

# A MARKET STRATEGY ANALYSIS OF LUCKIN COFFEE



An Independent Study Submitted in Partial Fulfillment of the  
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# การวิเคราะห์กลยุทธ์การตลาดของ LUCKIN COFFEE



สารนิพนธ์นี้เป็นส่วนหนึ่งของการศึกษาตามหลักสูตรปริญญาศิลป  
ศาสตรมหาบัณฑิต  
สาขาวิชาเศรษฐศาสตร์ธุรกิจและการจัดการ  
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COFFEE  
By                                      Miss Yuqing Huang  
Field of Study                      Business and Managerial Economics  
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ยูซิง หวง : การวิเคราะห์กลยุทธ์การตลาดของ LUCKIN COFFEE. ( A  
MARKET STRATEGY ANALYSIS OF LUCKIN COFFEE)  
อ.ที่ปรึกษาหลัก : ดร.กตিকা ทิพยาลัย

บทความนี้ได้มีการนำ บริษัท ลัคกินคอฟฟี่ (Luckin Coffee) มา เป็น วั ต ถุ ป ระ เ ส ง ค์ ข อ ง ก า ร วิ จั ย โดยมีการศึกษาข้อมูลของตลาดกาแฟสดในประเทศไทย และพบว่าตลาดยังสามารถเติบโตได้มากกว่านี้ จากนั้นจึงทำการรวบรวมข้อมูลเพื่อสรุปกลยุทธ์ทางการตลาดของ บริษัท ลัคกินคอฟฟี่ จาก การ วิ เ คราะห์ ปี จ ฉั ย ที่ กั ย ว ข อ ง บทความนี้พบว่าสภาพแวดล้อมของตลาดนั้นเอื้ออำนวยต่อ บริษัท ลัคกินคอฟฟี่ อย่างมาก ซึ่งเป็นผลดีต่อการพัฒนาผลิตภัณฑ์ของบริษัทมาก และเนื่องจากการที่ บริษัท ลัคกินคอฟฟี่ เข้า สู่ ต ล า ด ก า แ ฟ ส ด ส่งผลให้อุปสรรคในการเข้าสู่ตลาดเพิ่มสูงขึ้น

อ ย่ า ง ไ ร กั ย ต า ม ลัคกินคอฟฟี่ยังคงต้องเผชิญกับการแข่งขันที่รุนแรงจากอุตสาหกรรมหรือสินค้าทดแทน โดยเฉพาะสินค้าจากตลาดเครื่องดื่มชาจีน ดังนั้น บริษัท ลัคกินคอฟฟี่ จึง ควร ป ร ึ บ ป ร ุ ง ก ล ยุ ท ธ์ ท ำ ก าร ต ล า ด ที่ มี อ ยู่ และเสริมสร้างความแข็งแกร่งของผลิตภัณฑ์เพื่อที่จะสามารถแข่งขันในตลาดเครื่องดื่มของประเทศจีน

จากการศึกษานี้ ผู้วิจัยขอเสนอข้อเสนอแนะว่า บริษัท ลัคกินคอฟฟี่ ควร มี ก ำ ร ร ั ว ม มี อ กั บ บริษัทที่เป็นเจ้าของหรือตัวแทนโดยถูกกฎหมายของสินทรัพย์ที่ได้รับความนิยมเพื่อออกแบบและสร้างสรรค์ร้านค้าแฟและผลิตภัณฑ์ในรูปแบบใหม่; บริษัท ลัคกินคอฟฟี่ (Luckin Coffee) ควรมีการทำการตลาดร่วมกันกับแบรนด์ชา; มีการบอกเล่าเรื่องราวของบริษัทเพื่อสร้างภาพลักษณ์และเอกลักษณ์ของผลิตภัณฑ์ ; สร้างระบบสำหรับสมาชิกและมอบสิทธิพิเศษให้กับสมาชิกเพื่อกระตุ้นยอดขายและการบริโภค ; ข ย า ย ส ำ ข า แ ลະ ป ระ เ ท ห ข อ ง กั จ ก าร เพื่อให้ครอบคลุมต่อความต้องการของตลาด และจัดทำสินค้าพิเศษในโอกาสต่างๆ เพื่อกระตุ้นยอดขายและการบริโภค

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This paper takes Luckin Coffee as the research object. The relevant background of China's freshly ground coffee market was introduced, and it was determined that the market still has a huge space for development. Then, collect a lot of official information to summarize Luckin Coffee's marketing strategy. Through relevant analysis, this paper finds that the market environment of Luckin coffee company is relatively healthy, which is more conducive to its development. And because of Luckin's entry into the freshly ground coffee market, the entry barrier has also been raised. However, Luckin Coffee still faces fierce competition in the substitute industry, especially from the Chinese tea beverage market. So in order for Luckin to solidify its position in China's freshly ground coffee market, Luckin should improve its existing marketing strategy. In this study, I suggest that Luckin should cooperate with popular IPs to create themed coffee shops; Merging independent tea brands with Luckin Coffee; tell the corporate stories to build brand image and separate the coffee culture; establish a membership growth system for stimulating consumption; open more types of stores to cover a large area of market demand and provide a personalized package to stimulate consumption.

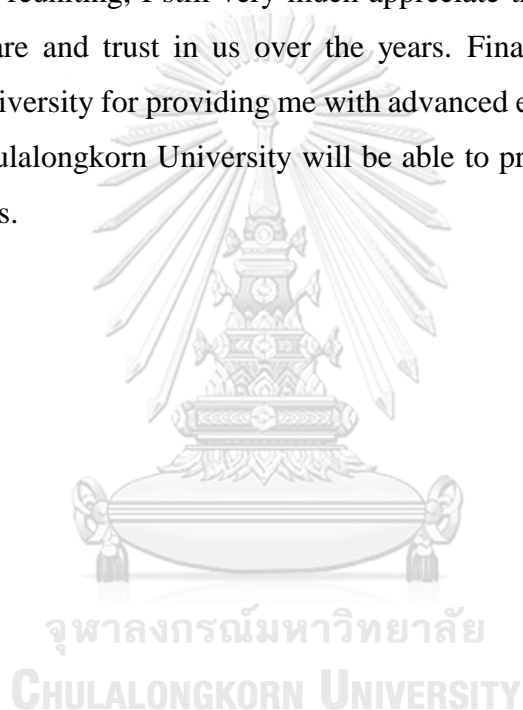


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Yuqing Huang



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## 1. Introduction

### 1.1 Research background

According to the data from the National Bureau of Statistics of China<sup>1</sup>, with the rapid development of China's economy, China's national disposable income per capita has increased from 16,509.5 yuan in 2011 to 35,128 yuan in 2020, an increase of about 112.77% in ten years. The growth of per capita disposable income also means that the purchasing power of Chinese people is also increasing rapidly. And in recent years, with the development of globalization, coffee culture is also penetrating in China, especially the first and second-tier cities in China that are most profoundly influenced by coffee culture. According to Deloitte's 2021 China Freshly Ground Coffee Industry White Paper (hereinafter referred to as the white paper)<sup>2</sup>, the coffee culture in China's first and second-tier cities is the most influential and people's coffee-drinking habits are growing. This is because consumers' demand for coffee is gradually changing from a social demand to a functional demand with the primary purpose of refreshing the mind. Nowadays, the main consumers of freshly ground coffee in China are between 20 to 40 years old, mainly urban white-collar workers, and this part of the consumers have an advanced consumer awareness, with high education level, most of them live in the first-tier city.

Nowadays, Chinese freshly ground coffee shops can be roughly divided into "fast coffee" and "slow coffee". "Fast coffee" is a cost-effective brand that focuses on solving customers' needs for drinks and snacks, rather than providing customers with a "third scene" for leisure and business meetings. Therefore, "fast coffee" tends to offer a moderately priced and standard or medium-quality product. "Slow Coffee", on the other hand, tends to provide customers with higher quality and premium products, conveying coffee culture and providing quality interior facilities and eye-catching decoration, its aim is to create a place for customers to relax or hold business meetings. Therefore, the price and quality of "slow coffee" products will have a big difference compared to

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<sup>1</sup> Chinese year book. (2022)

<sup>2</sup> 2021 China Freshly Ground Coffee Industry White Paper. (2021)

"fast coffee". According to Deloitte's research, the number of cups of freshly brewed coffee consumed in the "fast coffee" scenario now accounts for 70% of all freshly brewed coffee cups. The reason is mainly that "fast coffee" can meet the time demand of consumers, because "fast coffee" stores are generally set up around the office building, it's allowed customers to buy coffee more quickly and conveniently. Secondly, "fast coffee" products compared with those convenience stores and office coffee machines will taste better, and at this time, coffee is only used as rigid consumer demand for refreshment, so customers do not have high requirements for the environment of the cafe. However, since consumers drink coffee more frequently at this time, high-frequency purchases will limit customers' willingness to pay and thus increase their price sensitivity to coffee, which is why "fast coffee" mainly offers low to medium-priced products. And Luckin Coffee studied in this paper belongs to the "fast coffee" category.

