Luckin Coffee's Private Domain Traffic Operation Strategy in the Era of Data

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Abstract. This article investigates Luckin Coffee's approach to the private domain traffic operation in digital transformation. In 2020, with the financial crisis, Luckin Coffee took full advantage of digital tools like mobile apps, WeChat mini-programs, and the enterprise WeChat communities to strengthen and sustain customer relationships and bolster business operation. Employing the AARRR model (Acquisition, Activation, Retention, Revenue, Referral), this article examines the company's approaches in different stages of the user lifecycle. Results showed Luckin Coffee attracts users with location-based services and promotional incentives, enhances user engagement through user community interaction, and increases customer lifetime values via data-based client segmentation. Moreover, its online & offline channel integrations help in bringing better conversion rates. Yet, the study also highlights several barriers including over-reliance on price promotions, user fatigue from pervasive marketing messages, and potential risk of data privacy violations. In light of these considerations, this paper proposes that Luckin Coffee can take a value-centric approach, membership optimization, and enhanced data governance in order to avoid these pitfalls in the future. In sum, the Luckin Coffee situation offers several lessons about private-domain traffic control in digital retail businesses.

Keywords: Private-domain traffic; Luckin Coffee; AARRR model; Digital marketing; User lifecycle.

1 Introduction

The rapid development of digital technologies has profoundly changed the structure of the retail industry. The continued surge in e-commerce and mobile internet services has forced consumers to shift their buying behavior from "old school" modes of offline consumption to digital and online ones, one by one with time. Under these conditions,

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enterprises are more and more drawn to use digital marketing channels in order to reach potential customers and expand market influence [1]. Yet, in recent years, the cost of acquiring customers through traditional public-domain channels such as online advertising, search engines and social media has risen significantly. Over the same time, as the marketplace becomes increasingly competitive, the efficiency of these channels gradually declines. Consequently enterprises feel the increased pressure to come up with innovative marketing strategies in order to retain long-term, customer relationships and reduce marketing expenses [2]. Private-domain traffic is the major approach in development direction of digital marketing, as a response against digital marketing challenges: private-domain traffic. Private-domain traffic means the kind of user resources that enterprises can access repeatedly and manage by their own channels, e.g. mobile applications, membership systems, brand communities, social media groups, among others [3]. Compared to traffic in the public domain, private-domain traffic enables the company to directly contact consumers and do not largely depend on the third-party platforms. Another prominent benefit of private-domain traffic is that better customer relationship handling is attained. Through continuous interaction and personalized marketing, enterprises can know consumers better by their preferences and thereby offer more tailored products and services. This method has led to higher LTV and higher brand loyalty over time [4]. Luckin Coffee is an important case study illustrating approaches to explain how to analyse private-domain traffic strategies in the new Chinese retail market. The company (founded in 2017) expanded rapidly based on a technology-led business model that combines the delivery and ordering systems of online businesses together with physical shops. But in 2020 it sank into a huge financial fraud scandal that resulted in great harm to its reputation and financial health. The organization dedicated a great deal of effort to creating a traffic engine on the private domain (mobile applications, enterprise WeChat communities, data-based marketing platforms). These steps enabled Luckin Coffee to gradually rebuild consumer trust, as well as enhance its market edge. This is the reason why this study applied the AARRR model for Luckin Coffee's private-domain traffic operation strategy. To this end, this article proposes to analyze different phases of the user life-cycle—acquisition, activation, retention, revenue, and referral— to gain insight into the operational logic that underpins the company's digital marketing strategy and make findings and recommendations for other enterprises in the retail sector.

2 Overview of Luckin Coffee

Tailored to meet its customers' needs without delay was Luckin Coffee (now a fast-growing Chinese brand). Unlike many traditional chains, which focus on brick-and-mortar consumption, Luckin Coffee is a digital-first retailer. It focuses on mobile ordering and a quick-service delivery process, which is its mainstay. Customers can order directly through the company's mobile application or mini-program before they arrive at the nearby location to pick up their product. This is a lot of comfort and great speed of operation for our site. While conventional chains make heavy use of physical stores first, Luckin Coffee took a digital-first approach to its business and instead opened a

