Analysis of advantages and disadvantages of Luckin Coffee marketing strategy based on 4P theory

Jialin Yi
Shantou S.E.Z Linbaixin Middle School, Shantou, 515000, China

Abstract. Nowadays, coffee plays an increasingly important role in people's daily life, and drinking coffee has become a daily habit of many people. As a rapidly developing coffee brand in recent years, Luckin Coffee's marketing strategies and methods are also worth analysis and reference. Therefore, this paper explores the marketing strategy of Luckin Coffee based on 4P theory through literature investigation and case analysis. This paper analyzes the advantages and disadvantages of Luckin Coffee's marketing strategy from four aspects: product, price, promotion and place. This paper concluded that Luckin has developed rapidly in the coffee market and has a position in the coffee market through the combination of product research and development, price advantage, sales promotion, viral marketing, multi-channel sales and other marketing means. But at the same time, This paper also points out a series of problems existing in Luckin Coffee, such as difficulties in expanding foreign markets, difficulties in making profits, excessive marketing, and high operating costs, Finally, this paper puts forward some suggestions to Luckin Coffee according to the actual situation. This paper proposes that Luckin can improve the core competitiveness of products, clear price positioning, accurately control customer needs, and enhance customer purchase willingness through diversified ways.

1 Introduction

Nowadays, more and more people choose to have a cup of coffee when they work or rest. Coffee with refreshing functions has also become a necessity for modern people at work.

According to the International Coffee Organization (ICO), the coffee production in China has doubled in the last 5 years and there has been an important increase in the last two decades [1]. The main reason is that the price of tea have steadily declined in recent years. Farmers who originally grew tea chose to plant coffee beans for higher profits [1]. The continuous growth of coffee production has brought huge opportunities for the development of China's coffee market. In recent years, the consumer group of coffee in China has also experienced a rapid growth. According to the 2022 Report on the Development of China’s Existing Coffee Categories reported by Meituan Food & Kamen on May 31, 2022, the market capacity of handmade coffee in China reached 8.97 billion yuan in 2021, an increase of 41.7% compared to the previous year. In addition, it is expected that the market size of handmade coffee in China will reach 15.79 billion yuan by 2023 [2]. The rising consumer base means coffee is becoming more accepted in China. This has brought advantages for foreign coffee brands to enter China, and at the same time, many local Chinese coffee brands have emerged, among which Luckin Coffee is one.

Luckin Coffee is a rapidly rising local chain coffee brand in China in recent years. Its influence in China even caught up with Starbucks in less than a decade. Compared to Starbucks’ high prices, Luckin’s low prices have become a major advantage in order to seize the coffee market. It is high cost-effectiveness has also given it a place in the coffee market [3]. Of course, Luckin’s rapid development also cannot be separated from the help of marketing. Although they use low price to attract a large number of customers, this way also bring some hidden trouble. After the scandal of Luckin’s financial fraud caused by covering up the impact of price wars on the company was exposed, Luckin was facing bankruptcy. But it relied on excellent marketing to revive itself [3]. The creation and promotion of popular products, as well as the enhancement of brand awareness and shaping of brand image, are also worth to be learned by relevant enterprises. In recent years, with the continuous development of Luckin Coffee, the research on Luckin Coffee marketing has gradually increased. Most of the research focuses on the marketing model and marketing characteristics of Luckin Coffee, and discusses and analyzes on this basis. However, the existing studies lack of analysis and effective suggestions for the shortcomings of Luckin Coffee marketing strategy.

This article takes Luckin Coffee as an example and conducts an in-depth analysis of its marketing strategy based on the 4P theory. The paper explores the advantages and disadvantages of the brand's marketing
through literature review and case analysis methods. It also put forward some valuable opinions on Luckin, for the reference of relevant enterprises.

2 The introduction of brand key information

2.1 Brand profile

Luckin Coffee is one of the largest chain coffee brands in China. It was established in Xiamen in June 2017. In the following year, it launched trial operation in 13 cities, including Beijing and Shanghai. Luckin Coffee fully utilizes the new retail model of mobile internet and big data technology, deeply cooperates with top suppliers in various fields, and is committed to providing customers with high-quality, cost-effective, and convenient products. At present, Luckin Coffee's latest total number of stores has exceeded 13000, with the cumulative number of trading customers exceeded 170 million, making it has become the largest coffee chain in China. As of 2023, Luckin Coffee has won the IIAC Gold Award for five consecutive years, and "SOE Yega Sheffield" has won the Platinum Award twice, making it the only chain coffee brand in China to win gold for five consecutive years [4].

