

# Research on the Business Model of the Chinese Tea Beverage Industry by the SWOT: Take CHAGEE and Luckin Coffee as Example

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**Abstract.** People's enthusiasm for consuming has increased and social consumption has been upgraded as a result of the consistent economic growth. With the high popularity of freshly made tea beverages, many tea beverage brands have appeared one after another, and have been loved by contemporary young groups and have attracted wide attention from society. This has also led to ongoing discussions within the community over the new business model for the tea beverage industry. Through SWOT analysis, this study studied the reasons and business models behind the new tea beverage brands represented by CHAGEE and Luckin Coffee. The research examines the similarities between CHAGEE and Luckin Coffee's market sizes, marketing strategy, and development paths in order to determine the necessary circumstances for creating new tea beverages. The development potential and drawbacks of CHAGEE and Luckin Coffee in the tea beverage business are then analyzed in this study. These findings are combined with the real state of the Chinese tea beverage industry to inspire the growth of CHAGEE and Luckin Coffee. Next, recommendations for creating cultural intellectual property rights that adhere to brand attributes, raise service standards and broaden service offerings, and improve product user experience are made.

## 1 Introduction

Tea culture originated in China, and the Chinese people have a long history of drinking tea. The public's perception of consumption has continuously evolved in the twenty-first century, along with the development of the national economy and improvements in people's quality of life. In terms of the tea beverage sector, the general public is aware of the benefits of consuming tea healthily, and the preference for freshly produced tea has steadily replaced traditional packaged flavored tea. Under the influence of consumers' demand for added value and health of products, the Chinese tea beverage industry continues to upgrade and transform. Therefore, many new tea beverage brands have emerged as the times require. Some large tea beverage brands with their diversified and personalized product experience, have received wide attention, showing a strong market competitiveness. Such as HEYTEA and NAIXUE. The distinctive business model and marketing strategy are of great significance to the competition in the tea beverage sector. To a certain extent, some tea

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beverage brands with greater potential can benefit from these successful experiences. Both CHAGEE and Luckin Coffee boast a sizable customer base in addition to unique marketing approaches. However, compared with other leading tea beverage brands in the industry, its business model still has a certain gap in many aspects.

Numerous well-known new tea beverage brands, including HEYTEA and NAIXUE, have been the subject of earlier investigations. The upgrading and development of the tea beverage sector is largely attributed, in the opinion of many, to the usage and promotion of the Internet. Lu mentioned that 80 percent of NAIXUE's tea customers prefer to purchase online and that the NAIXUE GO app, which is part of the NAIXUE tea beverage brand, has more than 30 million registered users [1]. The development of network information technology is intimately linked to the new tea drinks' quick growth in sales. Ye has thought that HEYTEA's marketing approach involved releasing digital advertising on different new media platforms in order to successfully ingrain marketing content into consumers' hearts [2]. In the new media era, Internet publicity has gradually become the mainstream of brand publicity. Internet marketing has proven beneficial not only for high-end tea beverage brands like HEYTEA but also for low-end brands like MXBC. Lu stated that MXBC has benefited greatly in the tea beverage business by leveraging social media to create a fan base for advertising purposes [3]. The Internet has promoted the upgrading of the tea beverage industry with its characteristics of circulation convenience, content richness and broad audience.

However, there are significant variations in how various tea beverage brands employ new media and how this influences their marketing tactics. For instance, according to Xu, Luckin Coffee leverages new media technologies and the Internet to facilitate quick information transmission in web media. This promoted customers to actively spread their word of mouth so Luckin Coffee's customer base has been on a rapid rise [4]. As Liu pointed out, CHAGEE frequently uses the Internet for marketing in a manner akin to talent shows in the entertainment business. Leverage the power of engagement tactics and the Internet to establish powerful relationships with target audiences, grow the fan base, and generate more good word-of-mouth to further improve the brand's reputation [5]. Major tea beverage brands use the Internet to carry marketing through diversified strategies, which echoes the social environment in which information spreads rapidly, and promotes the reform and progress of the entire tea beverage industry.

However, there is still controversy about how to use Internet media for publicity and marketing, and many different voices have emerged in society. According to Shi et al., bad press during online promotion and marketing will severely damage a brand's value and image, making customers reluctant to purchase the products in question and possibly impeding the growth of the entire industry [6]. Zhang also mentioned how HEYTEA initially employed hunger marketing to generate a lot of online conversation and get widespread recognition. Nevertheless, the long waiting period erodes the enthusiasm of customers and hurts the brand image in the minds of customers [7]. Social media marketing is a double-edged sword. If consumers express their dissatisfaction with the tea beverage brand online and the brand gains negative word-of-mouth, the negative impact on the brand will spread quickly [5]. This is a key factor that all tea beverage brands need to be aware of, as it can have a significant and far-reaching impact on the brand.

