

Research on the brand marketing strategy of Luckin Coffee

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Abstract: With the increasing demand of Chinese consumers for coffee, the traditional "third space" coffee marketing model is no longer sufficient to satisfy consumers' demand for coffee. As a new local coffee brand in China, Luckin coffee, uses the Internet-thinking marketing model to occupy the market share of coffee takeaways. Tiredly on the new retail model, which has opened up a brand-new coffee marketing model in Chin. A huge influence has changed the traditional coffee sales model, suddenly captured the consumer market, and achieved good word-of-mouth communication. However, due to the excessively rapid expansion speed and innovative strategies, a series of related problems were also accompanied in this process. This research will discuss the current coffee industry environment in China. Based on the results of corporate data, questionnaires, and in-depth statement of consumers' buying habits, this study uses Luckin coffee as an example to analyze the main issues related to marketing strategies. Through exploring the key forming factors behind the problem, this study finally gives some scientific solutions to improve the company's competitiveness in the Chinese coffee industry in the future.

1. Introduction

1.2 Research background

The coffee market in China is constantly expanding, with Chinese coffee imports increasing yearly and the per capita demand for coffee also increasing. The regional distribution of coffee consumption in China is 37% in Tier 1 cities, 32% in Tier 2 cities, and 29% in Tier 3 cities. Young and middle-aged people are the mainstream consumers. They are very responsive to new things and are interested in and receptive to western food culture, contributing to the Chinese coffee market [1]. Yang (2019) showed that Luckin Coffee stands out among the coffee brands due to its low-priced product strategy and higher density distribution. Founded in October 2017, it took just 19 months to list Nasdaq, breaking the record for the shortest time for a Chinese company to go public.[2] Through a series of big publicity, the brand has become the "dark horse" (an unexpected winner) of the coffee industry in China. The impact on the share of the Luckin coffee brand in the coffee market has been felt in terms of marketing model, promotion and pricing. This study focuses on the current problems of Luckin Coffee, analyses the current brand strategy of the Luckin Coffee market, and proposes corresponding optimization recommendations.

1.3 Literature review

With the birth of more and more coffee brands in China, the Chinese coffee market is expanding. Consumers have a keen interest in coffee products. The awareness of coffee consumption is also gradually being reinforced in people's awareness. Chen and Mao (2020) found that as a typical representative of China's new retail coffee brand, Luckin coffee has combined Internet thinking with a unique marketing strategy. It is a benefit to gain a huge market share in a short period quickly and has hit a record high in 19 months on the market [3]. What is worthy of recognition is that the brand's innovative marketing strategy has stimulated consumer demand to some extent. However, there are still some areas for improvement in terms of current consumer brand loyalty and stimulating consumers' repurchase intention. For example, Luckin coffee rapidly occupied the market while

ignoring the detailed considerations of coffee consumers' consumption habits, excessive automatic mechanization, and intelligent marketing.

Moreover, selling approaches lose the special meaning of coffee products (the lack of social venues), consumers cannot fully experience the brand's culture and resonate. However, sales efficiency has been greatly improved. Brand loyalty has not improved for the consumers. Consumers realize the value of products in numerous and frequent offers, creating a huge psychological gap and reducing repeat purchases. Finally, no matter how good the marketing model is, the high quality of the product itself is inseparable. Some consumers complain about the poor taste of the product through social platforms, thus affecting the reputation and image of the brand.

1.4 Research gap

China's coffee market is entering a stage of rapid development. As a result, in the past two years, the major coffee brands have accelerated opening stores, positioning high-end markets, and opening new stores. Following Starbucks' 'third space' marketing model, offline coffee marketing consumers have become accustomed to, and there has been a great deal of relevant research. However, Luckin Coffee has combined the thinking of the Internet to open a new market. With takeaway as the main sales model, capturing consumer groups outside of the 'third space' and relying on China's well-developed takeaway industry will continue to occupy the takeaway coffee market. There is not much research has been done on this highly innovative coffee marketing model. Therefore, this research will focus on exploring the brand's marketing strategy to fill the gap in current research in this area of China.

