion [2]. Since 2014, Starbucks has used advertising to promote its brand. Starbucks started its first global brand campaign called "Meet Me at Starbucks" in 2014, which emphasized making a good first impression on customers [1]. In addition, Starbucks has used social media platforms for brand promotion. In 2017, Starbucks launched the "Say It with Starbucks" campaign on WeChat, and it was a success [3]. Founded in 2017, Luckin wants to create a world-class coffee brand from China. Luckin aims to make it easy for customers to enjoy good coffee that is accessible and worthwhile, so it focuses on the takeaway market and prices its products relatively low. As a result, Luckin quickly captured a portion of the coffee market in China.

2.2 Competitor

In China, Starbucks' position in the coffee industry was unchallenged for many years. Many local coffee shops in China made no impact on Starbucks' market at all. Instead, McDonald's Coffee and Coca-Cola's Costa Coffee were the nearest competitors of Starbucks [4]. Until 2017, the emergence and rapid growth of Luckin made it a strong competitor to Starbucks. Moreover, geographically, many of Luckin's stores are almost already located next to Starbucks, within a five-minute walk [5]. Starbucks has its own advantages over competitors such as Costa Coffee and Luckin. The "Third Place" positioning is a characteristic of Starbucks, which means that Starbucks is aiming to become a Third place besides home and work. With the "Third Place" concept, Starbucks offers customers a place where they can relax, chat and even work, which most Chinese coffee brands cannot provide. Because of this unique and differentiated service provided by Starbucks, customers can enjoy an Experience not found in other coffee shops. Most Chinese coffee brands only provide coffee, but the unique "Starbucks Experience" makes enjoying a cup of coffee in Starbucks a way of life, not just a cup of coffee. Luckin competes with coffee brands such as Starbucks and Costa Coffee, as well as local milk tea brands. The reason why milk tea brands are also becoming competitors to Luckin is that Luckin's products are priced lower than coffee brands like Starbucks, and Luckin also offers tea beverages in addition to coffee drinks. In the face of competitors, Luckin aims to quickly capture the coffee market share. An advantage of Luckin is its new online and offline retail model, which allows customers to order from the nearest store, have it delivered to their home, or enjoy it in a café through a mobile app [6]. This has also allowed Luckin to capture a large part of the coffee delivery market.

2.3 Customer

Given that Starbucks offers premium coffee, most of its stores are located in upscale neighborhoods and around buildings, coffee can't be cheap. As a result, Starbucks is

targeting urban people with middle or higher income, such as white-collar workers, who need caffeine to help them work [7]. In addition, Starbucks puts customer service and experience first, and the “Third Place” concept provides a comfortable environment for white-collar workers, where they can enjoy afternoon tea and chat, as well as work. Students, especially college students, are also the main customers of Starbucks. They come to Starbucks during recess or after school, order a cup of coffee, enjoy the free WIFI and comfortable environment of Starbucks, and have parties or group discussions. Luckin’s main customers can be divided into those who want to experience the taste of Chinese-style coffee and those who prefer affordable coffee with convenient delivery. Luckin has a wide range of flavor combinations, while traditional coffees like Starbucks rarely cater to local tastes in China. Luckin’s customers include, but not just white-collar customers. Anyone who works from home or in an office can easily place an order and have an affordable cup of coffee delivered to their door in half an hour.

3 Four P Analysis of Starbucks and Luckin

3.1 Product

Starbucks products comprise a marketing mix that includes coffee, beans, baked goods, tea drinks, frappuccino, smoothies, merchandise (mugs, instant coffee, etc.). Starbucks has always had a good relationship with coffee growers, and its supply chain goes back to the beans themselves, which both ensures the quality of the product and eliminates many intermediate costs. Starbucks’ marketing mix is also changing along with its strategy. For example, in 1994, Starbucks launched the Frappuccino line because of its acquisition of The Coffee Connection [8]. Unlike Starbucks, Luckin pays more attention to the tastes of the Chinese, opting for a depth roasting method with rich and strong taste instead of the sour, light-roasted favored by westerners. In addition, based on Chinese people’s love of Tea, Luckin has launched its own tea brand, Xiaolu Tea, which is a series of tea drinks based on tea and mixed with milk or milk tea. Starbucks is also introducing more flavored coffee drinks and has even started experimenting with tea drinks, such as some fruit teas. Instead of more flavors, Starbucks pays more attention to the quality of each product. Starbucks has a strict and unified standardized process to ensure that customers enjoy the same coffee taste in each store. However, the same coffee drink may taste slightly different in different Luckin stores. Starbucks pays attention to high-quality coffee, and launches coffee beans, mugs and other products to form a marketing mix. Luckin, by contrast, offers tea drinks and snacks in addition to coffee, focusing on the tastes of local Chinese, and the quality of its coffee is good, though not as good as the coffees of Starbucks.