Notwithstanding, the majority of opinions hold that a key factor in the success of brand business models is the originality and differentiation of tea beverage brands themselves. Some individuals believe that the popularity of large tea beverage brands on the Internet and in society is attributable to their own correct and effective marketing strategies. To increase public acceptance and attention to healthy tea beverages, some major tea beverage firms advertise sugar-free or low-sugar options in the web media. This not only satisfies the wide range of consumer preferences, but it also satisfies the need for healthful tea

beverages and significantly advances the transformation of the tea sector [8]. CHAGEE stands out from other tea beverage companies because it has thoroughly examined the essence of Chinese culture and blended it with contemporary tea to produce a distinctive national style brand image. It also uses new media technologies for promotions [9]. Using online mini-programs to issue coupons to customers, and at a lower price to obtain the consumer demand of low, middle and high end customers. On this basis, guide customers to promote coupons, in order to increase their market share and sales. Furthermore, Luckin Coffee leverages the Internet for marketing purposes by collaborating with other brands frequently, which draws in new clients [10]. CHAGEE and Luckin Coffee use different ways to market and improve brand awareness through the Internet to enhance their brand market competitiveness.

Even yet, several of the marketing tactics in its business are still overly broad, inadequately targeted, out of step with the state of the tea beverage industry, and lacking in creativity. This research will discuss the business models of Luckin Coffee and CHAGEE through SWOT analysis and will collate and review literature to study their marketing strategies. Analyze the reasons for its success, its potential for future development and the shortcomings of the current status, and provide suggestions for its future development.

## 2 Development status of CHAGEE and Luckin Coffee

### 2.1 Brand store

The development of domestic new tea beverage brand stores shows a steady growth trend, and the opening speed is faster, which is slightly improved compared with the same period last year. Over 2,300 new stores have been added by CHAGEE in 2023 as a whole. Currently, CHAGEE operates over 4,700 outlets globally. Its primary market is the domestic one; its brand stores are primarily found in the southeast's economically developed regions, as well as the southwest, where they were founded, and are also spreading to the northeast and northwest. With outlets across Asia, Europe, Australia, and the Americas, CHAGEE is a global player in the industry. Since implementing its abroad strategy, the company has continued to grow internationally and is dedicated to achieving its goal of serving 100 countries. In terms of store expansion, Luckin Coffee has also been significantly successful, and the number of Luckin Coffee stores has increased by more than 85% in the past year. As of right now, it possesses an astounding 20,000 outlets, with 90% of the nation's cities covered by its services. In the domestic market, its stores are mainly concentrated in fifth-tier and above cities, especially in new first-tier cities. Looking at the domestic market, its stores are concentrated in the eastern region, and it is accelerating its expansion to the western region. The business strategy focusing on expanding the scope of services, coupled with the publicity and promotion of its online and offline platforms, has made its strategy of accelerating the opening of stores achieve remarkable results.

### 2.2 Sales status

The enterprise's market operation, product market demand, sales strategy effectiveness, and other informational factors can all be reflected in sales status. For CHAGEE and Luckin Coffee, the positive sales trend directly reflects their market conditions, the effectiveness of sales strategies, and the degree of consumer recognition. CHAGEE sold 230 million cups during the course of the 2023 year for a total sales value of 10.8 billion yuan. In the first quarter of 2024, the company's sales surpassed 5.8 billion yuan or half of the sales for the

entire previous year. It is anticipated that by 2024, its yearly sales will surpass 20 billion yuan. With an 88% same-store growth rate, its full-month average shop sales in 2023 were 483,000 yuan. In the first quarter of 2024, average store sales increased to 549,000 yuan. In the sales forecast for 2024, CHAGEE's total annual sales are expected to be close to the sales of large coffee brand Starbucks in China, which is expected to achieve the goal it proposed six years ago against Starbucks. Luckin Coffee topped the Chinese coffee market in 2023 with sales exceeding 20 billion yuan annually. Among them, the net profit totaled more than 24 billion yuan, representing an annual growth of 87.3 percent. On an annual sales basis of approximately 3.45 billion U.S. dollars and its operating profit overtaking Starbucks' revenues in China for the first time. Luckin Coffee's total net revenue for the first quarter of 2024 was up 41.5% over the same period the previous year. In the second quarter, its net profit achieved an increase of 35.5% year-over-year, and another record high for a single quarter. In 2024, Luckin Coffee had a notable rise in its sales throughout the first and second quarters. Fig.1 shows Luckin Coffee sales in the first and second quarters of 2024 and Year 2023.

