

# A Comparative Study of Starbucks and Luckin Coffee's Market in China

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**Abstract.** Due to the rising popularity of coffee drinks in China's market, the two brands, Starbucks and Luckin Coffee, gradually appear in people's daily life. Both brands have provided similar products but different services and targeted customer groups, thereby differentiating their positions in the market. Since coffee is becoming one of the most popular drinks nowadays, many people are concerned about the competitiveness of these two brands and their further development in China's market. This research focuses on different strategies the two brands used to enlarge their customer groups and differentiate themselves from other brands, as well as the customer feedback on their services. The research suggests that, in China's market, Starbucks has more competitiveness in the recognition of the brand compared to Luckin Coffee, but both brands have succeeded in offering good-taste products. According to the survey, Starbucks received negative feedback on its price and taste of new products, while Luckin Coffee received negative feedback on its environment.

## 1. Introduction

As one of the most popular drinks around the world, coffee is actually not new to China. Some experts have traced that coffee first occurred in China in the late 19th century when a French missionary introduced coffee to Yunnan province [1], so coffee appeared in China a long time ago. But according to the International Coffee Organization, coffee production and industry did not appear in China until 1988 when the Chinese government initiated a project to regenerate the sector in association with the World Bank and the United Nations Development Programme [2]. However, starting with the first appearance of the coffee industry in China in 1988, China has risen from the 30th largest producer of coffee worldwide in the mid-90s to one of the top 15 global coffee-producing countries in 2022 [3]. From 2018-2019 to 2020-2021, coffee consumption in China increased by 140%, and coffee imports increased by 144% in 2021 to \$1.12 billion [4]. By the end of April 2022, there were approximately 110,000 coffee shops located in China.

This study is divided into five parts. The first part introduces the Chinese coffee market development; the second part presents a brief background of the case companies; the third part makes a review and comparison of the strategies used by the case companies; the fourth part reviews and analyses data information from a survey interview; finally, the conclusion of this study and suggestions for further research are summarized. The use of a comparative study on the strategies and drawbacks of Starbucks and Luckin Coffee could help enterprises adapt to the market and prevent having the same drawbacks.

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## 2. Background Information of Case Companies

### 2.1 The Background of Starbucks

The headquarters of Starbucks is located in Seattle, Washington, United States. Starbucks is the largest coffeehouse chain. It was founded in 1971 by Jerry Baldwin, Zev Sigel, and Gordon Bowker at Seattle's Pike Place Market. During the early 1980s, they sold the company to Howard Schultz who, after a business trip to Milan, Italy, decided to convert the coffee bean store into a coffee shop serving espresso-based drinks [5]. In 1987, Starbucks opened its first store outside Seattle, in Waterfront Station in Vancouver, British Columbia, and Chicago, Illinois. By 1989, there were 46 Starbucks stores located across the Pacific Northwest and Midwest. In January 1999, Starbucks opened its first store in Beijing, and by 2021 [6], there were 5,358 Starbucks stores in China and 33,833 Starbucks stores worldwide.

**Table 1.** Brief background of Starbucks [7,8].

English Name	Starbucks
Headquarters location	Seattle, Washington, United States
Time of Establishment	March 30, 1971
Business field	Coffee beverages, Baked goods
Number of employees	138000 (2021)
Number of stores worldwide	33,833 (2021)
Number of stores in China	5,358 (2021)

## 2.2 The Background of Luckin Coffee

Luckin Coffee’s headquarters is located in Xiamen, China [9]. It is one of the largest coffeehouse chains in China. It was founded in 2017 by Jenney Qian Zhiya and Charles Zhengyao Lu in Beijing. By October 2018, the company had opened 1300 stores, surpassing the number of Costa Coffee stores to become the second-biggest coffee brand in China. In January 2019, the company announced that it planned to open 2500 new stores and surpass Starbucks to become the biggest coffee brand in China. On 8 April, the U.S. stock market halted trading on all Luckin shares over the fraud probe. At the end of April, the company's stock fell by over 80% [10]. On 5 February 2021, the company filed for Chapter 15 bankruptcy in New York, less than a year after the company said that more than a quarter's worth of business may have been faked. By 22 September 2021, the company revealed its plans to restructure. By 2021, there are 6024 Luckin Coffee stores in China, covering 230 cities [11].

