

# ***Marketing Strategies and Consumer Purchasing Factors of Coffee Retail Brands: A Case Study of Luckin Coffee***

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**Abstract:** China's coffee market, as a field that has not yet been maturely developed, with its huge population base, owns a very high purchasing potential and has continued to attract the establishment and entry of various coffee brands in the past ten years. Through a marketing strategy study of Luckin Coffee and an in-depth analysis of coffee consumer behavior through online questionnaires, we explore how Luckin Coffee will find a way out of the fierce coffee brand war in the Chinese coffee market. Due to the squeeze at both ends of the premium and sinking coffee markets and the replicability of the advantages to Luckin Coffee, the Chinese coffee market is still highly precarious. Luckin's development still needs to continuously adjust its strategy to increase brand loyalty in terms of product quality and consumer popularity so as to establish itself as a pioneer of a technology-driven new retail model to provide coffee in China in the Chinese coffee market.

**Keywords:** Luckin Coffee, coffee market, Consumer Behavior

## **1. Introduction**

Tea drinking has been prevalent in China since ancient times, while the coffee culture was formed later; however, the purchasing power of such a huge and almost empty market should not be underestimated. As an addictive drink, its long-term market growth is expected to be high, and coupled with China's large population base, its potential market size is huge, thus attracting more and more capital into the field [1]. According to the "China Coffee New Wave-2022 China Coffee Industry Development Report" released by Ali's New Service Research Center in conjunction with Hungry and Tmall Coffee, the market size of China's coffee industry reached 381.7 billion yuan in 2021 and is expected to exceed 10,000 billion yuan in 2025 [2]. China's coffee market is still at a relatively early stage, and the total consumption and per capita consumption are far lower than those in mature markets such as Europe, America, Japan, and South Korea, so there is great potential for growth. The report shows that in 2021, China's coffee bean imports will be 122,800 tons, up 74% year-on-year, and China's coffee imports will be \$526 million, up 68% year-on-year. China's coffee machine market has also entered a stage of rapid development. The 2023 China Urban Coffee Development Report, released by CBNDATA in conjunction with Meituan and Shanghai Jiao Tong University's Institute of Cultural Innovation and Youth Development, shows that the market size of China's coffee machine market has already reached 2.63 billion yuan in 2022 and is expected to reach 4 billion yuan in 2025 [3]. These figures show the rise of coffee market consumption in China. More than half of the consumers who participated in the questionnaire survey most often shopped for

Luckin Coffee. Taking Luckin Coffee as an example, this study carries out research on Luckin Coffee brand marketing strategy based on online data and analyzes in-depth the purchase factors of coffee consumers through online questionnaires, aiming to provide a feasible path for the sustainable development of Luckin Coffee brand.

## **2. Analysis of the Marketing Strategy of Luckin Coffee**

### **2.1. Overview of Luckin Coffee**

Luckin Coffee (OTC: LKNCY) is the pioneer of a technology-driven new retail model to provide coffee in China. It was founded in October 2017 and went public on NASDAQ in May 2019. Luckin Coffee released the audited financial report data at the end of the 2021 fiscal year. Pin showed. The total net income of Luckin Coffee reached 7.9653 billion yuan in the year 2021. Compared with 2020, the growth was 97.5%. At the end of 2021, its self-operated stores turned a loss into a win; by the end of 2021, the total number of stores had reached 6,024, surpassing Starbucks' 5,557 and becoming China's largest coffee chain brand by leaps and bounds [4].