3.2 Price

The price of Starbucks coffee is relatively high, which is because Starbucks is positioned as a luxury brand in the coffee industry, which is in direct proportion to the high-quality coffee and service it provides. In addition, the high price of Starbucks coffee is also related to the cost caused by its “Third Place” concept. Starbucks stores are usually

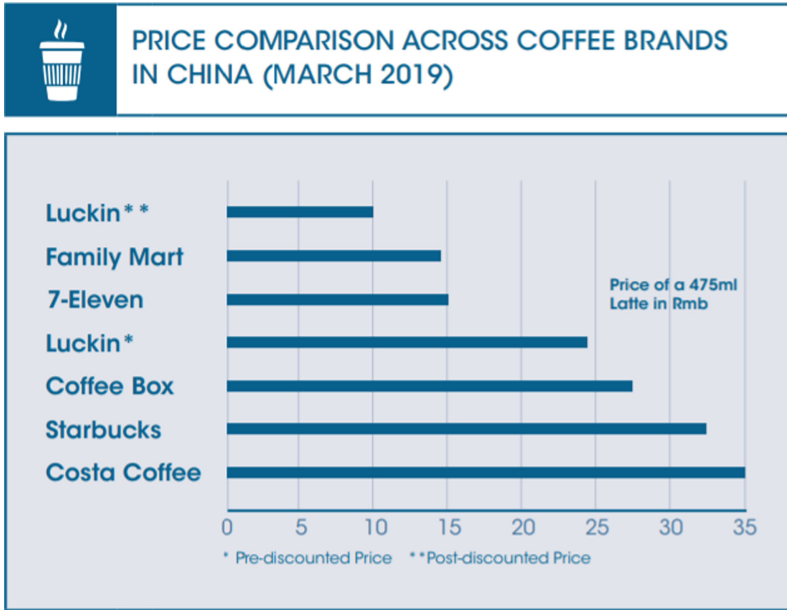


Fig. 1. Price comparison across coffee brands in China in March 2019 [9]

located in the center of communities or shopping malls and provide large places for rest. Starbucks will also add a small price to its grande and venti coffees. Since the price of medium coffee is already high enough, customers tend to pay more for grande or venti size coffee. Compared to Starbucks, the prices of Luckin coffee are much lower, shown in Fig. 1.

In China, a 475 ml Starbucks latte costs US\$4.28, while a 475 ml latte costs US\$3.54 before Luckin's discount, including the US\$0.87 delivery fee. After the discount, a 475 ml latte costs almost 10 yuan at Luckin. The reason is that Luckin's stores are mostly small, usually pickup and delivery stores that only need a counter and a few tables and chairs, unlike Starbucks, which has a large front and rest space for customers to enjoy coffee, socialize and work. Moreover, Luckin has heavy discounts on their products, for example, buy 2 get 1 free and free delivery fee with a certain amount of drinks. Average price of a cup of Luckin coffee drops to 10–20 yuan (\$1.5–3) after preferential discount [10]. Starbucks focuses on high quality coffee and service, so the price of coffee is correspondingly high. In contrast, Luckin Coffee focuses on attracting customers through special offers to expand and occupy the market faster, so its coffee prices are affordable.

3.3 Promotion

Starbucks in China did not invest a lot in advertising in the early stage, but through word-of-mouth marketing. The company's focus on customer experience enabled customers to spread positive reviews of Starbucks, and soon Starbucks became synonymous with a

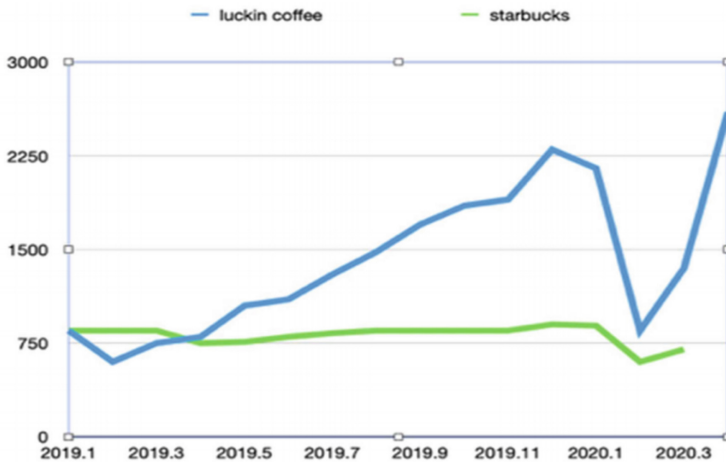


Fig. 2. Monthly active users of Luckin and Starbucks APP from January 2019 to April 2020 [11]