**Table 2.** Brief background of Luckin Coffee [11,12].

English Name	Luckin Coffee
Headquarters location	Xiamen, China
Time of Establishment	October, 2017
Business field	Coffee beverages, Tea
Number of employees	26966 (2021)
Number of stores worldwide	6024 (2021)
Number of stores in China	6024 (2021)

## 3. Comparison Between Starbucks and Luckin Coffee

### 3.1 Self-Position

As two of the largest coffeehouse chains in China, Starbucks and Luckin Coffee have similar but different orientations on how they operate. Both brands sell coffee with a fast-food style and settle their products at a quite expensive price compared to other coffee brands. Besides, they have targeted consumers with middle or high incomes. The customers of Starbucks are mainly white-collar workers. By claiming itself the “third place” for customers, Starbucks provides a welcoming and comforting environment for customers other than their homes and workplaces. Most Starbucks stores provide customers with free WIFI, seats, and tables so that they could work and rest in stores. Different from Starbucks, Luckin coffee has set its way towards a total fast-food-style coffee shop, with most of its stores providing few or no seats and tables, which does not really grab its customers other than people during working hours.

### 3.2 Products and Sales

With coffee as the main product, both Starbucks and Luckin coffee have provided products other than coffee in their stores. Starbucks sells baked food, sandwiches, and other drinks such as Frappuccino, one of its most well-known and best-selling products. Customers who spend

their free time in stores have a high possibility of placing an order of baked food with a drink, therefore increasing its sales and profits. Many Starbucks stores also provide breakfast and lunch packages, mostly including a drink and baked food or a sandwich roll. This has highly increased the number of customers entering Starbucks stores, as well as the possibilities of selling its products other than coffee. Different from Starbucks, Luckin Coffee provides customers with more types of drinks such as tea and fruit drinks instead of baked food since most of its stores have little space with few or no seats and tables. What is more, since its targeted customers are mostly workers who buy its products during working hours or lunch breaks, providing products in a short time and launching as many types as possible would be essential to keep its customers.

### 3.3 Distribution of Stores

As two of the most popular and biggest coffee brands in China, both Starbucks and Luckin Coffee have a wide distribution of stores and a similar distribution in the cities where the stores are located. In 2021, out of 5,358 operating stores, 54 percent of Starbucks stores were located in second-tier cities in China. In addition, one-third of Starbucks stores in China were located in the country's four first-tier cities, Beijing, Shanghai, Guangzhou, and Shenzhen [13]. Most stores are close to or in shopping centres, office building areas, schools, and residential districts. Starbucks currently has six operating flagship stores in China, located in Beijing Kerry Centre, Beijing Tai Koo Li, Chengdu Tai Koo Li, Shanghai Disney Town, Shenzhen MIXC World, and Suzhou Centre [14]. In 2021, out of 5,671 operating stores, around 70 percent of Luckin Coffee shops were located in second-tier cities in China. In addition, about one-fifth of Luckin Coffee stores in China were located in the country's four first-tier cities, namely Beijing, Shanghai, Guangzhou, and Shenzhen. Most of the stores are close to or in shopping centres and office building areas. Some of its stores are self-operated, while others are run by partners (1,465 partnership stores in 2021) [11].

### 3.4 Business Strategies

Starbucks and Luckin Coffee regard each other as a strong competitor in the coffee industry in China’s market. When operating, they have been vying for market leadership in China. Both of them are similar in many areas which include main products, targeting customers, organization’s missions, and standardization. However, they have been shown differently in their organizational performances due to the differences in their strategies, competitiveness aspects, and service.