### **2.2. Market Positioning of Luckin Coffee and Its Target Customer**

At the early stage of Luckin Coffee's entry into the coffee market promotion in 2018 and 2019, the brand image spokespersons chose the famous actors Tang Wei and Zhang Zhen. Both of them have excellent movie productions and have a good reputation for their excellent business ability and low-key and generous temperament, which is the type that Luckin's earliest target customer group -the urban white-collar group likes [5]. The stable and mature spokesperson has enabled Luckin to successfully export its brand positioning of "high-quality commercialized coffee" to the public. In the middle of the advertisement promotion, the popularity of Luckin Coffee increased, and its advertisement spokesman added Liu Haoran and Xiao Zhan, the traffic stars that young people like more, and through the organization of the "Meet Haoran" series of hand-decorated blind boxes with the purchase of antler cups, and the joint launch of 30,000 copies of the "Xiao Zhan Cup" signed by Xiao Zhan, the traffic star Xiao Zhan. Organizing the activities of the "Xiao Zhan Cup" stimulates consumers' curiosity and desire to collect and then attracts the purchase and spread of fans and consumers. Among them, the discussion volume of the microblogging topic #Liu Haoran endorses Luckin Coffee reached 295,000 people. At this stage, Luckin Coffee expanded its target customer group to include young people in its brand marketing. As a result of the target population, most Luckin Coffee stores are located around office buildings, communities, and universities. Communities, and universities. Luckin uses algorithm-driven digital site selection tools to track and analyze takeaway purchases through big data, pinpointing areas with a high concentration of potential pick-up customers, such as the first floor or periphery of an office building, and then quickly opening stores to meet the need. On the one hand, it can save a lot of rent and reduce store operating costs; on the other hand, it's easier to open a store in a small area without the need to conduct a lengthy review. Without the need to conduct a lengthy site selection demonstration, you can open a Luckin in all the locations with business opportunities, resulting in a This has resulted in Luckin's strong store opening speed and store coverage.

### **2.3. Luckin Coffee's Product Strategy**

Luckin Coffee has always been committed to "quality first," providing consumers with high-quality, cost-effective, and convenient products and services. For five consecutive years, Luckin coffee beans have won the gold medal in the IIAC International Coffee Tasting Competition; at the same time, Luckin Coffee insists on maintaining cooperation with excellent suppliers around the world to build

a high-quality supply chain and polishes the strict quality control system through 10000 stores to ensure the quality of the products. But beyond that, as a local brand in China, Luckin realized that coffee consumers in the Chinese market are different: compared to coffee itself, most Chinese consumers prefer milky drinks or mixed drinks containing coffee [6]. So Luckin tried to launch Raw Coconut Latte, which has sold more than 100 million cups in its first year on the market, winning consumers' word of mouth and generating a phenomenal amount of traffic in one fell swoop.

#### **2.4. Luckin Coffee's Pricing Strategy**

In the initial setting, the system of Luckin will give a default price, which is about 10 yuan less than the list price. But the system will issue coupons with discounts ranging from 5.0% to 4.3% or even lower. These discounts, while random, always offer a lower price than the original. Because the big data algorithms are influenced by a variety of factors, the price of coffee for each person varies but is in the range of 12-18 yuan. These discounts, while random, always offer a lower price than the original. Because the big data algorithm is influenced by a variety of factors, the price of coffee for each person varies but is in the \$12-\$18 range, and there is a hidden upward trend based on the number of purchases. Highlights the importance of strategically setting discount levels to encourage continued sales of coffee while avoiding discounts that discourage immediate purchases. It highlights the importance of strategically setting discount levels to encourage continued sales of coffee while avoiding discounts that discourage immediate purchases. By understanding the dynamics of promotional pricing and consumer preferences, coffee retailers can optimize their pricing strategies to achieve sustainable profitability and customer satisfaction.

#### **2.5. Luckin Coffee's Promotional Strategy**

Offline, Luckin spreads its advertisements all over subways and elevators in first-tier cities, attracting consumers' eyes with high-intensity exposure. Luckin Coffee cooperated with Focus Media, which specializes in building advertising in China, to open a wave of screen communication in the elevators of major office buildings, which quickly rooted the brand of Luckin in the hearts of the target audience. Online, the spokesperson's photo was used to design peripherals to encourage consumers to give coffee to others; a lucky draw for signed photos or signed coffee cups was held on Weibo; and a joint-naming with a popular IP was launched to offer peripherals with the purchase of coffee. What's more, Luckin Coffee quickly captured the target customer group through low-cost social customer acquisition and user fission marketing. In order to make the fission marketing more effective, Luckin Coffee also added the low-price strategy of subsidized discounts in the fission marketing to drive users to download the Luckin Coffee APP and also for Luckin Coffee to bring a lot of traffic to achieve rapid growth. The biggest feature of Luckin Coffee's low-price fission marketing is that the product helps pull newcomers and fission growth, which mainly utilizes the Internet social platform, WeChat public number, and WeChat moments fission to enhance the effectiveness of brand communication [7].