Luckin Coffee opened its first store in October 2017 in Beijing Galaxy Soho and started a trial business in 13 cities in January 2018, and officially opened on May 8 of the same year. During the trial period, Luckin Coffee has completed about 3 million orders, sold about 5 million cups of coffee, and collected more than 1.3 million users. Luckin Coffee has quickly entered the Chinese market with a new retail model of online plus offline integration and a diversified marketing approach based on social e-commerce and has since become one of China's leading coffee brands in a short period of time. Luckin Coffee has captured the pain points of the Chinese coffee market, such as the high price of a coffee per cup, ugly packaging, and the hassle of buying coffee, and has broken them one by one.

Luckin Coffee's main target customers are corporate customers, that is, people who work in the corporate are Luckin Coffee's target customers. So all the corresponding follow-up marketing strategies are mainly developed around these target customers. Luckin Coffee also offers its own app and WeChat mini program for customers to order for pick up or delivery. Delivery is guaranteed in 30 minutes, which is efficient not only because the app is easy and convenient, but also because of the large coverage of pick-up stores. After its establishment 10 months, it's already present in 14 cities in China and has 1,100 stores. And Luckin Coffee's store development is very fast. Between

March 2018 and March 2019, Luckin Coffee achieved a 700% growth in the number of stores within one year. By the end of 2021, the total number of Luckin Coffee stores (5,671 stores)<sup>3</sup> have surpassed than Starbucks (5,360 stores), which opened its stores from 1999. As an emerging growth company, Luckin Coffee was successfully listed on the NASDAQ stock exchange on May 19 which use only 1.5 years, it broke the record for the fastest listing of a Chinese internet company that operates based on the internet platform. After the successful IPO, Luckin received a large amount of funding from the U.S.investors, and with a large and strong marketing campaign in the Chinese market, Luckin Coffee continued to grow rapidly in the coffee market.

However, Luckin Coffee was forced to delist from NASDAQ a year after its successful IPO, because it announced to the public that the company's total sales from the second quarter to the fourth quarter were inflated by RMB 2.2 billion. But Luckin Coffee was not defeated by this crisis. On February 5, 2021, Luckin Coffee first filed for bankruptcy protection in New York City and discuss with interested members of the company. In February 2022, Luckin Coffee paid a civil settlement of \$180 million in accordance with the SEC's settlement agreement, and on April 11 of the same year, Luckin Coffee announced on its website that it had returned to normal corporate operations following a reorganization of its management and finance departments. Based on Luckin Coffee's fourth-quarter 2021 earnings data, net revenue rose approximately 97.48% in 2021 compared to 2020 (the same year as the financial fraud), with 868 new stores opened. Although revenue growth was decreased compared to the previous year, Luckin Coffee's revenue did remain in steady growth.

## 1.2 Objectives

This study mainly uses SWOT, 4Ps analysis, Porter's 5 forces and PEST to study and analyze the marketing environment of freshly ground coffee in China and Luckin Coffee's marketing environment and existing marketing strategies. It also provides recommendations for Luckin Coffee's future marketing strategy.

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<sup>3</sup> Luckin Coffee Inc. Announces Unaudited Fourth Quarter and Full Year 2021 Financial Results. 2022. [Online]

This study summarizes and analyzes all of Luckin Coffee's major marketing strategies and uses four marketing analysis theories to study them in more depth level, providing a more comprehensive case study for marketing strategy research.

### **1.3 Methodology**

This paper is based on the following methodology.

First is the literature analysis. In this paper, I have reviewed the relevant literature by searching keywords and topics. And I have reviewed a large number of Luckin Coffee company documents, announcements and product launches conference to get more comprehensive information on the current state of research on Luckin Coffee's marketing strategy, coffee marketing and the development of new retail, which indicates the direction and provides literature references for this paper's research.

Secondly, the research is conducted using theories. This paper takes Luckin Coffee as the research case and uses the relevant theories of marketing to analyze the current marketing situation, marketing environment, and the development of marketing strategies of Luckin Coffee based on marketing theories.

And also the case study. Using Luckin Coffee as an example, we focus on its corporate profile and current marketing mix strategy as the focus of the case study and then discuss the design and implementation of marketing strategies for new retail coffee companies. And analyze the problems in the strategy and propose solutions or improvements in the context of the company.

## **2. Literature review and related theories**

### **2.1 Literature review**

Zhao Yongsheng (2020), the changes in marketing are mainly due to the continuous development of network technologies such as Internet of Things cloud computing and big data, which has led to huge changes in the content of the marketing approach and the carrier it undertakes. Internet marketing, thus greatly reduces the cost of business

marketing and increases the customer's reach in the world. The Internet is what will allow companies to categorize their customers and offer them different products and special services. The changes in the marketing medium now make marketing much cheaper. The future trend of Internet marketing will require companies to target their markets more precisely by combining their own market positioning with products and services that better suit their needs and impress their customers and make them want to buy.

Zhang Weiwei (2015), with the continuous development of information and technology, social media will push ads through consumers' interests, in other words, consumers can choose the form of the content of ads according to their interests, so the content of ads and the way they are disseminated will need to conform to consumers' interests, otherwise the effect of the ads will not reach the expected goal. Therefore, the interactive experience and interesting content in the process of advertising communication are issues that companies need to take into account.

Pan Honghong (2019), the new retail is characterized by a focus on omnichannel operations, which means reducing transaction costs and improving operational efficiency through comprehensive integration of online and offline operations combined with logistics and distribution. New retailing focuses on consumer experience, providing a variety of consumer experiences, offering personalized services, and a variety of scenarios to establish an emotional connection with consumers and attract them to make consumption choices. Based on the application of big data and cloud computing technology, new retailing can collect consumer data and analyze it to more accurately identify consumer needs, thus enabling companies to achieve precise marketing. The emergence of new retailing has facilitated the transformation of traditional businesses using modern technology to accelerate development and has also facilitated companies to actively innovate and strengthen the use of big data analysis and application to help customers to make accurate portraits and provide customized services.

Liu Shuhua (2019), fission marketing is the use of social media to spread content and advertising of goods through the social circle of friends as a carrier, which takes advantage of the trust relationship between acquaintances and greatly improves the efficiency of the spread of marketing content. In other words, fission marketing is the use of users through the user's diffusion effect, one to ten, ten to one hundred, so as to achieve the effect of wide dissemination. But the presentation of marketing content is also a point that companies need to focus on, once the content can not attract attention then fission marketing will not apply. There are four main ways of fission marketing in the market today are forwarding, inviting, group buying and distribution. Companies need to choose the channel according to their own characteristics and circumstances in order to get the right marketing model for themselves.

## **2.2 Related theories**

### **2.2.1 SWOT analysis**

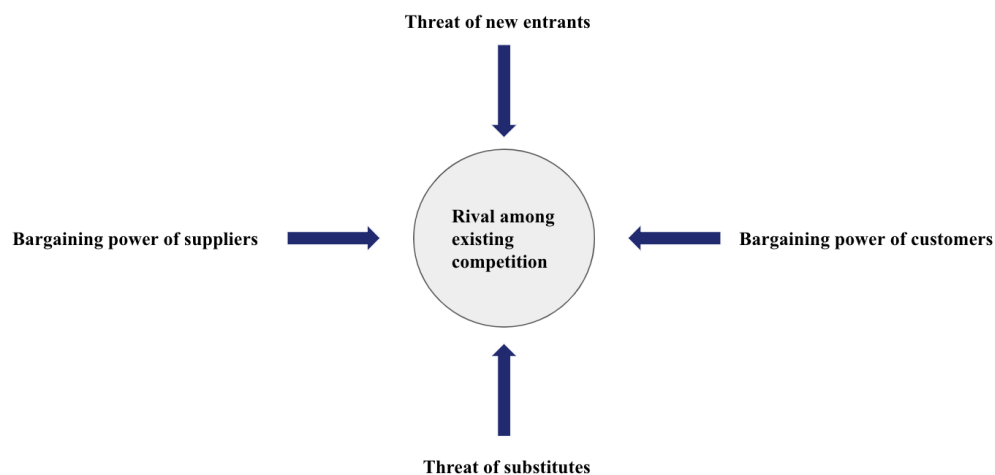
The term SWOT was introduced in the early 1980s by Weihrich, a professor of management at the University of San Francisco, and is often used in business strategy formulation and competitor analysis. The term SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. SWOT analysis is actually a method of synthesizing and summarizing all aspects of the internal and external conditions of a company, and then analyzing the situation faced by the organization. The internal strengths and weaknesses represent the internal conditions of the company, while the opportunities and threats represent the external conditions of the company. The development of a company needs to rely on the company's unique strengths, otherwise, it will be quickly eliminated by society. The weaknesses are the company's shortcomings, and if the company can improve them, it can increase its competitiveness in the industry.