#### Starbucks Strategy

“*Third Place*” Idea. Starbucks aims to provide a “third place” experience for their customers [15]. Starbucks stores are effectively positioned as a “third place” in addition to homes and workplaces, where people can spend time in a relaxing and comfortable environment with their friends or alone. By offering seats and free WIFI

in all the stores in the US and most stores abroad, customers are provided a place to get their work done. Starbucks stores are meticulously designed to make customers stay longer, buy more, and return for another visit.

**Value-Based Pricing.** Value-based pricing is the value perceived by the customer rather than its actual costs. The targeted customers of Starbucks are middle-upper income class and they are able and willing to pay extra costs to gain better quality and services [16]. This strategy has allowed Starbucks to target specific customer groups and differentiate itself from other coffee brands, meanwhile gaining more profits from its higher-priced products. The price of products that Starbucks provides is not only valued by the customer needs, but is also considered according to the exchange rates, bargaining power of customers, the local market competition, etc. Therefore, Starbucks could maximize its number of customers and gain its position in the market.

**Cultural Mindfulness and Intensive Research.** In China, tea is considered the national drink. Thus, to break into the market, Starbucks has provided its customers with many tea drinks on its menu [16], thus satisfying the needs and tastes of Chinese customers and increasing its popularity.

**Local Partnership.** Local partnerships have contributed enormously to Starbucks' process of developing and adopting into China's market. Starbucks has expanded its delivery and online services in China through a partnership with Meituan. Through the Meituan app, customers can order drinks and baked food online without going to Starbucks stores. As delivery services are very common and highly used in China, especially during the COVID-19 period, cooperating with Meituan has highly increased its sales and online markets. This has given Starbucks a frame of what products are wanted in China and what flavours Chinese people like and are familiar with [16].

#### **Luckin Coffee's Strategy**

**Reducing the Size of Stores.** Luckin Coffee, founded in 2017, first entered the coffee market in Beijing, China. The brand has aimed to propose a "cheaper-priced drink" experience for its customers. As aiming for both the taste and price and targeting customers who consume at work, most offline stores of Luckin Coffee are relatively small compared to other brands' shops, thereby reducing the shop rent and the number of staff needed, which also differentiates itself from other coffee or drink brands.

**Local Partnership.** Local partnerships have contributed enormously to Luckin Coffee's process of expanding its customers. As founded in the era of the Internet, Luckin coffee has increased the number of customers by expanding its delivery and online services through partnerships with Meituan and Eleme [17], targeting its customers towards younger and middle-aged groups. Again, since delivery services are commonly provided in China, especially during the COVID-19 period, partnering with these online platforms has highly increased its sales and online markets. Meanwhile, Luckin Coffee has also launched its own app where customers can seek the latest events and sales. This has further increased its customers and its recognition among people.

**Advertisements.** Advertisements are strongly used by

Luckin Coffee as a pathway to spread its popularity in China's market. From 2017 to 2022, Luckin Coffee cooperated with more than five well-known Asian celebrities, including Turbo Liu (Liu Haoran) and Chinese-American freestyle skier Eileen Gu as the brand's spokesmen [18]. Therefore, Luckin Coffee gains more brand awareness and widens its customer groups.

**Cultural Mindfulness and Intensive Research.** As tea is considered the national drink in China, Luckin Coffee has included lots of tea products on its menu while providing coffee as its main product. Providing pure tea drinks and milk-tea drinks have enlarged the brand's targeted customer group and also provided extra sales other than coffee. Having different products provided on the menu also reduces the chance of customers choosing another brand to consume due to a lack of differentiated product choices.

## **4. Data Analysis of the Online Survey of Customers**

In this study, an online survey interview with customer feedback was done. The investigation has been divided into 3 categories which involve the popularity of Starbucks and Luckin Coffee, the positive feedback of each brand, and the negative feedback of each brand. The survey was posted in the Wechat Applet "Golden Data" and received a total of 120 done surveys.