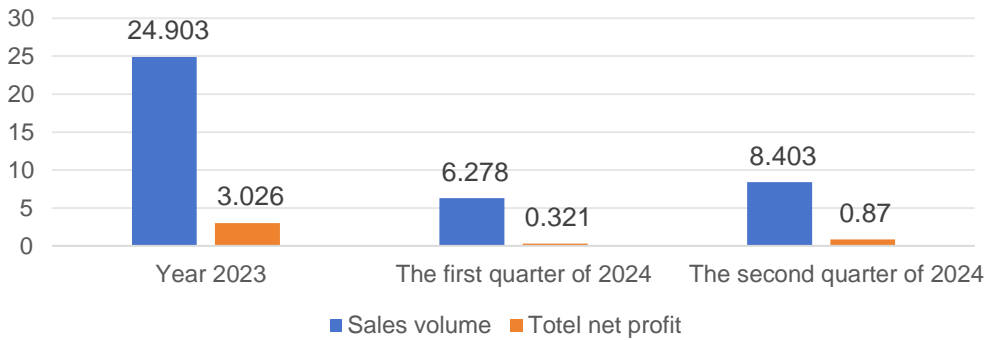


Fig.1. Sales of Luckin Coffee in the first and second quarters of 2024 and Year 2023 (in RMB 1 billion)

### 2.3 Brand positioning and product category

In the competitiveness of businesses, an enterprise's brand is crucial because it represents their competitiveness, serves as a foundation for its long-term growth, gives it a distinct identity, and is one of its most valuable intangible assets. The category has a close relationship with the brand and helps the brand to achieve its market objectives. Different categories represent different consumer needs, and the development of different categories has a profound impact on the market strategy of enterprises. Choosing a category is essential to brand strategy. A company's target market, competitive landscape, and relationships with other brands are all influenced by its category. Table 1 displays product categories and brand positioning for CHAGEE and Luckin Coffee.

Table 1. The product categories and brand positioning for CHAGEE and Luckin Coffee

Brand name	Brand Introduction	Brand mission and vision	Brand objective	Brand product

CHAGEE	CHAGEE is a new Chinese tea drinking brand, the brand name comes from the Chinese traditional epic story Farewell My Concubine, CHAGEE is based in the world tea hometown, the birthplace of the ancient tea horse road in Yunnan, under the influence of traditional culture and economic globalization, CHAGEE determined the brand positioning of "original milk tea + Eastern new tea shop". It deeply imprints the traditional culture into the brand gene and creates the national style of new tea drinks	It deeply imprints the traditional culture into the brand gene, creates the national style of new tea drinks, and has the brand mission of "Oriental tea, friends of the world" (CHAGEETOGETHER), and the vision of becoming the world representative of Chinese tea enterprises.	CHAGEE is dedicated to satisfying customer demands for healthy drinks and places a strong emphasis on the idea of health.	Along with raw-leaf fresh milk tea, other categories it falls under include pure tea, milk cover tea, fresh fruit tea, etc. Having the qualities of creativity and distinctive distinctiveness in order to satisfy the preferences and requirements of various consumers.
Luckin Coffee	Luckin Coffee is the Chinese largest chain coffee brand, with "professional, fashion, fun" as its brand tone to create a world-class coffee brand from China for its brand positioning	The company's brand objective is to "create a world-class coffee brand let Luckin become a part of People's Daily life". As stated in the brand mission, "create lucky moments, inspire a better life".	To provide customers with high quality, cost-effective, high convenience products and services.	Its category covers coffee, tea, juice, Renaissance, light food and peripheral products, etc. Also has the characteristics of innovation and differentiation.

### 3 SWOT analysis

#### 3.1 Strengths

As mentioned previously, in order to satisfy the demands of various customers, CHAGEE offers a wide range of creative, varied, and distinctive products and services, including fruit tea, milk tea, and many more distinct product categories. Furthermore, its exclusive product formula and manufacturing technique have produced several new products, like Boya Juexian. Simultaneously, these various tea products prioritize health and provide greater consideration to the selection of raw materials. On this basis, CHAGEE also integrates with the palace culture, Sanxingdui culture, national culture, etc., and creates a strong traditional cultural theme atmosphere around the tea culture of "surrounding, boiling,

foaming and drawing, brewing extracting". In addition to the home market, CHAGEE actively pursues global development and market expansion abroad.