### **3. Consumption Factors of Coffee Consumers Based on the Questionnaire**

#### **3.1. Research Objectives and Methods**

The online questionnaire was used to carry out the research on consumer behavior in the coffee market, which contains consumer preference and consumption characteristics of two dimensions [8], consumption characteristics including consumer age, occupation consumption frequency, and the price and brand of coffee consumed, the research time is from August 12th to August 18th. A total of 121 valid questionnaires were collected for this research. From the age of the survey respondents,

there are two consumers aged 18 and below (1.65%), 48 consumers aged 19 to 25 (39.67%), 38 consumers aged 26 to 35 (31.4%), 16 consumers aged 36 to 45 (13.22%), 14 consumers aged 46 to 55 (11.57%), and 55 and above. The number of consumers aged 55 and above is 3 (2.48%); in terms of the occupation of the respondents, 46 (38.02%) are students, 49 (40.5%) are company employees, 7 (5.79%) are civil servants, 10 (8.26%) are freelancers, and 9 (7.44%) are others.

## 3.2. Findings

### 3.2.1. Consumption Characteristics

The results of the survey show that, from the perspective of consumers coffee consumption frequency, from the perspective of consumers' coffee consumption brand, the consumers choose Starbucks accounting for 25.62%, and the consumers choose Luckin accounting for 52.89%, which is twice as Starbucks; consumers who go to drink coffee 2 to 3 times a week accounted for 17.2%, and those who drink it occasionally and with a high frequency accounted for more than 65%; from the perspective of consumers unit price of coffee consumption, the unit price of coffee in the range of 10-30 yuan accounted for 62.81%, 10.74% for those with unit price below 10 yuan, and only 1.65% for those with a unit price of 40 yuan and above; from the consumers' coffee drinking situation, 46.28% of the consumers drink coffee when they are relaxing and entertaining, and 42.15% when they are drowsy or busy; from the location of coffee drinking, 38.02% of the consumers drink coffee in the office or in the school, and 26.45% of the consumers drink coffee in locations where they don't care; 26.45% of the consumers drink coffee in locations where they don't care. In terms of location, 38.02% of consumers drink coffee in offices or schools, 26.45% choose in different locations, and 19.01% choose to drink coffee in cafes. The above data shows that more coffee consumers tend to choose between different chain brand coffee with a unit price of 10~30 RMB and drink coffee when they need to study and work or for leisure and entertainment, and the frequency of drinking coffee fluctuates according to their needs.

### 3.2.2. Consumer Preference

According to the data released by Deloitte China, China's freshly brewed coffee head brands are dominated by comprehensive products and large chain brands applicable to multiple scenarios - this shows that brand is one of the important factors influencing consumers' choices when they are shopping for coffee, while consumers' demand for coffee quality has increased, which has made the focus on word of mouth, flavor and texture quite hot[9]. Consumers pay more attention to the quality of coffee and service experience, which makes more consumers choose to drink coffee in stores. Despite the fact that takeout is more convenient, the charm of freshly brewed coffee and the social culture of coffee still makes most coffee lovers choose to dine in stores. The results of this survey show that consumers choose coffee brands for a variety of reasons, with 37.19% being attracted by social media advertisements, 32.23% being attracted by offline stores, and 23.14% being recommended by friends and relatives. The decisive factors for purchasing a cup of coffee are flavor quality (47.93%) and cost-effectiveness (34.71%).

### 3.2.3. Results Analysis

According to the results of the questionnaire, it can be learned that there are reasons for the high purchase rate of Luckin Coffee (52.98%): 60.33% of consumers know a coffee brand through friends' introduction and social media advertisements, which is positively correlated with the marketing strategy of Luckin Coffee; 48.76% of consumers believe that the reasonable price range of coffee should be 10-20 RMB, which is also in line with the current product pricing of Luckin Coffee; more

than 40% of consumers drink coffee in the office or at school, and more than 80% of consumers drink coffee at work or for entertainment. This is also in line with the current pricing of Luckin Coffee's products; more than 40% of consumers drink coffee in offices or schools, and more than 80% drink coffee at work or for entertainment, which is also in line with Luckin Coffee's brand positioning and target group. For consumers, the decisive factors for purchasing coffee are quality (47.93%) and cost-effectiveness (34.71%).