1.5 Research framework

Firstly, this study aims to address the current problems of Luckin Coffee, by analyzing the current development of the Chinese coffee market and the characteristics of consumer behavior. Next, it specifically analyses the consumer behavioral characteristics of Luckin Coffee to identify the problems in the current marketing strategy; finally, the factors behind the problems are explored, and effective suggestions for optimization are given. The analysis of the areas to be improved in terms of brand background and marketing approach will provide more solid and professional marketing strategies for the future development of China's coffee industry and accelerate the solid development of Chinese coffee companies.

2. Methods

This research will use literature analysis methods by collecting data and literature related to China's coffee industry and Luckin Coffee for research. Through exploring the existing state of Luckin Coffee's marketing relevant issues and feasible solutions based on the issues, The study also explores the current state of Rising Coffee's marketing strategy and presents the relevant problems. The literature analysis method provides this study with a clearer understanding of the coffee industry and the culture of the Luckin Coffee brand in China's history. Moreover, the documents collected are more authentic, allowing more accurate and reliable information to be obtained than in an oral survey and avoiding the various recording errors in an oral survey.

3. Result

3.1 Analysis of the development status and trends of the coffee industry in China

While tea remains the traditional drink in China, demand for coffee continues to grow, particularly in urban areas and among young professionals. The entry of Starbucks in the 1990s gave people a place to relax and socialize with acquaintances, a warm atmosphere, and a quiet environment favored by a wide range of people. This made Starbucks a quality place to talk and a symbol of status and position. Later, the rise of the Internet and e-commerce platforms led to the emergence of more and more coffee business formats, including online ordering and pick-up coffee and takeaway coffee and

self-service coffee. In China, due to the penetration of coffee culture and the improvement of people's income level, under the background of consumption upgrade, people pay more and more attention to the quality and taste of coffee, thus promoting the development of freshly ground coffee. According to the China Coffee Association Beijing (CCAB), coffee consumption is growing at an annual rate of 15%, and the Chinese government supports the I-Coffee Exposition in Haikou. (The I-Coffee Exposition focuses on the trade, production, and consumption of coffee) (Mordor Intelligence, 2021) [4]. China's coffee market consumption is estimated to exceed 70 billion yuan (CNY) in 2019, with per capita coffee consumption reaching 7.2 cups; rising income levels and advances in people's consumption structures, coupled with the diversification of coffee benefits, will keep coffee consumption on a long-term growth trend in China [5].

3.2 Analysis of the characteristics of consumer behaviour in the Chinese coffee industry

The Chinese coffee-consuming population is showing a high level of increasing interest in coffee products. According to Taobao (China's largest online shopping platform), more women are coffee consumers, accounting for nearly half of the population in Tier 1 and Tier 2 cities. The number of male and female consumers aged 36-50 is increasing and became the age group with the highest number of consumers in 2017 (CBNDData 2018) [6]; 60% of new users shopping on the Taobao platform for the first time are buying coffee-based products. Moreover, the search term "coffee" is the most common. However, most new users do not have a clear purchase goal. They do not care about taste or origin, which means the consumers are still in the early stages of experimenting with coffee consumption. Still, they are highly open to trying new coffee products. New concepts of coffee products can also attract consumer interest, such as "cold brew coffee" was among the top 5 new customer search terms in the coffee powder category in 2017. [7] Thus, Chinese coffee consumers show a positive attitude towards coffee, and most likely also admire and recognize coffee culture.