### **2.2.2 4Ps theory**

In 1953, marketing scholar Neil Borden argued that the goal of marketing was to achieve the best possible sales for a product, but that the best way to sell a product should be not only advertising and sales promotion but also other influencing factors. So he proposed the concept of "marketing mix" and strongly urged everyone to think about

how to get more profit from a macro perspective. In 1960, McCarthy, an American marketing professor, pointed "Basic Marketing" out in his book which is that product, price, place, and promotion were the four most effective and controllable factors related to marketing. In 1967, Philip Kotler identified the four factors of the 4Ps further, in his book Marketing Management.

### 2.2.3 Porters'5 forces



In the early 1980s, Michael Porter introduced Porter's Five Forces model theory. This model identifies five main sources of the size and degree of competition faced by firms, which together include the Threat of new entrants, threat of substitutes, Bargaining power of customers, Bargaining power of suppliers, and Competitive rivalry. And coming up with an appropriate strategy needs to be built on the basis of these five forces. Because each force affects different industries or companies differently, then it leads to the fact that there should be a focus on a different point in analyzing the five forces. Porter's five forces model can effectively analyze the competitive environment within that industry, and these can guide the subsequent direction of a company's market strategy.

### 2.2.4 PEST analysis

PEST analysis is an important tool for analyzing a company's macro-environment, which is a collection of irresistible external factors that can have an impact on the development of a company. Each enterprise takes into account the macro conditions at

that time and analyzes them in conjunction with the social situation to make the most suitable marketing strategy so that the enterprise can best respond to the industry trends and social development. The macro-environment mentioned in PEST includes four main aspects: Political, Economic, Social and Technological. If we can analyze the macro environment systematically, we can strengthen the ability of enterprises to identify market opportunities and threats, so that they can make better market strategy decisions and improve their competitiveness in the industry.

### **3. Summary of Luckin Coffee's Market Strategy**

After Luckin Coffee's financial fraud was revealed in February 2020, the board of directors discussed and changed the management of Luckin Coffee, so the overall marketing strategy direction has changed dramatically. Therefore, I will divide the marketing strategy into 2 parts, the first part is before the financial fraud, the key direction of the marketing strategy is mainly focused on capturing the market and quickly attracting customers. While the second part is after the financial fraud, at this time, Luckin Coffee's marketing strategy was based on stability, following trends and seeking innovation.

#### **3.1 Pre-marketing strategy**

In the early days of Luckin Coffee, the main keywords of its marketing strategy can be summarized as "Branding, Massive promotion, Everywhere and tracking attention".

Firstly, the branding, Luckin Coffee used blue as the main color of the brand and used a minimalist deer head logo to establish a memory point for the brand.

Secondly, the Massive promotion. In the early days of Luckin Coffee, coupons were distributed very frequently, mainly to attract new users to try the coffee and retain a large number of existing users. By drinking the first cup for free, a large number of new customers were attracted. This was followed by a free drink for two people who invited a new customer. Then each time they order, they can get a different level of discount through a lucky draw, and they can share it on their social media platforms so that 20 of their friends can also get a discount lucky draw. Users can also follow Luckin



Coffee's official WeChat account to receive discount coupons on various campaign pages. One day a week, they can enjoy the right to purchase Snack at 50% off. If users run out of coupons, then they can also purchase coupon packages in Luckin Coffee's Coffee wallet.

Then there is Everywhere, which contains a total of two aspects here, ads everywhere and stores. Firstly, in terms of advertising, Luckin Coffee chose Tang Wei and Chang Chen as the brand spokespersons for the campaign, they are well known among the office population, and their spokesperson coverage and product target customers overlap. The two temperament characteristics also allow Luckin to successfully export the brand positioning of "high-quality commercial Coffee" to the public. And the two keep mentioning the brand slogan in the ad "Who doesn't love this cup of Coffee?", using the rhyming slogans to increase customer recognition. Luckin also invited three World Barista Championship (WBC) World/National Champions to set up a team of coffee masters to participate in Luckin Coffee's advertising campaign and build up the image of "professional coffee" for Luckin Coffee, and to produce coffee beans suitable for Chinese consumers based on analysis and research of their coffee taste preferences and feedback from Luckin Coffee application. And the Seasonal Coffee beans from Sidamo Ethiopia developed by this master team also won a gold medal at the IICAC International Coffee Tasting Competition in 2018. Then there is the advertising campaign, which is divided into two parts: online and offline. For Online, Luckin Coffee is purposefully targeting social media where its customers use it most. It has an official account on Weibo for daily advertising and news updates and interacts with consumers in the comments section to create an intimate atmosphere and receive product feedback in a timely manner. Luckin Coffee also uses LBS (Location Based Services) to pinpoint users and push ads to users within 3 to 5 kilometers of the store (which is the delivery area) on WeChat, Weibo, and QQ to precisely reach potential target customers and improve advertising effectiveness. Luckin Coffee also uses user profiling to accurately and efficiently deliver ads to Tang Wei and Chang Chen's fans. In the offline part, Luckin Coffee spread its advertisements in subways, streets, residential buildings and office buildings in first and second-tier cities, which are the main activity places of target customers, attracting consumers' attention with high-

intensity exposure, and making the advertisements cover the target customers for a long time to achieve the effect of brainwashing promotion. The advertisement is marked with the slogan of Master Coffee, There are also stars who keep saying the brainwashing slogans“Make great Coffee that is affordable and accessible to everyone”, Identifying customers' pain points with company goals and creating emotional resonance with customers. As for the store settings, Luckin Coffee's store types are divided into flagship stores (ELITE), leisurely stores (RELAX), and quick pickup stores (PICKUP) store types. The decoration style, store size, and location vary by store type. The flagship store and the leisurely store both provide customers with a casual place to sit and enjoy their coffee, but the quality of service and decoration style is a little better for the flagship store. While the quick pickup store is a very small store and does not provide seats, mainly for take-out and self-pickup situations. The location criteria for different stores are also different, the first two and general coffee shop location is the same, mainly in the business district. But for the quick pickup store. Luckin Coffee combined with LBS network location technology, the coffee shops are located in areas with high demand for coffee, such as office buildings, business districts, and university campuses. This allows Luckin to stay in close contact with its target customers and expand quickly with low rent and renovation costs, thus achieving the goal of opening more and more densely shopped stores at a low cost, thus reaching a large target customer base. The site selection also incorporates customer data from the backend of the Luckin Coffee app, allowing new stores to be better distributed near their target consumers.

The last is tracking attention. on May 15, 2018, Luckin Coffee suddenly released an announcement for an open letter indicating that Starbucks has unfair competition in China. The news instantly attracted a lot of attention because Starbucks is the largest coffee chain in the Chinese market, and Luckin Coffee's actions became a talking point in the eyes of most consumers, but it earned a lot of attention and made more people aware of the Luckin Coffee brand. Luckin Coffee also used many slogans to guide consumer opinion, such as "Good coffee is not expensive, coffee is not a luxury, just a daily drink" and "Whether you drink coffee or cafe, we only need you to pay for the coffee The company also used many slogans to guide consumer opinion, such as "Good

coffee is not expensive, coffee is not a luxury, just a daily drink" and "Whether you drink coffee or cafe, we only need you to pay for the coffee itself", these slogans are implicitly comparing to Starbucks, making consumers think of Starbucks when they think of Luckin Coffee. Then after the incident slowly subsided, the case was quietly withdrawn on October 29, 2019.