network of coffee shops which are more convenient compared to retail stores. Central to Luckin Coffee's business model in turn is embracing digitalized technologies and data analytics. It collects large amounts of consumer information by using online portals where purchase history and preferences of merchandise, and even geographical location are included. Hence, as a result of the data analysis, the company can analyze consumer behavior and create accurate marketing strategies [5]. By the early stage of its development, Luckin Coffee saw rapid expansion through aggressive promotional campaigns and large scale store expansion. The company applied several online promotion policies that include discounts and referral programs to attract new users with the help of brand attention. But during a serious financial fraud scandal in 2020, the industry suffered setbacks. The event led to a steep drop in investors' trust and tarnished the company's brand. Luckin Coffee's steps to recover both the safety and the quality of the business were a series of internal reforms and a return of customers' confidence. A significant step taken was to establish a world-class private-domain traffic infrastructure, the company claimed. Luckin Coffee had further strengthened communication with consumers and gradually rebuilt its customer base through community-based marketing, through membership systems and personalized digital services. The consolidation of online and offline channels was also integral to the new strategy's approach. The integration of digital ordering systems with offline store pickup services helped Luckin Coffee improve customer service and operational performance while also providing a seamless consumption experience through which customer satisfaction and operational efficiency significantly increased. At the macro level, Luckin Coffee's evolution mirrors an increasingly influential digitisation platform strategy for retail. Companies can also work effectively with a number of departments such as marketing, customer management, and data analysis, combined in one digital platform. With the help of these online platforms, firms can track the user's behavior constantly, and adjust their marketing in real-time. Such platform-based strategies are considered an essential aspect of modern digital business models [6].

3 Private-Domain Traffic Operation Strategy of Luckin Coffee

3.1 Traffic Acquisition Strategy

Traffic acquisition is the initial phase of the AARRR user lifecycle model. Enterprises go into this stage to help capture potential customers and get them into the private-domain traffic ecosystem. Luckin Coffee follows a multi-channel traffic acquisition plan, including mobile applications, mini-program platforms, and online marketing campaigns. The company often offers digital coupons and temporary promotional discounts that encourage new users to download its mobile application, for instance. LBS (location-based services) is another key tool of Luckin Coffee. Promotional messages could show up on users' mobile devices if they are close to a Luckin Coffee store. This type of marketing strategy leads to an increased chance that nearby consumers will come and buy products from the store itself [7]. In addition, the company employs social media and digital advertising to inform people of new products and seasonal events.

These are all marketing actions that lead not only to an increase in brand awareness in the consumer's eye but also to more customers accessing the private-domain ecosystem.

3.2 User Activation Mechanism

Once users have access to the private-domain ecosystem, encourage active participation and involvement. User activation is such a critical aspect as it determines whether new users will continue interacting with the brand. Luckin Coffee depends heavily on enterprise WeChat communities to communicate with its customers. Store employees act as community managers and provide promotional information, product updates, and special offers to their group. Moreover, the company also periodically conducts online marketing campaigns, which include limited-time promotions and interactive activities. Such campaigns are effective in generating consumer interest and encouraging users to engage in discussions with respect to the brand. Social interactions in the community not only increase user involvement but also intensify consumers' emotional association with brands [8]. Social media has recently become an important and significant channel for brands to communicate with customers. There has been a long-term influence of digital communities and social media platforms on consumer purchasing behavior due to the information sharing and interpersonal communication among users [9]. Integrating social interaction with marketing activities can further increase user engagement between brands and customers, so that emotional ties strengthen still further between them.

3.3 User Retention Strategy

User retention plays a key role for the survival of these private-domain traffic operations over the long-term. Enterprises should focus on keeping users engaged and buying products rather than losing them every single day just to gain new customers. Luckin Coffee applies a data-driven customer segmentation strategy to increase customer retention. Based on analyzing user behavior data, the company can identify segments based on purchase frequency and consumption preferences, making it easier to segment the customers. For instance, loyal customers who frequently purchase products may receive exclusive promotional offers or early access to new product launches. These advantages create feelings of exclusivity and encourage repeat buying behavior. Meanwhile, users who purchase less often may receive targeted promotional messages designed to stimulate consumption and encourage a higher frequency. By such a refined marketing strategy, Luckin Coffee is able to keep customer numbers more or less constant.