2.2 Brand development

After opening its first store in 2017, Luckin Coffee began to rapidly expand and opened a large number of stores. In May 2019, Luckin Coffee successfully listed on the NASDAQ Stock Exchange, becoming the fastest company in the world to go public. At the end of 2019, Luckin Coffee has the largest number of stores in the China market in the coffee field, even surpassing Starbucks. Before April 2, 2020, Luckin Coffee issued an admission of financial fraud, which caused its share price plunging [5]. At the end of 2021, Luckin Coffee has managed to turn losses into profits by launching unmanned coffee machines and building popular products. As of today, Luckin has become the largest coffee chain in China.

2.3 Market positioning

Luckin initially wanted to create an image of high-quality coffee. It provides high-quality coffee and tea drinks, using high-quality coffee beans, with on-site brewing technology, to ensure the taste and quality of drink. They also chose actors Tang Wei and Zhang Zheng as their brand spokespeople. The purpose is to use the spokesperson’s excellent business ability to attract urban white-collar group as their target customer groups [6]. Later, Luckin realized that the main reason user chose it was because it had a lower price. Therefore, it gives full play to its advantages and readjust its brand positioning to have the characteristics of high cost-effective in order to attract more customers and open up brand awareness. In order to attract more young people as their target group, Luckin is focusing its coffee shops on office buildings, neighborhoods and around universities [6]. This allows working young people or students to drink Luckin coffee at any time, and successfully achieve the capture of the target customer group.

2.4 Brand identity

Luckin's brand logo design is a big deer, blue as the main visual tone, a large area of blue vision gives a calm and mature feeling. The deer head as brand image highlight the vitality of the brand, which is a symbol of vitality. Luckin uses deer as its logo because deer was regarded as a divine object in ancient times, which can bring auspiciousness, happiness and longevity to people. Those longevity gods are riding sika deer, and deer has the meaning of luck and good luck in many countries.

3 Advantages and disadvantages of Luckin's marketing strategies

3.1 Product

Luckin’s products focus on coffee and provide a variety of coffee-flavored drinks. Luckin has a wide range of conventional products, such as Americano, latte and mocha, which it uses to benchmark itself against competitors. Luckin also has many of its own special products, such as ice brew series, Chinese tea and coffee series. Through market research, Luckin realized that Chinese customers prefer blended drinks containing coffee to pure coffee [6]. On this basis, Luckin launched the raw coconut latte, which is a mixture of coconut water and latte [6]. Once this product was launched, it became a network celebrity and was loved by consumers. Next, Luckin also launched a lot of similar drinks, such as raw cheese latte, moutai-flavored latte and so on. Raw cheese latte combined with the taste of the Chinese people, in order to increase the variety of coffee, to meet the habits of consumers, to win the taste of some people who do not love coffee, so as to expand the market. The moutai-flavored latte can attract customers who are interested in Maotai, try this coffee, and expand the market. Although the taste of these products has mixed reviews, these products have further opened the visibility of Luckin. In addition, Luckin often launches coffee products that cooperate with IP, such as co-branding with Cat and Mouse, Doraemon and other hot IP, and gives away peripheral products on this basis, combining products with IP to increase exposure and attract consumers to buy. IP co-branding will attract a lot of young people who like a certain IP, and these young people who like the trend will go to buy coffee for the surrounding, thereby increasing exposure and increasing sales. However, a coffee taste developed for the Chinese means it may not be suitable for people in other countries. Therefore, Luckin Coffee lacks influence in foreign markets, and it is difficult to attract foreign customers and open up new markets.
3.2 Price

It is obvious that the price strategy used by Luckin is penetration pricing. Penetration pricing can help Luckin's products attract consumers in a short period of time and gain a foothold in the market at a faster pace. This pricing strategy also makes Luckin have a price advantage to a large extent, which is also a big reason why customers choose Luckin coffee. Users who download the Luckin Coffee app and register for the first time can receive a complimentary cup of coffee. Additionally, this allows customers to buy coffee at a 50 percent discount or send an 82 percent discount coupon to attract customers. Following their purchase and registration, they will also get several communications to encourage them to make more purchases [7]. Until now, Luckin has also adopted marketing strategies in terms of price, such as inviting friends to get discounts, 9.9 to drink coffee and so on. However, this price strategy may bring some disadvantages. If the prices of coffee go up, the customers may choose to buy other brand coffee, such as Starbucks. And this way requires significant investment and carries extremely high risks. The profit earned from each cup of coffee sold in the early stage is very small, and only when economies of scale are achieved in the later stage can the company gradually transition to a profitable state.