### **3.2 Marketing Strategy after Financial Fraud**

After Luckin Coffee's financial fraud was exposed in February 2020, the management team of Luckin Coffee was changed in May of the same year after a board meeting. The previous CEO of Luckin Coffee was changed from Lu Zhengyao to Guo Zhuan, and the company's marketing direction was changed from rapid expansion to steady development. Therefore, although Luckin Coffee still used coupons to attract and retain existing customers, the frequency of coupon sending began to slow down and the discounts became much smaller than before. New stores opening have also become much slower and have been replaced by Luckin Coffee Express, or unmanned coffee machines. Since Luckin Coffee Express uses the same Swiss SCHAEERER automatic coffee machines and the same raw materials as in-store, it can produce coffee that tastes really close to the coffee made in-store. Luckin Coffee Express can be placed in places where Luckin Coffee cannot open a physical store, such as the lobbies of private companies, Then Luckin Coffee can provide closer access and more intensive coverage to the target customer at a much lower price.

At the same time, Luckin Coffee has shifted its marketing focus to trend following and community marketing. In terms of following trends, Luckin Coffee has 2 directions. Firstly, Luckin Coffee has chosen the most popular celebrities to be its spokesperson every year and has invited Turbo Liu, Sean Xiao, Seven Tan, Lelush, and Eileen Feng Gu from 2019 until 2022. Luckin Coffee has also partnered with the 2021 League of Legends World Championship champions to launch a special coffee drink series. They all have one thing in common: they are all the hot characters of the year, with their popular works or have significant achievements and drive a lot of positive topics, and they also have a large fan base, that can more effectively play the celebrity effect to attract more consumers.

And Luckin Coffee has cross-industry or co-branding cooperation with other brands, firstly, Luckin Coffee reached a strategic cooperation agreement with Line friends in 2020 to jointly launch food, trendy products and other multi-category products, and plan to build offline theme stores. Luckin Coffee has also partnered with Starfield to launch sandwiches made from Starfield's plant-based ham. And Luckin Coffee has captured Chinese consumers' love for Chinese brands in recent years by partnering with long-established Chinese brand Coconut Palm Group Co. Ltd. to launch a series of coffee drinks made from the Palm Group's coconut milk, which has also created a wave of coconut drinks in China. And with the rise of short video media and live sales, Luckin Coffee has also launched Tiktok live sales. As of June 7, 2022, Luckin Coffee has a total of four officially certified accounts on Tiktok for live sales of drink coupons and other Luckin Coffee products, with a live broadcast time of approximately 19 hours per day (7 am to 2 am the next day), with the hosts patiently explaining the products and answering questions in the comments section to help consumers choose and buy the products. At the same time to attract more customers to spend with giveaways, interact with the anchor and follow the live account can also get the privilege of free postage.

In terms of community marketing, Luckin Coffee is using the coupons to track customers to add Luckin Coffee service accounts (Lucky) in both online and offline stores, and after they successfully add Lucky, customers will be grouped according to their most frequently purchased delivery addresses. And in each WeChat group, customers can get a lot of Luckin coffee' latest information and activities, and every day, the group provides a certain number of coupons and low-price group purchases for a limited time. The benefit of this is that it greatly reduces marketing costs, increases user contact rate, and improves user stickiness.

## 4. Luckin Coffee's market environment analysis

### 4.1 PEST analysis for Luckin Coffee

Policy (P)	Economics (E)	Society (S)	Technology (T)
<ul style="list-style-type: none"> <li>National Standard for Coffee Beverages</li> <li>"High-quality Coffee Processing Park" project</li> <li>"Yunnan Province 4th Five-Year Plan to build a world-class green food brand development plan for 2021-2025"</li> <li>RCEP</li> </ul>	<ul style="list-style-type: none"> <li>Chinese GDP increase 8.1%, tertiary sector increase of 8.2% and accounting for 53.3% of GDP</li> <li>Per capita disposable income of Chinese citizen increased 8.1%</li> <li>Stimulate domestic demand</li> </ul>	<ul style="list-style-type: none"> <li>Peak of globalization and the study abroad trends</li> <li>Rising living standards of the people</li> <li>Urbanization rate is 64.72%</li> </ul>	<ul style="list-style-type: none"> <li>Fast dissemination of information on social media</li> <li>Development in company's internal management system</li> <li>Data mining</li> <li>Local base services (LBS)</li> </ul>

#### 4.1.1 Political

In terms of Political, the National Standard for Coffee Beverages<sup>4</sup>, which was launched in 2014, was approved and released by the National Standardization Administration Committee, and the document sets national standard requirements for raw material requirements and caffeine content of coffee. And since the main coffee bean production area in mainland China is located in Yunnan, where the geographical and temperature conditions are unique, Yunnan coffee has a unique aroma and excellent quality. Therefore, the government's policy in promoting the development of coffee beans is mainly based on the Yunnan region.

The "High-quality Coffee Processing Park" project<sup>5</sup> in Pu'er City, Yunnan Province is expected to be completed and put into use by the end of 2022, which will be an international high-quality industrial park integrating coffee primary processing, storage, coffee deep processing, end-product research and development, and high-tech personnel training. Such projects include the "Arabica coffee Industrial Park" project in Baoshan City and the "Coffee Town" project in Mangshi, Dehong, but each project has a specific development direction for local resources, such as coffee tourism in a

<sup>4</sup> National standards of the People's Republic of China Coffee based beverages[online] (2014)

<sup>5</sup> Yunnan fine coffee Processing Park project. [online] (2016)

tourist city like Mangshi. In November 2021, the Yunnan Department of Agriculture and Rural Affairs officially issued the "Yunnan Province 4th Five-Year Plan to build a world-class green food brand development plan for 2021-2025"<sup>6</sup> which aims to build Yunnan into a globally important high-quality coffee production base and the most influential coffee trading center in Asia. In May 2022, Dehong Prefecture of Yunnan Province released the "Three-Year Action Plan for Promoting High-Quality Development of Coffee Industry", hoping to turn Dehong into a China-ASEAN coffee trade center, a world high-quality coffee bean production base, and the largest instant coffee processing base in China in the next three years. Coffee deep processing base, and on the same day China Yunnan Free Trade Pilot Zone Dehong area coffee border warehouse officially opened, which means that the future of the Dehong coffee industry can enjoy the preferential policies of the Free Trade Pilot Zone, such as through cheaper logistics costs and storage costs, so as to promote the rapid development of cross-border e-commerce coffee industry market in China-Myanmar border.

And combined with the signing of RCEP<sup>7</sup> in November 2020, the barriers to trade and business activities between China and ASEAN countries will be greatly reduced.

Therefore, for Luckin Coffee, political factors provide favorable conditions for mentioning its subsequent development. The development of domestic coffee parks provides the basis for Luckin Coffee's coffee raw materials, and the import costs of coffee materials can be greatly reduced under the conditions of the Free Trade Zone. Moreover, stable international trade relations are also conducive to cooperation with quality foreign suppliers and can help Luckin Coffee to expand its new business overseas.

#### **4.1.2 Economics**

China's market size is now ranked among the world's top. China has a population of 1.4 billion, and as long as the disposable income of the majority of urban and rural residents

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<sup>6</sup> Yunnan Province 4th Five-Year Plan to build a world-class green food brand development plan for 2021-2025 (2021). [online]

<sup>7</sup> What does the official signing of RCEP mean?(2020) [online]

can grow steadily, the domestic market will be able to continue to grow. In recent years, the Chinese government has been pointing out that it should adhere to the strategic base point of expanding domestic demand and fully exploit the potential of the domestic market. In order to cope with the impact of Covid-19, the central and local governments have also introduced a series of policies and measures to help resume work and production, especially the policy of encouraging consumption has played direct role. Consumption willingness can not be separated from the support of consumption capacity, income growth will have a positive impact on the residents' willingness to consume and consume. Raising the income level of the middle and low-income groups, making up for the shortcomings of infrastructure and further improving the level of equalization of public services are also the next priorities of the government. Empowering industries with new-generation information technology such as the Internet of Things, big data and artificial intelligence, focusing on developing a number of advantageous and high-end manufacturing industries, making efforts to enhance the level of industrial intelligence, and seizing the high ground of future industrial competition.