3.4 Revenue Conversion Strategy

Revenue conversion is the process of transforming user interaction into sales. To enhance conversion efficiency, Luckin Coffee often holds promotional campaigns such as seasonal discounts and bundled product offers. These marketing tactics instill urgency in those paying, and drive them to purchase in a short time. Simultaneously, the

company constantly updates its digital ordering system to make buying a more convenient experience. The integration of online ordering and offline pickup services is an important contributor to increases in conversion rates. Consumers can easily place orders through mobile platforms and collect their drinks at nearby stores, which significantly reduces waiting time and greatly promotes customer satisfaction [10].

3.5 Referral and Social Fission Mechanism

Referral mechanisms are the last phase of the AARRR framework, serving as the key driver of private-domain traffic development. Luckin Coffee incentivizes its current customers to invite friends and family members to join its digital platforms. These participants will be offered promotional coupons and/or other special incentives if the client can attract another customer. And this approach both encourages word-of-mouth promotion, and greatly decreases the cost of acquiring new users too. Moreover, posting on social sites like WeChat Moments allows us to disseminate promotional information rapidly and effectively among social networks. Thus, by implementing these referral systems, Luckin Coffee can continue to grow its private-domain traffic ecosystem and gain new customers at comparatively low cost.

4 Challenges in Private-Domain Traffic Operations

Although Luckin Coffee has achieved remarkable success in managing traffic in the private domain, many difficulties still await. First, there are price-based promotions to generate people's demand. In the short run, discount campaigns can attract users but relying too heavily on price rivalry may weaken the perceived value of a brand and lead to a decrease in profitability in the long run. Second, frequent promotional notifications may cause user tiredness. Consumers may eventually exhibit little pleasure in promotional messages, since when they receive an excessive number of marketing messages, they may gradually lose interest in participation in promotional activity. Third, one of the needs involves the collection and analysis of big data from the consumer. Potential privacy risks will come from companies being neglectful of data protection protocols. Due to all of these risks, trust among consumers could be adversely affected and the image of the brand may suffer [11].

5 Optimization Strategies

To ensure that private-domain traffic operations are sustained and develop, numerous optimization options have to be addressed. For the introduction, Luckin Coffee will need to move from the price-driven to value-driven marketing strategy. The product, the brand culture, and experience provide us something that will help build stronger brand perception and enhance the value of brand loyalty. Second of all the membership system must be further honed. It must allow differentiated benefits for the various customer sectors. A tiered membership system can encourage consumers to buy more to

accumulate higher-level rewards. Third, corporations must strengthen their data governance and privacy protection systems. Transparent data management policies and advanced security technologies may assist in retaining consumer trust and regulatory compliance for the protection of data [12]. Organizations should also pay more attention to constructing brand communities and building long-term relationships with users. Some research indicates that commercial-driven marketing strategies with community-based brand interactions are the most effective private-domain traffic strategies [13]. By helping consumers navigate their world through meaningful communication platforms, companies can motivate users to actively engage in and develop their brand. Ultimately the market for Chinese coffee is still a fast expanding market mainly in the emerging cities and younger consumers as reported by industry [14]. Thus, Luckin Coffee can gain more ground regarding its private-domain traffic ecosystem on new consumption models and increase the quality of digital service experience.

6 Conclusion

During the digital transformation period, private-domain traffic is becoming an important marketing strategy for retail enterprises. By establishing direct communication channels with consumers, companies improve customer engagement and achieve smoother outcomes through marketing than ever before. By drawing on the example of Luckin Coffee, this study shows how digital platforms, community communication, and data-driven marketing strategies can all successfully work together to raise sales performance. As such, the key to Luckin Coffee's success is a multi-channel traffic acquisition strategy, community-based user activation mechanism, and efficient revenue conversion model. However, the sustainability of operations in private-domain traffic long term is still reliant on continuous optimization over time. Enterprises thus need to balance promotional efforts with brand value building and reinforce data governance and privacy protection. In summary, Luckin Coffee’s experience gives insights for entrepreneurs that want to set up digital economy private-domain traffic strategies. Further studies in the future could investigate whether artificial intelligence and big data analytics could help to enhance private-domain traffic management and how existing technologies might be applied to improve customer relations. A broader perspective is the development of digital retail strategies requires not only regular and continual rethinking but experimentation too. Successful digital companies have been claimed to be characterized, in some cases, by iterative and adaptive experimentation that works in practice and flexible strategic adaptation when operating in a changing market. Luckin Coffee should investigate new management models and private-domain traffic control protocols to improve as a result.

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