3.3 Analysis of consumer behavioral characteristics of Luckin Coffee

After rapid shop openings and continued market expansion, Luckin Coffee tapped and cultivated coffee consumers in more cities. The active users of the app software exceeded 20,000,000 people first time in 2019. Through online and offline cooperation, Luckin coffee on marketing applications-WeChat (China's largest user social software) occupies the current consumer market clustered in first-tier, new first-tier, and other medium and large cities. Wu and Wu (2019) stated that white-collar office workers had become loyal coffee consumers, with coffee users from 24 to 35 years old accounting for 85% of the group. This part of the population has been the backbone of consumption in recent years; more than 80% of users are dependent on online shopping channels, and Luckin Coffee meets the needs of this group for convenience and social interaction of the coffee. [8][9] What's more, Luckin Coffee often issues a great number of coupons making consumers dependent on the purchase of the product. They are usually considered a good value for a cost-effective option compared to other coffee chains offering a seat. In addition, the shops are geographically widespread. When consumers open the takeaway platforms Hungry or Meituan (Hungry and Meituan are the two largest takeaway apps in China), the first coffee brand pushed on the homepage is Luckin Coffee, which has a large and loyal consumer base.

3.4 Problems with Raisin Coffee's marketing strategy

(1) A single sales model

Most of Luckin Coffee's more than 2,000 stores are fast-fetching stores. There is only one bar counter with no extra seats for consumers; the location is biased, and the area is small, with more kitchen functions for online orders merely (Yu, 2018) [10]. After arriving in the store, the customers will not be able to stay too much time. Customers can only perceive brand culture through the Internet, reducing the sense of belonging between customers and the brand. Meanwhile, there is no cashier or waiter in the shop, and only app ordering is supported, with no cash settlement available. This greatly reduces the interaction between consumers and staff. All consumption behavior in the shop can only be done through the Internet, which isolates the emotional interaction between people, making coffee

purely a functional beverage to refresh and provide to consumers, reducing the consumer's imagination and consumption experience beyond the functionality of drinking coffee.

(2) Inflated low prices

A great number of coupons and buy one get one free activity attract consumers to compete to buy, creating the illusion that consumers are taking advantage, when using the coupon, each cup of coffee will be reduced from the original price of 20 yuan to only 10 yuan for each cup of coffee. [8] This makes the middle and low consumption level of people prefer Luckin coffee, and the proportion of students and freelancers buying Luckin coffee is high. Due to the low prices of most products after using coupons and digital marketing advertisements, they have attracted student parties and workers who are new to the workplace, this strategy will not only attract consumers with low prices but also position the product level as same as Starbucks. In contrast, Gu, He, and Huang (2019) demonstrated that according to data, most of Luckin coffee's consumers have a frequency of only 1 to 2 times a week [11], indicating that Luckin Coffee's recognition and brand loyalty are generally not high. This also reflects the fact that Luckin's business model is relatively homogeneous. The taste needs to be improved (Luckin adopts the online app + offline pick-up shop model, fission through online social media. Combined with various subsidies such as free orders, discounts, and free coupons to promote new customers to place orders, which is a simple and brutal way to promote Luckin coffee in a point-by-point manner) (Li, 2021).[12] In addition, the discounted price of Luckin coffee is more of an eyewash, a diversion model that deprives the brand advantage of low price.

(3) Quality - Lack of taste

Many consumers have shared their dissatisfaction with the taste of Luckin coffee on social media. The high-profile internet marketing and rapid shop expansion caused Luckin to neglect to improve the quality and taste of the product itself, resulting in lower user stickiness and repurchase intention.

3.5 Causes of the problem

A large part of the problems with Luckin Coffee is due to rapid expansion and market share grabbing. They have grown their brand rapidly in a short period as a phenomenal phenomenon in the Chinese coffee industry. They have looked to Starbucks to become China's own 'Starbucks' to provide a better product for consumers but have overlooked the many details that go with it. The combination of the internet marketing model has certainly attracted the attention of consumers. It has provided a degree of convenience, but it is also a double-edged sword. A single sales model may only satisfy a certain number of customers and not be sustainable and long-lasting. In addition, Luckin Coffee uses Starbucks as a competitor but lacks the taste and quality of its products. They pay more attention to catch consumers' attention and not spend more time and energy researching the recipe and the quality of the product, which makes consumers' interest drop drastically in a short period. As a result, Luckin Coffee has focused on marketing but neglected the quality and taste development of the product itself. They are more focused on capturing a large market share of the coffee in China.