In January 2022, China's National Bureau of Statistics released its annual report for 2021<sup>8</sup>, with a GDP of RMB 1,143,670 billion, an increase of 8.1% compared to the previous year, of which the value-added of the tertiary sector, which includes the catering industry, was RMB 6,096,800 billion, an increase of 8.2% compared to the previous year and accounting for 53.3% of GDP. GDP per capita was RMB 80,976, an increase of 8.0% over the previous year. Consumer prices for the year rose 0.9% over the previous year. The national per capita disposable income for the year was RMB 35,128, an increase of 8.1% in real terms compared with the previous year. And the median per capita disposable income of the nation's residents was RMB 29,975, an increase of 8.8%. By region of permanent residence, the per capita disposable income of urban residents was RMB 47,412, an increase of 7.1% in real terms compared with the previous year. The median per capita disposable income of urban residents was 43,504 yuan, an increase of 7.7%. The per capita disposable income of rural residents

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<sup>8</sup> The target of sustained economic recovery in 2021 was achieved.(2022)

was RMB 18,931, an actual increase of 9.7% over the previous year. The median per capita disposable income of rural residents was RMB16,902, an increase of 11.2%. The growth in per capita disposable income also represents the increased consumption power of residents. And higher income will also allow residents to have more consumption choices, and the demand for diversified products will be further enhanced. The national per capita consumption expenditure for the year was RMB 24,100, an increase of 12.6% in real terms over the previous year. The increase in per capita consumption expenditure also indirectly expresses that the overall income of Chinese residents has increased, while the increase in consumption has also driven GDP growth.

As a result, the government's stimulation of domestic demand and the increase in disposable income of the population will generate newer and more diversified consumer demand, which will lead to a further increase in the domestic market space in China and cultivate a large number of potential users for Luckin Coffee both online and offline. The increase in disposable income per capita will also have a positive impact on increasing customer unit price or will have a mitigating effect on the retention rate of Luckin Coffee's price-sensitive customers.

#### **4.1.3 Society**

With the peak of globalization and the study abroad trends, coffee beverages began to enter the Chinese market rapidly, thus driving the Chinese coffee market into a phase of rapid development. And with the rise of China's economy, the rising living standards of the people, the development of tourism, and the integration of Western and Chinese cultures, China's internal consumer groups and consumer market are growing rapidly. During the 10-year period from 2010 to 2020, China's coffee consumption growth rate<sup>9</sup> will average about 15%, much higher than the global average growth rate of 2%; in 2021, China's coffee bean consumption will be about 250,000 tons, an increase of more than 25% compared to the previous year, and the size of China's coffee market will be about 381.7 billion yuan. From Deloitte's white paper, we can know that the per capita coffee consumption in Japan, the United States, and South Korea, which are more mature, is 280 cups/year, 329 cups/year, and 367 cups/year respectively, but the per

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<sup>9</sup> Yunnan Fine Coffee Processing Park Project. [online] (2016)



capita coffee consumption in mainland China in 2021 is only about 9 cups/year, indicating that there is still a lot of room for growth in China's coffee market.

However, consumers in first and second-tier cities who have adopted coffee drinking have been consuming 300 cups/year. Consumers in first-tier cities are more dependent on coffee, and more consumers will increase their coffee intake frequency. Driven by the first-tier cities, it is expected that coffee culture will gradually spread to other cities in the future, and coffee will change from a "fashionable drink" to a "daily drink". And now the average price of coffee beans per kilogram of about 25 yuan, and the price of each cup of coffee is from high to low differentiation, so coffee refining has good benefit prospects. Finally, from the urban and rural composition, China's urban resident population is 914.25 million, an increase of 12.05 million compared with the end of the previous year; the rural resident population is 498.35 million, a decrease of 11.57 million; the urbanization rate is 64.72%, an increase of 0.83 percentage points compared with the end of the previous year.

Therefore, the standard of living of the Chinese people is improving, and the level of coffee consumption and other consumption patterns of the Chinese people are slowly changing with the degree of coffee culture penetration. Coffee drinking habits are slowly developing, and there are still many people moving from the countryside to cities where Luckin Coffee can be reached. It is expected that Luckin Coffee will continue to have many potential customers in the future.

#### **4.1.4 Technological**

With the development and popularity of the Internet and mobile Internet, China's national consumption habits are constantly changing and upgrading. People are gradually changing from the traditional use of cash and offline shopping to allmobile payment and online shopping, of which are the result of mobile technology. WeChat, QQ, Weibo and other platforms not only provide the latest social information more quickly but also allow people to forward it, which greatly increases the ability of information dissemination. In this era of advanced information for enterprises, the use of Luckin Coffee's own applications can store and analyze consumer data, which helps

enterprises more understand the market situation and customer preferences, thus helping them to achieve accurate marketing. Moreover, with the support of existing web tools, the company's internal procurement, transportation, sales and other business processes can be registered and managed using the company's internal management system, which can help the company to manage internal operations in a more standardized and data-oriented manner, and facilitate subsequent management and analysis.

Therefore, Luckin Coffee has a large amount of information technology support that can be combined with internal back-end data analysis techniques through the Internet technology, all the customer, store, sales data, etc. for subsequent analysis, so as to more quickly understand customer consumption preferences. The geographical location collection of customers' delivery addresses also provides data support for Luckin Coffee's subsequent marketing activities such as precision marketing, new stores and the rollout of Luckin Coffee Express. Moreover, the electronic management of data within the enterprise also facilitates the company's supply chain, internal management and other aspects more convenient and comprehensive, data which is why digital resources are the core resources of new retail enterprises. But in this era of information technology, data security and protection is also a very big problem that cooperation should be considered.

## 4.2 SOWT analysis for Luckin Coffee

### Strengths (S)

- New retail business model
- Massive shop base & different store type
- Massive coupon subsidies
- Fashionable brand design
- Friendly customer relations
- Variety of flavors and types of products
- Good branding publicity effect
- High sensitive to market trends

### Weakness(W)

- Risky marketing strategy
- Taint of financial fraud
- Low penetration of Luckin Coffee in second and third-tier cities in China

### Opportunity(O)

- Huge potential of the Chinese coffee market
- Chance to fix the company's internal loopholes

### Threats(T)

- There are problems with the company's internal governance
- High competition in the Chinese beverage market
- Chase war of coffee giants
- Sales and consumer decline

#### 4.2.1 Strengths

First of all, Luckin Coffee uses the new retail model, that is, the online service consumption combined with offline store experience and with delivery service. This model can meet the needs of customers, on the one hand, to relieve customers from the completely untouchable online model to make up for the physical store experience, and on the other hand, to meet the needs of customers who do not have time to buy or do not want to go out to buy products. In the new retail sales model, Luckin Coffee uses its own application or Wechat Mini program to allow consumers to consume. Then the backend system can collect data such as user consumption and geographic location and analyze user profiles through AI or manual methods, which allows Luckin Coffee to develop more targeted marketing strategies based on the analysis results. The collection of geographic locations also provides data support for the subsequent store development and placement of Luckin Coffee Express, allowing Luckin Coffee to reach potential and existing customers more comprehensively.

Second, Luckin Coffee has laid out a large number of stores in the early stage, and the stores are divided into different styles to meet the different demands of consumers. The stores can be broadly divided into two types, dine-in and pick-up, Luckin Coffee is mainly pick-up store, which only provides pick-up and delivery, so the store area only requires raw material storage and product preparation machines, and the store just needs a few employees for operation, so Luckin Coffee can open a lot of stores at low cost. But such stores need to be combined with Luckin Coffee's Massive Advertisement to be effective. However, such a low-cost rollout can reach a larger customer base, as each store can cater to a 3km area for delivery.

Thirdly, a large number of coupon subsidies. Luckin Coffee quickly entered the Chinese coffee market through the "first order is free", then accumulated a large number of customers, and through "pulling new customers both get a free drink" and "sharing friends to get a coupon" marketing strategy to quickly expand potential customers and improve customer retention. Although the pricing of each drink at Luckin Coffee tends to be at the high end of the market (26-38yuan/cup = 130-190Baht/cup) and similar to Starbucks, the large number of coupons makes consumers more willing to buy Luckin

Coffee and get a lot of satisfaction from the coupons, thus stimulating consumption again. This is a great incentive for consumers to purchase Luckin Coffee.

Fourthly, the brand design of Luckin Coffee is in line with the fashionable aesthetics of contemporary people. The use of blue as the brand's representative color and the deer head logo not only meets the aesthetics of young people but also creates a memory point for the brand. Luckin Coffee also named the cup "Little Blue Cup" to give consumers a sense of affinity. The design slogan "Who doesn't love this cup" gives a deep impression.