Regarding Luckin Coffee, it enjoys great consumer recognition, a sizable fan base, and significant brand awareness. In addition, Luckin Coffee offers a distinctive marketing strategy that combines online and offline marketing to provide customers with convenient services. Furthermore, Luckin Coffee has vigorously developed broader marketing to improve its customer base. For example, recently, it signed with the large domestic 3A game "Black Myth Wukong" and launched a new product "Tengyun Americano". Additionally, Luckin Coffee has a good and effective pricing strategy, its coffee pricing is low, and the incentives are strong, more welfare, through the issuance of coupons, reduce the price of its products and the average price of consumption, has a strong market competitiveness. Similar to CHAGEE, Luckin Coffee offers a wide range of creative and varied product categories, including juice, tea, coffee, and many more, to satisfy the needs of various customer types. Finally, Luckin Coffee had a lot of investment at the beginning of its establishment, and its strong capital strength is conducive to its rapid expansion and development.

### 3.2 Weaknesses

Currently, the average price of most tea beverage brands is 15-20 yuan, while the price of most CHAGEE products is between 26 yuan. Compared with the whole tea beverage brand, its pricing is at the top, which makes CHAGEE weak in terms of price competitiveness. Its brand drawbacks also include fewer product types and a deficiency in category innovation capacity. The market share is low and CHAGEE's retail expansion pace is slow due to the impact of its marketing app. Although in recent years, the pace of expansion has grown dramatically, the company still confronts numerous obstacles. Most tea brands are using the Internet for brand promotion, and so is CHAGEE, although it has a certain effect, its brand awareness still needs to be improved.

One of the numerous brand weaknesses of Luckin Coffee is the inconsistent quality of its products. This will diminish the brand's enthusiasm among consumers and harm the brand's reputation. Besides, its excessive dependence on financing, the expansion speed is too fast, but it will also have an impact on the profitability of its brand. Furthermore, Luckin Coffee's ongoing, long-term loss is detrimental to its future growth. It is important to note that the marketing model carries some risks that, under certain conditions, could result in losses for the company.

### 3.3 Opportunities

Firstly, with the development of the social economy, the improvement of people's living standards and the popularization of the concept of a healthy diet, consumers have increased their demand for healthy and high-quality tea drinks, which is very consistent with the brand positioning of CHAGEE. Secondly, the popularization of the Internet and the application of new media in the information age have brought opportunities for tea brands, which are conducive to the expansion of CHAGEE's brand influence and effectively help its marketing. Furthermore, in light of economic globalization, it facilitates the CHAGEE brand's international development and may aid in international market expansion. The world's growing interest in Chinese culture, which is helpful to CHAGEE in the international dissemination of Chinese tea culture, is another opportunity presented by the rise of Chinese culture. Finally, the rise in international collaboration and celebrity endorsement has created chances for CHAGEE brand advertising. For instance, CHAGEE leveraged its commercial acumen to sign Qinwen Zheng, a Chinese tennis player, as its

brand spokeswoman before to the Olympics in Paris. Following her gold medal win, CHAGEE received a lot of media exposure and met its marketing objectives.

For Luckin Coffee, there are also many market opportunities. The improvement of social and economic levels has promoted consumers' demand for coffee. The Chinese coffee market has huge potential and a fast growth rate, which provides Luckin Coffee with huge opportunities. In addition, the current situation of fewer tea beverage brands and enormous market potential in domestic second and third cities supports the company's quick expansion of its marketing plan. Additionally, Luckin Coffee meets the needs of various consumers in the information age through category innovation and tailored services, which helps to increase its competitiveness in the market. Apart from these, Luckin Coffee's lower consumer prices can also help it to have a strong competitiveness in the Chinese coffee market.

### 3.4 Threats

CHAGEE must contend with numerous threats. First off, the Chinese tea market is extremely competitive and shifts in the competitive landscape, including price wars, will have an impact on the company's marketing approach. The competitive edge of CHAGEE's own brand needs to be strengthened even more. Secondly, fresh demands for CHAGEE's category innovation have been made due to the constantly shifting demands of the consumer. Furthermore, the manifestation of unfavorable public perception, such as issues with the quality of tea drinks, may harm the company's brand image and have an impact on its brand marketing. One of the threats it faces is also the updating and changing of pertinent national laws and regulations.