3.3 Promotion

Luckin Coffee uses a variety of promotion methods to improve brand awareness and attract consumers. They use advertising, sales promotion, social media marketing, public relations and other channels to promote. These promotion strategies make Luckin appear frequently in the eyes of consumers and expand the brand influence. Among them, sales promotion is a more successful promotion strategy done by Luckin. Luckin is appealing to consumers by distributing a large number of coupons on various high-traffic social media. Luckin Coffee will use coupons to encourage consumers to share their products on other social media sites in addition to providing coupons to customers. If customers post a product note using Luckin's title in Xiaohongshu, they will earn a coffee coupon. By using a coupon promotion strategy like this, Luckin Coffee can increase its sales and market share. It can also help Luckin draw in new customers and keep hold of existing ones [8]. In addition, they often launch co-branding campaigns with other brands or popular IP to promote new products and achieve the purpose of increasing exposure. It is worth mentioning that Luckin's viral marketing is very successful. Viral marketing describes circumstances that are currently the subject of intense debate, which marketers then use to their advantage in a marketing strategy to ensure that the message they want to convey reaches a wide audience fast and easily. Viral marketing is a useful tool for introducing a product or brand and can boost sales [8]. In the way of Luckin using the "invitation cup" promotion communication, consumers in order to get a discount of 20 yuan, choose to forward to the friends around, the friends received the message, and also forward to other friends. At this point, spread by spread, spread by ten hundred, viral marketing appeared. However, although viral marketing can make the information quickly and effectively delivered to the target group, it also has some drawbacks. Viral marketing cannot control the target group's interpretation and comments on the content, and if there is a negative interpretation or misunderstanding spread, it may bring negative brand impact to Luckin. In addition, over-marketing can sometimes backfire excessive marketing is sometimes counterproductive, excessive consumption of consumer enthusiasm, is harmful to the sustainable development of enterprises.

3.4 Place

Luckin Coffee's sales channels are mainly divided into online and offline parts. Online channels are available through their mobile applications, making it easy for consumers to order, pay and deliver services. Offline channels include stores and vending machines that offer on-site purchase and pickup of various coffee products. In addition to ordering online and offline, Luckin coffee also offers delivery services. The food conveyance group they put in a position to serve Luckin coffee has understood the high productivity of coffee conveyance. Besides, Luckin coffee has a short conveyance time and promise to convey in the span of 30 minutes, having a decent impact on clients [9]. However, Multi-channel sales and delivery services also come with high operating and maintenance costs. Once there is a problem in any part of the process, it will bring bad purchasing experience to customers.

4 Suggestion

4.1 Improve the quality, enhance the core competitiveness of products

Luckin should upgrade and develop existing products and improve product quality to stabilize the existing customer base. After Luckin lets customers experience high-quality coffee, customers have expectations for Luckin Coffee customers will give Luckin a sense of expectation. If the subsequent research and development cannot keep up, it will bring a sense of disappointment to customers. Popular items cannot be updated quickly enough as time goes on, which is likely to lead to a deterioration in customer taste. As a result, consumers may turn to other brand in search of new tastes and experiences [10]. Therefore, Luckin should increase investment in product development and upgrading, and develop products with more brand characteristics according to customers' preferences to enhance the core competitiveness of the brand. The taste and eating habits of people in different regions are quite different, so Luckin can introduce unique coffee flavor suitable for the region according to the preferences of different regions, which not only meets the needs of consumers, but also improves the core competitiveness of products.
4.2 Clear price positioning, capture the public psychology

Luckin should clarify its price positioning and launch products in different price ranges for customers to choose from. Luckin now faces a big problem, is the price setting, high and low prices will limit customers' desire to buy. If the original low-price policy is followed, it will be difficult to achieve long-term profitability. However, choosing to raise the price will lose some customers. Therefore, on the basis of maintaining the price of the original products, Luckin can launch some high-end products to test the water and increase the price of high-end products. This can not only alleviate the problem of difficult profitability, but also avoid the loss of original customers. Therefore, Luckin should find the balance point between profit and customers, clarify the highest price that customers can accept, and set a reasonable price. In addition, Luckin can refer to the price of similar products in the same industry to price its own products. The introduction of high-end products can also attract customers who have a demand for coffee quality to buy Luckin Coffee. Luckin can also use cost-plus pricing to set the required markup on its own unit costs to get a fair price.