Fifth, the maintenance of customer relations, Luckin Coffee opened official accounts in several platforms and interact with consumers in the message area. On the one hand, to build a close relationship with customers, so that people feel that the brand is not so difficult to reach and more willing to give feedback. On the other hand, Luckin Coffee can conduct product-market research in this way, and collect a large number of product feedback collection in the process of communication, these collections are the most time-sensitive, such as the collection of new ideas that consumers want, or the collection of feedback on product taste so as to improve the product, the collection of service quality to facilitate the management of the store, etc.

Sixth, Variety of flavors and types of products. First of all, Luckin Coffee not only provides classic coffee drinks and snacks but also provides other products, such as hand-brewed coffee in bags, coffee cups, etc. to meet the normal consumption needs of customers. Luckin Coffee will launch different limited new products according to different holidays or seasons, to meet the diversity of consumer demand, and limited new products are also part of Luckin Coffee's market data collection, the sales information of new products are collected and analyzed, then we can know whether the new products can be put on sale for a long time, not only greatly reduce the cost of trial and error, but also to collect more feedback on the product.

Seventh, the brand publicity effect is good, Luckin Coffee is in the early stage of the target customers online and offline activities within the scope of a large number of

advertising, so consumers instantly noticed the brand of Luckin Coffee, and Luckin Coffee is invited to the spokesman are the target consumers know and love, which can let consumers have a better impression of Luckin Coffee. The spokesperson for Luckin Coffee has been a hot topic of the year, following the trend and taking advantage of the hot spots, which can greatly improve the publicity effect. At the same time, Luckin Coffee also co-branded with Linefriends, and the old Chinese brand Coconut Palm Group Co. Ltd. to gain a lot of market attention and attraction.

Eighth, the company is very sensitive to market trends. During Covid-19, Luckin Coffee used community marketing and social media live selling to cushion against the shock of pandemics. As the emergence of Covid-19 caused a huge impact on the physical economy, which evolved a large number of live sales, Luckin Coffee quickly followed the footsteps of live shopping, as of May 2022 has opened four Tiktok accounts, live hours from 8 AM to 3 PM are covered cut for the main life of the target customers' activity time. Secondly, Luckin Coffee provides coupons to lead consumers to Wechat Community groups, each group is assigned according to the most frequent shipping address of consumers, and the group provides a large number of coupons and sales of peripheral products or group purchases. This not only alleviates the problem of difficulty in reaching customers during Covid-19, but also greatly reduces the cost of follow-up marketing, and increases the user reach rate, thus improving the level of connection with users.

#### **4.2.2 Weaknesses**

First, the marketing strategy is risky. Although Luckin Coffee attracted a large number of customers through coupons in the early stage, it would lead to a high degree of price sensitivity among Luckin Coffee customers, which would lead to lower retention and lower loyalty of users. The high marketing costs also have a serious impact on the company's revenue, and if the profitability deficit is not quickly remedied, investors' confidence in the company is easily reduced. At this time, if a large number of customers are lost, then the sales will be reduced, if the revenue can not balance with the initial costs, and the subsequent injection of investment is too slow or too little investment funds, then it may lead to cash flow problems. And if the product quality

and taste problems appear, it will again lead to a reduction in customer retention, thereby increasing business risks.

Second, is the taint of financial fraud. In 2020, Luckin Coffee was exposed to financial fraud for inflating orders and inflating advertising revenue. This forced the otherwise thriving Luckin Coffee to be delisted from NASDAQ. Although a \$180 million fine was subsequently paid to the SEC, this stain of financial fraud may have an impact on investor confidence. At the same time, there is no explanation for the collective profit-making by the management at Luckin Coffee, only the replacement of the original Chairman Lu Zhengyao, CEO Qian Zhiya, and COO Liu Jian, leaving a huge risk of whether other internal managers are involved and whether they will be involved in collective profit-making again in the coming time.

Third, the penetration of Luckin Coffee in second and third-tier cities in China is low. Coffee-drinking customers are mainly influenced by coffee culture, and the more educated people and those with study abroad are more receptive to coffee. While the second and third-tier cities have relatively fewer of these people. Secondly, the lack of infrastructure in those cities does not allow for the same advertising effectiveness as in first and second-tier cities, which leads to the low penetration of Luckin Coffee in second and third-tier cities.

#### **4.2.3 Opportunities**

The first is the huge potential of the Chinese coffee market. As I mentioned in the Economics section of PEST, the disposable income per capita is increasing, so the spending power of Chinese people is also increasing, which will allow consumers to try more kinds of more diverse products, so it gives Luckin Coffee the opportunity to provide consumers with more diverse product choices. Secondly, the development of globalization and the rise of study abroad has increased the penetration and spread of coffee culture, plus the gap between the number of cups of coffee consumed per capita in China and developed countries is large, so there are still many potential users of Luckin Coffee.

Second, to fix the company's internal loopholes. Although Luckin Coffee was exposed to financial fraud, it also allowed the company to discover internal management loopholes, thus improving the company's management and monitoring awareness as well as risk management awareness. This will prevent the same thing from happening again, reduce the company's business risks and increase investors' confidence.

#### **4.2.4 Threats**

First, there are problems with the company's internal governance. The financial fraud was not discovered by the company itself, but by others and provided a short report to Muddy Waters. The report pointed out that Luckin Coffee's internal financial fraud was 2.2 billion RMB by collecting and analyzing a large amount of order data, and at that time, Luckin Coffee also used stock pledges to raise funds which increased the risk of business operation. The report also pointed out that Lu Zhengyao, a top executive at Luckin Coffee, had a precedent of cashing out of the company at a previous company, China Auto Renting Inc, and that Lu Zhengyao had a strategic partnership with the top executives of other companies, a strategic partnership that was closely related to Luckin Coffee's upstream supply chain. Therefore, although Lu Zhengyao has been dismissed after the financial fraud incident, the statement of Luckin Coffee does not explain whether there are still risky people inside the management. Therefore, it is clear that there were obvious governance issues before the financial fraud incident but the company did not address them. Information on whether the company subsequently investigated and dismissed internal participants was not made available to the public.

Secondly, the competition in the Chinese beverage market is difficult. As a tea-drinking country, China has a higher degree of acceptance of tea drinking, and through the development of tea drinking in the previous many years, milk tea culture is very popular, so the related tea-drinking brands are also very numerous, and the competition in the tea-drinking market is very fierce. Although in 2019 Luckin Coffee established a tea brand like LuckinTea, LuckinTea did not enter the market as quickly as coffee and seized the market first. Also, tea drinks have indirect competition with the coffee market, so the booming tea drinks market may have a negative impact on Luckin Coffee's coffee industry.

Third, is the chase war of coffee giants. While Luckin Coffee has entered the market with low prices, Starbucks has also started a series of reform activities, such as providing a better education system for its own baristas and launching services such as Starbucks delivery. It is clear that the coffee giant brand has noticed that Luckin Coffee is a threat and has started a series of counter-activities.

Fourth, a solid marketing strategy may have a negative impact on consumers. After the financial fraud, Luckin Coffee changed the key members of the management team, especially the change Chairman and CEO Guo Zhu, who wanted the company to take a more stable route compared to the previous Chairman Lu Zhengyao. As we have mentioned before, the common characteristic of Luckin Coffee consumers is that they highly price sensitive, and the reduction of coupons will affect their purchase frequency, thus reducing the sales of Luckin Coffee.

#### 4.3 4Ps analysis of Luckin Coffee for the existing marketing strategy

<p><b>Product</b></p> <ul style="list-style-type: none"> <li>• Brand fits the traditional Chinese mindset</li> <li>• Variety of products</li> <li>• Coffee master team form WBC Country/region champions</li> <li>• Fashion packaging</li> </ul>	<p><b>Price</b></p> <ul style="list-style-type: none"> <li>• Combine with Luckin's own brand positioning for pricing</li> <li>• Coupon distribution for lower the price</li> <li>• Group purchasing with lower price</li> </ul>
<p><b>Place</b></p> <ul style="list-style-type: none"> <li>• Using a variety of takeaway apps and its own app or Wechat mini program as consumer activity platform</li> <li>• Massive physical store</li> <li>• Different official accounts</li> </ul>	<p><b>Promotion</b></p> <ul style="list-style-type: none"> <li>• Spokespersons who match the brand image and follow the trend</li> <li>• Target main customers: corporate user</li> <li>• Cooperate with other brands</li> </ul>

##### 4.3.1 Product

Luckin Coffee has a variety of products, including not only the main coffee products, but also fruit and vegetable juices, LuckinTea tea, healthy light snacks, lunches set and other peripheral products, and provides customers with the ability to add customization of products. Luckin Coffee has also invited a team of WBC champions to control the taste of coffee, and they have researched the taste preferences of Chinese people based



on Luckin Coffee's backend data and developed coffee beans. "Seasonal Coffee beans from Sidamo Ethiopia", and this coffee bean also won the gold medal. In addition to selling its own coffee products, Luckin Coffee also sells mugs, snacks, and other branded goods, forming an online shopping function built on the Luckin Coffee application platform. The true meaning of the name Luckin Coffee is actually "Luck in Coffee", which fits the traditional Chinese mindset of wishing everything goes well. Luckin Coffee's package design provides a new memory point and a simple image that fits the modern aesthetics of the public. Luckin Coffee has also collaborated with several art and culture brands to design the packaging to appeal to customers and be more in tune with fashion.