Due to its impact on the positioning of tea beverages, fluctuations in the economic environment will affect consumer demand for high-end coffee which in turn will affect its profitability and operating ability. The availability of alternative tea beverages will also have an impact on customer demand for coffee. Additionally, a major challenge to Luckin Coffee is the competitive pressure it confronts from other international and domestic coffee brands like Starbucks. In addition, changes in the economic environment and the formulation and updating of relevant government policies will also bring risks to its business model.

## 4 Suggestions

First off, by consistently innovating new products, CHAGEE and Luckin Coffee may expand their product lines, diversify their product offerings, and create new product categories. For CHAGEE, more premium items can be made using the foundation of currently available product categories, and by enhancing the products' taste and materials, the user experience can be promoted. The traditional brewing method can be applied to particular tea goods to provide consumers with a distinctive product experience. Optimizing the quality of current products is crucial for Luckin Coffee. It guarantees that the quality, and hygiene of its goods satisfy high standards by upgrading and standardizing the production processes and advancing the quality of the raw materials. Simultaneously, it is imperative to enhance the personalized tea beverage experience and devise distinct production and experience approaches tailored to meet the requirements of diverse customer segments. It is possible to incorporate DIY coffee making into the service to increase client engagement and enjoyment.

Second, in terms of service scope, Luckin Coffee and CHAGEE both need to expand the range of services they offer, add more service items, and provide clients with better quality service. It is imperative that CHAGEE enhances the value of its offerings and

implements relevant tea culture activities in brand-mortar establishments, like smelling tea and tea brewing. This reduces the gap between consumers and the brand and gives customers a better experience while they are sipping. In terms of Luckin Coffee, it is necessary to create a modern coffee experience atmosphere and strengthen the construction of the offline store's cultural atmosphere. Creating diversified, innovative integrated offline service methods, increasing service types, building coffee workshops, providing services such as experience coffee making and related peripheral products, strengthening coffee culture atmosphere and increasing customers' sensory experience.

Finally, CHAGEE and Luckin Coffee exhibit significant market potential and ample room for growth concerning the creation of cultural intellectual property that aligns with the brand attributes. Regarding the brand image, CHAGEE needs to reinforce the integration with traditional culture, better integrate traditional Chinese culture, add more traditional cultural components, raise brand awareness and achieve a deep connection with traditional Chinese culture. Concurrently, improve the level of cross-border and star co-branding in order to build a more ideal marketing plan through the extension of brand intellectual property. Enhance the brand's volume and quality of IP expansion, and fortify user interaction with IP. The primary objectives for Luckin Coffee are to fortify the brand's image, win over consumers' hearts, and increase its reputation. Simultaneously, it is imperative to establish a link between coffee and People's Daily Lives, transform Luckin coffee into a way of life, reinforce the brand's image and meaning, and raise consumers' awareness of Luckin Coffee. When it comes to consider IP co-branding, Luckin also needs to perform more thorough market research, categorize the target audiences for various co-branded IPs, execute more effective IP co-branding, and integrate the social lives of users more thoroughly.

## 5 Conclusion

The research studied CHAGEE and Luckin Coffee's development status from four perspectives: brand stores, sales status, brand positioning and product categories. Through SWOT analysis, the study examined the strengths, opportunities, weaknesses and threats of CHAGEE and Luckin Coffee in the context of the tea beverage industry as it exists today. Lastly, it offers recommendations and enlightenment for the future development of CHAGEE and Luckin Coffee. In summary, people's rising incomes and higher living standards, along with their increased demand for tea beverages, are driving the rapid growth and upgrading of China's tea beverage market. In this market, CHAGEE and Luckin Coffee are leading brands with high potential and rapid growth. These brands employ similar marketing strategies, but they also have their own unique strengths and amplify those strengths to contribute to the brand's continued success. CHAGEE integrates traditional Chinese culture to add value to its brand, Luckin Coffee through continuous IP co-branding marketing to attract more customers and expand its fan base. However, their difficulties are not the same. CHAGEE needs to strengthen category promotion and increase popularity. Luckin Coffee needs to improve product quality and stabilize and enhance its profitability. In conclusion, to succeed in China's tea beverage industry and keep it that way, one must prioritize innovation, diversification and health. To enhance the quality of the product, expand the range of products and continuously refine brand strategies to meet the evolving demands of the market, follow market trends, and build a fast-growing brand.



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