### **4.1 Popularity Among Customers**

Out of 120 done-surveys, 37 were submitted from Shanghai, 17 from Jiangsu, 11 from Guangdong, 6 from Jiangxi and Sichuan each, 5 from Shandong and Henan each, and the rest 33 surveys were from other provinces of the country. 104 respondents out of 120 claimed that they know, or have heard of the brand Luckin Coffee, while a total of 120 respondents claimed that they know, or have heard of the brand Starbucks. 45 respondents claimed that the people around them prefer consuming Starbucks, while 26 claimed Luckin Coffee and 36 claimed an even spread. Besides, 34 respondents claimed that they prefer consuming Luckin Coffee while 32 claimed Starbucks, and 27 for 'equally consumes' and 'neither' options. Moreover, while being asked about the proportion of the shops in their cities, 40 respondents claimed that Starbucks has a larger proportion while only 11 respondents claimed that Luckin Coffee has a larger proportion. When asked about the proportion of the two brands in China's market, 39 respondents believed that Starbucks has a larger proportion and only 16 believed that Luckin Coffee stands a larger proportion.

### **4.2 Improvements and Changes Based on Feedback**

**Starbucks.** According to the data from the respondents, a majority of them consume or prefer Starbucks due to its good taste and environment, 23 respondents like the brand and the service. This suggests that Starbucks has successfully reached its aim of providing its customers

with a “third home” environment as well as good products. Besides, over 120 respondents, 33 claimed that the price of Starbucks products is too high; 14 complained about the taste of coffee products and new products, and they wished more baked products can be provided; 3 respondents reflected about the lack of seats and noises in shops.

For improvements based on the data, Starbucks could work more on keeping the good quality and taste of coffee products, providing more baked products, and giving out discounts and coupons through online or in-shop activities. These can help build stable customer groups and enlarge its popularity. Another suggestion is to provide more choices on lunch or breakfast packages so as to increase the actual sales. In terms of the feedback on the noise and the lack of seats, Starbucks could offer more seats and sofas, and it is also a good choice to divide the seating area into 2 parts: a chatting area and a quiet space, so as to satisfy different needs of customers under different conditions.

**Luckin Coffee.** According to the data from the respondents, a majority of them consume or prefer Luckin Coffee due to the taste of its products and 24 respondents like the brand. This suggests that Luckin Coffee has successfully reached its aim of providing its customers with good-taste products. Besides, over 120 respondents, 10 claimed that the environment of Luckin Coffee is very unwell, either having no/too less seats or having an unclean environment; 12 complained about the quality and taste of coffee products, 2 reflected the illness after having its delivered products, and 3 wished more baked products.

As for suggestions on the improvements of Luckin Coffee based on data, the brand could work more on keeping the quality and taste of coffee products and providing more baked products. The brand could expand the size of its shops, provide more seats for customers and manage the environment and ingredients used in its products more strictly.

## 5. Conclusion

To conclude, in China’s market, Starbucks and Luckin Coffee have developed rapidly and have both satisfied the needs of Chinese customers, achieving great success. However, the performance and positioning have differentiated these two brands in different customer groups, resulting in different responses and feedback. Starbucks achieves its success based on its idea of providing a good environment and products, while Luckin Coffee succeeds based on its price and taste. Both brands have used the strategy of partnering with online platforms and developing their products based on the local culture, thereby gaining stable customer groups and catering to customer needs. Although, both Luckin Coffee and Starbucks are the biggest coffee brands in China’s market, according to the results of the survey, it can be concluded that, first, Starbucks has more competitiveness as more people prefer and recognize the brand. Second, Starbucks gains customers by providing a good environment and products while many customers complain about the environment of Luckin Coffee stores. Third, both brands need to work on the taste and quality of their coffee

products, and provide more baked products. Fourth, Luckin Coffee needs to work on its shop environment.

In this paper, the author gained information from past studies and online data from different years. The number of surveys done was insufficient and the age group was not included. More precise annotation on customer groups can be done in future studies.

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