good coffee experience. Starbucks also has good advertising campaigns, such as “Meet Me at Starbucks” in 2014 and “Say It with Starbucks” in 2017. Luckin’s rapid growth in the Chinese market made Starbucks realize the importance of the delivery market and online ordering, set up its customer loyalty application, and launched an Internet cooperation with Alibaba. Luckin features the ability to order coffee through an app on its phone, which not only saves time waiting in line but also allows customers to enjoy a cup of coffee without leaving the house. Luckin’s app can also display advertisements for special offers, and customers can get coupons by forwarding moments or inviting new users to sign up. This kind of social media marketing has quickly brought Luckin to the masses and gained a large number of users. As shown in Fig. 2, since 2019, Luckin’s Monthly active users has gradually increased and surpassed Starbucks’ Monthly active users. Although Luckin’s Monthly active users declined in 2020, but it quickly returned to the 2019 average and was on the rise. Besides, because customers leave a record of data when they place orders on Luckin’s app, Luckin can also analyze this data to learn customer preferences and adjust its strategy to launch new products.

Another marketing method of Luckin is Internet celebrity advertising, which uses Chinese celebrities such as Zhang Zhen and Tang Wei as brand ambassadors, which is a common and effective brand promotion method in China [12]. Starbucks focused on word of mouth in its early days but has since moved on to advertising and social media. Luckin, by contrast, has focused on mobile apps from the start, advertising through social media and focusing on influencers and celebrities.

3.4 Place

Starbucks’ main distribution channels in China include cafés and mobile apps. Most of Starbucks cafés are located in commercial centers and community centers. With a large amount of customer flow, Starbucks cafés were the most important places for Chinese customers to consume Starbucks coffee before Starbucks opened its mobile apps. After

Starbucks solved the technical problems of online sales, the online sales of mobile apps combined with the sales of offline cafés formed a new technology-driven retail model. Luckin was earlier than Starbucks in adopting the new online and offline retail model, and many of its customers come from the online delivery market. Luckin's stores are mainly divided into Take-Away Kitchen Stores and enjoyment stores. Take-away Kitchen Stores are small and offer pick-up and delivery almost exclusively, so the locations of these stores are often based on delivery efficiency and customer convenience. Enjoyment stores of Luckin are similar to a Starbucks café, with exquisite decoration and plenty of rest space, as well as delivery. At the beginning of November 2019, Starbucks and Luckin both had almost 4,200 stores in China. However, as of April 20, 2020, Luckin has 5,252 stores, surpassing Starbucks' 4,300 stores [13]. Luckin has put more effort into opening new stores in China than Starbucks has, which means Luckin pays more attention to exploring and occupying the coffee market.

4 Conclusion

BY using 3C and 4P analyses, this paper analyzes and compares the market positioning and marketing strategies of Starbucks and Luckin. Starbucks positions itself as a high-end and high-quality coffee brand. It aims to integrate Starbucks coffee into customers' lives as a lifestyle, so it has created a good brand effect and brand loyalty. Luckin, a latecomer to China's local coffee brand, aims to quickly expand its market share with a new retail model that integrates online and offline sales. Luckin offered large discounts, which achieved good publicity and attracted many customers, but at the cost of losing money almost every year. Starbucks has found its biggest competitor in the Chinese market, Luckin, which has rapidly expanded its coffee market with discounts and mobile apps and attracted some Starbucks customers, despite their different value positioning. Starbucks uses a marketing mix in terms of products, including many types of products besides coffee, while Luckin's products focus on coffee and tea drinks with a small snack. Starbucks also has stricter requirements on coffee technology and taste than Luckin, whose coffee tastes are more in line with local Chinese tastes. In terms of marketing strategy, Starbucks focuses on word-of-mouth marketing, while Luckin focuses more on advertising on social media and the advertising effect of Internet celebrities and celebrities. Starbucks is also following Luckin's lead in marketing with its own mobile apps and using them to promote its brand on social media. Although Luckin now has the same brand recognition as Starbucks, its customers are mostly attracted by its discounts, which have come with declining profits and even losses. Whether those customers will leave after Luckin stopped offering discounts remains a question. Therefore, how to build customers' brand loyalty is the problem Luckin will face. This research compared the 3C and 4P of Starbucks and Luckin, but did not use enough detailed data comparison, so it cannot give specific guidance to the marketing strategies of the two companies.

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