## **4. Challenges of Luckin Coffee and Suggestions for Its Development**

### **4.1. Challenge**

High-end coffee to Starbucks as a representative, the configuration of a certain store space, attached to the concept of "third space," the main "cozy" "leisurely" romanticism scene. In the store atmosphere, humanistic atmosphere, and even coffee culture, Starbucks can sell the standard coffee for the basic 30 yuan to start, and some single products can be priced at 60 yuan. Starbucks is also changing its humanistic atmosphere to fully embrace digitalization. In September of this year, Starbucks proposed that it would invest 1.46 billion to create a digital technology innovation center using the Internet of Things, machine learning, and algorithms and replacing employees' day-to-day management of inventory, scheduling, and other tasks with systems [10].

In contrast, economic coffee chains, on the other hand, began with Family Mart, 711, and other convenience stores as the representatives, focusing on buy-now, single product, employees completely standardized operation, the price is also basically below 10 yuan, but because of its placement in the convenience store, the cost of materials, labor, and rent is low, so the gross profit is high. In the past two years, the emergence of Lucky Cup and Cotti Coffee has brought the development of economic coffee into a new stage. They are playing a big low-price strategy, gaining a bargaining advantage through mass purchasing while sharing the logistics supply chain with other brands from the same parent company [11]. The current emerging economic coffee brands have replicated the strategy of Luckin's frantic pre-expansion to depress prices and have directly launched products that are benchmarked against Luckin's explosive products.

These will threaten Luckin's core strengths. One of Luckin's advantages is understanding the taste of mainland users, and Lucky Cup and Cotti Coffee can do it at a lower price. Starbucks is also getting involved in the digitalization of research and development and product standardization, focusing on providing the functional value of coffee, which is known as another major advantage of Luckin. Luckin has the potential to break through on both ends at the same time, but also at the same time by the two ends of the survival space brought by the squeeze.

### **4.2. Suggestion**

Luckin's current sales are due to its efficient "internet + coffee shop" business format, as well as its cost-effective and high-quality products; these are undoubtedly things that need to be maintained, but they are also very easy to replicate. For Luckin, which already has a certain advantage in China's coffee market share and has already incorporated profitability into its brand development, lowering prices without considering costs is not the proper way out, and in today's fiercely competitive Chinese market, where consumers are extraordinarily sensitive to minor price changes, raising prices at this juncture could lead to a loss of more consumers. Therefore, we believe it is more important for Luckin to secure its current market share and further expand its market share.

### 4.2.1. Secure Current Market Share

Luckin's main target group is young people, and increasing their brand loyalty will ensure the current market share to a large extent. Luckin can hold activities on social platforms and its own apps to invite consumers to co-create, such as designing the appearance, voting for new flavors, and choosing the next co-branded IP through questionnaires; these ways of increasing consumer participation and suggesting measures based on consumers' preferences will give consumers a good feeling and increase their brand favoritism.

### 4.2.2. Further and Expand the Market Share

The issue of expanding market share is relatively more complex, but Luckin has already given an answer in the sinking market: the use of affiliate stores ensures the speed of expansion while keeping the brand from losing money. According to the questionnaire results, it is easy to conclude that offline stores are also a good way to publicize and attract customer traffic. In the high-end market, Starbucks almost has an absolute advantage, but Luckin can consider replicating the humanistic and romantic atmosphere of Starbucks in shopping districts and crowded places in second-third-tier cities where Starbucks has a low occupancy rate, so as to occupy the high-end market in second-third-tier cities. In the first-tier cities, we can consider opening co-branded stores and theme stores with famous IPs. Luckin can also consider opening stores with local characteristics in tourist cities or cooperate with the post office to open stores with related peripherals.

## 5. Conclusion

Luckin, as an Internet company, mainly targets workers and students, adopts a variety of composite marketing methods, diversified and innovative design, cost-effective products, and a unique sales model - online ordering, mainly self-pick, to become China's largest coffee brand and create a Chinese coffee chain. However, due to the squeeze at both ends of the premium and sinking coffee markets and the replicability of the advantages to Luckin Coffee, the Chinese coffee market is still highly precarious. Luckin's development still needs to continuously adjust its strategy to increase brand loyalty in terms of product quality and consumer popularity so as to establish itself as a pioneer in the Chinese coffee market.

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