4.3 Accurately control customer demand, improve customer stickiness

Luckin should always pay attention to customer needs, make timely adjustments according to market needs, develop and launch new products, and improve customer stickiness. Customer demand is the vane of a brand product development and launch, which is related to the popularity of the product. Accurately taking care of customer needs is of great help to improve brand loyalty and enhance customer stickiness. Luckin can collect customer needs through questionnaires, market research and other means, and can also communicate with customers directly through the official account on the Internet, collect advantages and disadvantages, and further optimize products. For example, the majority of Luckin coffee drinks choose to mix milk with their beverage and add extra syrup. This will result in calorie-dense drinks that will not satisfy the demands of those trying to lose weight. Consequently, Luckin Coffee can enhance its selection of low-calorie beverages in order to attract more clients [8].

4.4 Increase consumers' purchase intention through diversification

Diversification refers to enhancing consumer purchase intentions from multiple perspectives. Luckin can strengthen the supervision and management of the environmental health quality of franchise stores, regularly arrange personnel to inspect, and ensure that customers to the store have a good purchasing experience. Moreover, currently available research has shown that one of the main obstacles to consumer purchases is the fair-trade price premium. So, the business finds some approaches that would encourage people to buy more ethically in order to explain or justify the price difference is very important [11]. Luckin can convince customers of the pricing by emphasizing the unique selling point of their products, and make customers feel that the purchase of the product is worth the money, thus increasing their willingness to buy. Luckin can also hire spokespeople to increase exposure and attract consumer purchases with the flow and fans of stars.

5 Conclusion

Luckin Coffee can quickly occupy a place in the fierce coffee market, it is inseparable from its marketing strategy. This paper analyzes the advantages and disadvantages of Luckin's marketing strategy through the 4P theory, and draws the following conclusions. It designs coffee tastes in line with Chinese people's coffee tastes, and attracts customers with low price and high-cost performance. At the same time, it combines various promotion methods to improve brand awareness, promotes products to target customer groups, and finally improves sales channels by combining online sales with offline sales and adding takeout services. The combination of these marketing strategies has made Luckin Coffee the largest coffee brand in China. However, Luckin's marketing strategy also has some drawbacks. Its coffee drinks, designed specifically for the Chinese, were unable to get foreigners to pay for them, which greatly limited its expansion into foreign markets. At the same time, low cost cannot make it profitable quickly, excessive consumption of consumer enthusiasm may bring negative effects, multi-channel sales and high operating costs required for takeout business, are all marketing drawbacks that Luckin Coffee needs to consider. In the face of such a competitive coffee market, Luckin also needs to make appropriate adjustments on this basis. Luckin can enhance its brand competitiveness by improving product quality, clarifying price positioning, increasing customers' willingness to buy in diversified ways, and accurately grasping customer needs. The marketing analysis of Luckin Coffee in this paper can make Luckin Coffee clear the advantages and disadvantages of its marketing strategy and provide the direction for modification, and also provide reference or reference significance for relevant brands and enterprises. However, the research in this paper is based on the 4P theory, which cannot cover and apply to all practical situations. This paper is helpful to further analyze Luckin Coffee's marketing strategies from different marketing theories in future studies.

References

4. X. Zhang, MM 13, 7(2023)
5. W. Du, Finan Engin Risk Manag, 6, 7(2023)
6. Y. Liu, AEMPS, 215-221 (2023)
7. M. Yang, Y. Lv, EMS, 7-11 (2019)
8. Z. Shang, HBEM 13, 106-112 (2023)
10. X. Cui, BCP B& M 36, 307-311(2023)
11. D. Bürgin, R. Wilken, J BUS ETHICS, 1015-1040 (2023)