#### **4.3.2 Price**

Luckin Coffee sets its prices by referring to the pricing of its main competitors in the same industry, combined with its own brand positioning, so Luckin Coffee sets its prices similar to Starbucks. But with the distribution of coupons can reduce the price to an average of 15 to 16 yuan per cup. Compared to similar coffees on the market, Luckin Coffee's pricing is very cheap. At the same time, Luckin Coffee's online shopping platform provides consumers with preferential group buying prices. The advantage of group buying is that on the one hand, companies can reduce costs to achieve economies of scale, and on the other hand, they can provide customers with more favorable prices.

#### **4.3.3 Place**

Luckin Coffee itself uses a new retail model that combines online and offline, using a variety of takeaway apps plus its own app and Wechat mini program to provide customers with ordering capabilities. The offline stores are basically located near business districts, subways, and office buildings, where rents are lower than in shopping malls but have enough foot traffic and are very close to the target customers, although the stores are not very big, because of this Luckin Coffee can quickly develop stores, so as to expand the market quickly at a low price. Luckin Coffee has also opened different official accounts on different platforms to facilitate communication with consumers and collect feedback on the one hand, and live sales on the other.

#### 4.3.4 Promotion

First of all, Luckin Coffee invited Tang Wei and Chang Chen as their brand spokespersons, both of whom are the most well-known people for their target customers and they are positioned as very high-end and famous movie actors in China. Luckin Coffee also invited the hot topics of the year, inviting a total of Turbo Liu and Sean Xiao, Turbo Liu because the "Detective Chinatown" series let the Chinese people know and love Sean Xiao because "In 2021, Luckin Coffee invited Seven Tan, Lelush and Eileen Feng Gu to be the brand's spokespersons. Seven Tan is known for her role in "Go Ahead", Lelush is remembered for her role in "Produce 2021", and Eileen Feng Gu is the 2021 Freestyle World Champion for China. The actress has won many gold medals for China as the world champion in freestyle skiing in 2021 and is loved by the public. Luckin Coffee has also partnered with the 2021 League of Legends World Championship (champion) EDG team to launch a series of drinks. So Luckin Coffee knows how to use the celebrity effect and knows how to use trends.

Luckin Coffee's main target customers are corporate customers, so the advertising methods are mainly through the WeChat official account, WeChat Mini Program, WeChat Moment, Weibo, and other platforms. The reason is that these applications make the target customers spend a lot of time on their cell phones. So using these platforms will be more effective to reach the target customers. And Luckin Coffee also uses LBS technology to advertise to the people around the store. Offline, Luckin Coffee places posters or TV ads in places where the target customers frequent, such as elevators in office buildings, subways, and buses. This allows Luckin Coffee to quickly reach its target customers and get the brand image ingrained in their minds so that they can "try it". At the same time, Luckin Coffee is also working with other brands such as Coconut Palm Group Co. Ltd and LINE Friends to produce joint products, which will provide a large number of customers of the partner brands, as well as new products for their own customers. Also, the creation of community groups through special offers allows Luckin Coffee to provide product information and coupons to customers and to connect with them more closely.

#### **4.4 Porter's five forces analysis**

##### **4.4.1 Threat of new entrants**

In China's freshly ground coffee market, Starbucks must be the one with the most seniority. So the presence of Starbucks has built a part of the barrier for new entrants. But Luckin Coffee entered the market using a new retail model combined with strong marketing techniques to quickly divide the market. So the presence of Luckin Coffee has once again raised the barriers to the Chinese freshly ground coffee market. Since Luckin Coffee has injected a lot of capital to capture the market, any new entrants who want to enter the market will need to invest a lot of money in marketing. And because of Luckin Coffee's pricing and promotion strategies, it is more difficult for new entrants to set prices, in other words, it is very costly for new entrants to convert customers. At the same time, Starbucks and Luckin Coffee in the market will definitely take countermeasures once they are aware of the entry of new entrants. As a result, the barriers to entry for Luckin Coffee have been raised.

##### **4.4.2 Threat of substitutes**

Luckin Coffee chose a market where coffee has a lot of space to grow because the number of coffee consumed per capita in China is far less compared to other coffee-drinking countries. However, it is important to consider that China is a country where traditional tea is the main beverage, so the Chinese people will be more receptive to tea than coffee. And the market has a huge tea brand organization, in recent years, the new generation of tea brands represented by Heytea, A little milk tea, SexyTea, etc. are gradually becoming popular point in the beverage market, and the new Chinese tea drinks are also attracting capital attention. Therefore Luckin Coffee still faces serious substitutability problems.

But unfortunately, Luckin Coffee is also continuing to follow the footsteps of the market by opening LuckinTea, an independent tea brand under Luckin Coffee, but compared with Luckin Coffee, LuckinTea's marketing measures are not as successful as Luckin Coffee, so LuckinTea's popularity is naturally not as high as LuckinTea's popularity is not as high as Luckin Coffee. But at the same time, Luckin Coffee is also expanding its product line, selling its own peripherals and other brands to cushion its

risk through different product lines. But Luckin Coffee is also constantly exploring ways to mitigate its own substitution with its own coffee drinks. For example, Luckin Coffee and Coconut Palm Group Co. Ltd group's coconut products have caused a trend of coconut products in China, and this approach is greatly increasing its irreplaceability.

#### **4.4.3 Bargaining power of customers**

In terms of the product itself, Luckin Coffee has hired three WBC coffee masters to develop a coffee bean that meets Chinese tastes and has won a gold medal, which means the taste of the coffee is guaranteed. And compared to similar coffee such as Starbucks, the price of Luckin Coffee is very competitive. Although there is not much difference between brands of coffee for amateurs, Luckin Coffee's standardized production means that there is not much difference in taste. From this perspective, the bargaining power of the average consumer is medium. However, Luckin Coffee's target customers include corporate users, that is, those who work in office buildings, who consume coffee very frequently, and who are particularly sensitive to the price of coffee, so if Luckin Coffee cannot provide coupons, then they will buy another brand instead. From this aspect, corporate users and consumers have strong bargaining power.

#### **4.4.4 Bargaining power of suppliers**

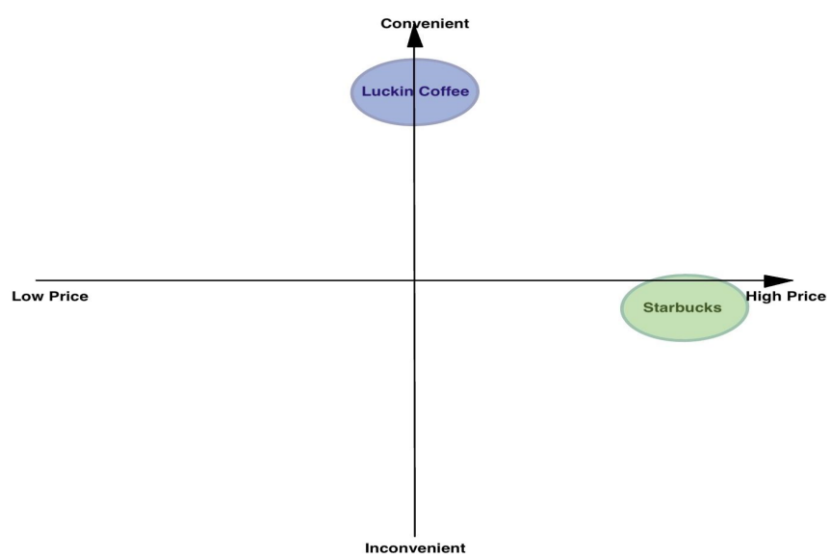
According to the list of suppliers published on the official website of Luckin Coffee, the coffee machines used by Luckin Coffee come from Swiss coffee machine manufacturers SCHAEERER and FRANKE which is the large and professional coffee machine leading companies in the Chinese market. The dairy products supplier is Fonterra, the largest enterprise in New Zealand, accounting for 25% of New Zealand's total exports, and about 85% of New Zealand's milk is exported by this enterprise; coffee beans cooperate with Mitsui & Co.; The syrup supplier is Fabbri, whose coffee and beverage syrups have a market share of over 90% in Italy, and in September 2019 Luckin Coffee established a joint venture with Louis Dreyfus Company to build a juice factory and coffee roasting plant. This shows that Luckin Coffee's suppliers have a strong market position, so they have relatively strong bargaining power. By the end of 2021, the total number of Luckin Coffee stores exceeded the total number of Starbucks

stores, in other words, combined with the performance of Luckin Coffee in the Chinese market, the rapid development has reached a certain scale, which can relatively reduce the bargaining power of suppliers.