4. Discussion

To address the current problems at Luckin Coffee, the first step would be to create more opportunities for customers to interact with the brand by increasing direct interaction between staff and customers, rather than just learning about the brand's culture through a mobile app or media. For example, the brand can add multiple staff members to actively explain and guide the ordering process for customers entering the store. By asking consumers about the product, which helps consumers quickly understand the process of purchasing and familiarise consumers with the marketing model Luckin coffee brand. In this process, consumers can first match their needs and find the products they want and also get information about product features and unique purchase patterns through the explanations of service personnel. Through the guidance of especially responsible commentators, consumers could more relaxedly accept and understand the Internet-based marketing model and Luckin coffee's unique brand culture in the store, which greatly strengthens the connection and familiarity between customers and the brand. Providing more humanized service at a time is

particularly important, as the details of staff service will directly impact the customer's emotional experience of the brand. At the same time, it is also necessary to strengthen the staff need to create a brand-specific cultural atmosphere in the work environment. Employees gradually improve their understanding of the brand culture recognition and fully mobilize the enthusiasm of the staff. Indirect contact between customers and employees experience the affinity of service to the brand. For instance, employees who make drinks can proactively introduce the coffee bean varieties and the original factory during the production process; after the production is completed, they could recommend more flavor product combinations for consumers and encourage trying to consider a second visit. These measures have considerably increased consumer repurchase intentions, the purpose is to make Luckin coffee pay more attention to the quality of consumer experience, rather than regard consumers as an offensive goal of occupying the market probably, and more humanized service design should be considered.

Furthermore, Luckin Coffee can set up several offline experience shops. More consumers can experience the brand culture and atmosphere in the offline environment, increase user loyalty and recognition and build brand awareness among the user community. For offline stores, more seats should be provided for consumers to rest, and more books introducing the culture of the Luckin coffee brand can be placed on the tables so that consumers have the opportunity to learn about the culture of the brand in their leisure time. In terms of product quality and taste, promoting the improvement of product quality and taste, investing more funds and time to specialize in research and development to enhance the essence of the product. In the long term, retaining users rather than just consumers being attracted by advertising and not buying anymore. No matter what kind of innovative marketing model, the high quality of the brand itself is inseparable. High-quality products are the core of the brand and the key factor that determines how far the brand can go.

Meanwhile, the price can be appropriately increased for the price aspect, and excessive discounts can be reduced. Inflated discounts may attract consumers initially. But from a long-term perspective, consumers will gradually feel that lower product quality does not match the (inflated) prices. Many discounts and discounts will gradually make consumers feel deceived, accompanied by greater disappointment towards domestic coffee brands. Therefore, reducing various discounts and promotions while improving product quality may be for Luckin coffee to win better brand reputation and word of mouth and form a positive cycle beneficial to the brand in the future.

5. Conclusion

The coffee industry in China is booming, and an increasing number of companies are transforming and upgrading. Luckin Coffee needs to improve its marketing strategy, brand culture, and product quality to become more competitive in the increasingly competitive market. This research will analyze the current problems of Luckin Coffee, such as the single marketing model, the inflated low price, and the lack of taste, combine them with relevant industry data to offer useful marketing advice. These recommendations will greatly improve the product's operational efficiency and build high consumer loyalty, which will sustain the growth of the increasingly competitive Chinese coffee industry in the future. At the same time, this study may have some limitations due to the literature analysis methods used, as all information is based on secondary data, which may have the time lag effect of the history of the data.

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