#### 4.4.5 Rival among the existing competition

Relatively, the biggest competitors of Luckin Coffee should be Starbucks and other coffee chain brands and convenience stores in freshly ground coffee. According to the aforementioned number of cups of coffee consumed per capita in China, the coffee market still has a lot of space for growth, so there may still be other coffee chain brands entering the market in the future. Luckin Coffee through the "multi-scene" strategy, breaks the boundary between online and offline, the "people looking for goods" into "goods looking for people". "Luckin Coffee provides customers with dine-in, pick-up, and delivery, which is equivalent to providing customers with a wide variety of personalized services and is infinitely closer to the user. By using the new retail coffee sales model, Luckin Coffee has not only increased the level of competition in the industry but also made the competition between the new retail coffee and the large coffee chains more intense.

#### 4.5 Branding positioning comparison (In the case of Luckin Coffee and Starbucks)



As I analyzed in the previous part, I put Luckin Coffee and Starbucks in the same Branding quadrantal diagram for showing their branding positioning. There are two indicators in the chart, price, and convenience.

Starbucks is one of the higher-priced brands in the market with an average price of about 30RMB (150 Baht), while Luckin's average price of about 16RMB (80 Baht) is in the middle of the market, while the lower-priced coffee is the \$6-7 coffee drinks in convenience stores.

However, Starbucks launched a delivery service immediately after the launch of Luckin coffee, but it was not as convenient as Luckin coffee because the stores were mainly opened in commercial areas and could not cover the office population well. Moreover, Starbucks' delivery service mainly cooperates with other delivery companies' platforms, so there may be problems with the timeliness of waiting in line for delivery during peak hours.

### **5. Suggestions for the Luckin Coffee marketing strategy**

According to the above analysis of the existing market strategy of Luckin Coffee, the following development strategies are proposed in combination with the existing characteristics of the Chinese market.

Luckin coffee can try to cooperate with popular IPs to create themed cafes, such as Kimetsu no Yaiba, which is hot in the anime industry in the past few years, or King of Glory in the game industry, which is similar to the co-branding approach, but because these popular IPs themselves have a huge fan base and thus can attract more consumers.

Secondly, China's tea beverage market is highly competitive, mainly because China is originally a tea beverage culture market, most of the caffeine intake comes from tea beverages. So compared to coffee Chinese consumers have a lower threshold of acceptance for tea beverages. However, because LuckinTea has not been a popular product, resulting in low social exposure, so compared to other tea brands LuckinTea's competitiveness is too low. Perhaps it was not a wise decision to separate the tea drink

from the much larger business of Luckin Coffee. The exclusive advertising push system and store layout of Luckin Coffee are not available to LuckinTea. Therefore, compared to other brands, LuckinTea may be too mediocre. Therefore, Luckin Coffee can classify tea as one of the beverage categories, rather than a separate brand while LuckinTea enjoys the existing marketing strategy conditions of Luckin Coffee and expands the product category of Luckin Coffee.

Third, in recent years, Chinese brands have started to tell corporate stories. And Luckin Coffee can use its deer logo to build a unique worldview of Luckin Coffee and connect the coffee story to the brand to explain the coffee culture to consumers. The advantage of this is that it is practical to tell coffee culture in a storytelling way or to promote local coffee in China, which not only increases customer awareness and acceptance of coffee, but the storyteller is also trusted by consumers. Thus, Luckin Coffee can increase its recognition and acceptability.

Fourth, Luckin Coffee can establish a membership growth system based on the number of purchases made by customers. In other words, consumers can redeem points based on the number of purchases they have made, and the accumulation of points allows consumers to receive different levels of achievement. Depending on the level of ease Luckin Coffee can give some corresponding incentives to stimulate consumers to buy more often and increase consumer loyalty to the brand. The page should be set up to put the achievement title on the first page to visually stimulate consumers to spend.

Fifth, the next phase of Luckin Coffee can try to differentiate pricing, that is, through different categories of stores, to provide consumers with different levels of service. For example, we mentioned in Chapter 3 of the article that Luckin Coffee has three types of stores: ELITE, RELAX, and PICKUP. In the early stage, Luckin Coffee used low cost to open a large number of Pick Up stores, but with the change in Luckin Coffee's market strategy, Luckin Coffee needs to improve the quality of its products and consumer services in the future, so as to capture a larger coffee market. In other words, in the future, Luckin Coffee will open more ELITE and RELAX stores and re-price its products through differentiated services, rather than reducing prices through coupons.

Sixth, Luckin Coffee can provide statistics on users' personal taste preferences and provide personalized package push to consumers during meal times to attract consumers to buy personalized products, thus increasing Luckin Coffee's sales.

## **6. Conclusion**

With the rapid development of China's economy, the consumption ability of the Chinese people is also rising, in addition, the number of cups of coffee consumed per capita in China is very different from the number of cups consumed per capita in mature coffee-drinking countries, so the Chinese freshly ground coffee market still has great potential for development. Luckin Coffee, a freshly brewed coffee shop established in 2017, attracts customers through a large number of coupons and spreads a large number of stores at a low cost, combined with a large number of online and offline advertisements to efficiently reach the target customer group and stimulate consumption. In this study, I used SWOT, 4Ps, Porter's 5 forces, and PEST analysis to study the internal, and external environment and competitiveness of Luckin Coffee.

As result, firstly, the Chinese government has a lot of policy to support the development of the Chinese freshly ground coffee market, the economy and the social environment also has a positive push for the coffee consumption, and with the technology development support the corporate governance of Luckin Coffee and further application improvement.

Secondly, The main strength of Luckin is establishing a young and fashionable brand image, accumulating a large number of customers, and maintaining good communication with them in the early stages. But a large number of coupons distribute also turn customers into highly price-sensitive. While the financial fraud came as a big shock to Luckin, it also allowed Luckin to identify problems within the company. But China is a traditional tea drink market, tea drinks will be a major competitive threat to coffee drinks.



Third, Luckin Coffee's name comes from 'Luck in coffee', which is very suitable for the Chinese mindset. The diverse product categories also provide customers with more selection.

Luckin is priced according to its market position, with coupons given out to provide price advantages for itself. And Luckin has different types of stores to provide customers with different levels of services and products, and with the new retail multi-channel support to provide customers with almost full platform coverage. While all promotional activities are mainly focused on the target group, so as to maximize the effectiveness of publicity.

Fourth, the biggest rival of Luckin in the market is Starbucks, but Luckin uses the new retail for business differentiation. But there has a big chance for the new entrants but they have to face the high barrier to entry built by two big incumbents. However, Luckin still faces a big substitute threat to the tea beverage market. And the supplier of the Luckin coffee has a high market position in each industry, but due to Luckin having a large market share in China so Luckin still has medium bargaining power with its supplier. Because Luckin provides products at medium price, it has very little bargaining power for the normal customer but has strong power for office people due to their high consumption.

Thus, I suggest that Luckin, firstly, cooperate with popular IPs to create themed coffee shops. Secondly, merging independent tea brands with Luckin Coffee, thus increasing competitiveness in the tea beverage market. Third, telling the corporate stories to build brand image and separate the coffee culture. Fourth, establish a membership growth system for stimulating consumption. Fifth, open more types of stores instead of just focusing on pick-ups to cover a large area of market demand. Sixth, provide a personalized package according to the data mining to stimulate consumption and build the mesmerizing point.

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