

# Analysis of Market Positioning and Brand Competitiveness of Starbucks and Luckin Coffee in China

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**Abstract.** This paper analyses the positioning and brand competitiveness of Starbucks and Luckin Coffee in the Chinese market. It begins by outlining the current situation of the Chinese coffee market and discussing consumer behavior and market trends. The growing preference for coffee culture among young, urban consumers significantly drives market demand in China. Starbucks and Luckin Coffee hold prominent positions, catering to distinct customer segments. This paper examines the brand positioning of Starbucks and Luckin and their target segments, revealing that Starbucks attracts mid-to-high-end consumers through its premium image. At the same time, Luckin wins over the young and busy urban segment with its convenience and value for money. The study also compares their product and service differentiation and analyses the differences in their digital strategies. Starbucks focuses on the offline experience and is committed to creating a 'third space' with a warm and friendly atmosphere, while Luckin relies on the mobile internet and is data-driven to realize coffee at one's fingertips. The paper concludes by summarising each brand's strengths and identifying opportunities for enhanced competitiveness.

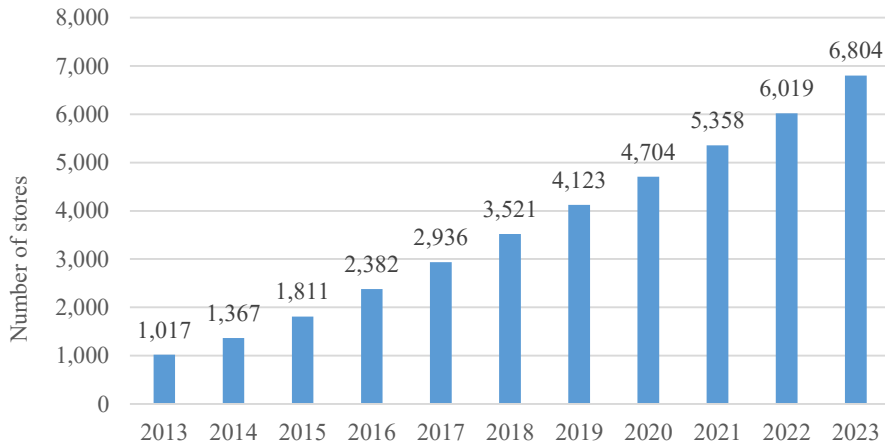
## 1 Introduction

China's coffee industry has shown steady growth in recent years and the market size continues to expand. 25 to 44-year-olds are the largest group of coffee drinkers, and over 50% of Chinese coffee consumers consume more than three cups of coffee weekly. With the accelerated pace of life and the pursuit of quality life, coffee is gradually moving from a niche beverage to mass consumption. In addition to traditional instant coffee, coffee chains with freshly ground coffee have also occupied an important position in the market. Starbucks opened its first shop in Seattle in 1971 and entered the Chinese market in 1999. After decades of growth, Starbucks has surpassed 1,000 shops in three cities in mainland China, including Guangdong, Shanghai and Zhejiang Province. As shown in Fig. 1, Starbucks has expanded to 6,804 shops in China by 2023, making China its second-largest consumer market after the United States [1]. Starbucks' primary strategy is to establish a high-end and comfortable 'third space', providing not just coffee but also a place to socialize and work, which appeals strongly to urban white-collar workers and the middle class. Through premium products, an elegant

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ambiance, and high-quality service, Starbucks has built strong brand loyalty. On the other hand, Luckin Coffee, established in 2017, rapidly gained market share with expansion and a low-price strategy. Through massive discounts and subsidy campaigns, Luckin Coffee has gained a large number of consumers. Luckin Coffee's rapid growth and competitive price allowed it to surpass Starbucks in sales by 2023, thus becoming China's largest coffee chain brand.



**Fig. 1.** Number of Starbucks Stores in China from 2013 to 2023.

Zhao analyses the challenges and opportunities facing Starbucks in the Chinese market. Despite the promising outlook for China's coffee market, Starbucks is still under pressure from competitors such as Luckin Coffee and local brands such as China Post, as well as the impact of the epidemic. The study identifies three major weaknesses for Starbucks: high prices, damaged brand reputation and offline operational difficulties caused by the epidemic. To cope with these problems, Starbucks is advised to launch special-priced drinks, improve quality control and staff management, and adjust its marketing strategy to adapt to the online consumption trend, so as to seize more business opportunities in the Chinese market [2]. Geeredy further explores Starbucks' business model, especially its strategies for global expansion, supply chain management and innovation. The study shows that Starbucks has successfully maintained its market leadership position by relying on brand loyalty, high-quality products and unique customer experience [3]. Furthermore, Naibaho et al. analyzed the brand positioning of Starbucks, revealing that it has successfully attracted quality and brand image-conscious consumers through its luxury brand marketing strategy. Starbucks' premium pricing, quality products and unique customer experience are the key pillars of its global brand consistency and competitiveness in the market. The study also noted that Starbucks has further strengthened its brand value through social responsibility activities and sustainability initiatives and recommended that it continue to enhance its brand value-added to cope with the intense market competition [4]. On the other hand, Wei explores the marketing innovation of Luckin Coffee under the 'new retail' model, focusing on how it achieves the strategies of social fission marketing, service process innovation, and big data differentiated marketing through the operation mode of online APP, offline shops and logistics. These innovations not only establish a competitive advantage for Luckin Coffee in the market but also provide an important reference for the transformation of traditional retail enterprises [5]. Gu et al. explored the reasons for the survival of Luckin Coffee in the wake of the financial fraud scandal through SWOT analysis, where its innovative business model and consumption scenarios attracted consumers' attention despite the company's damaged

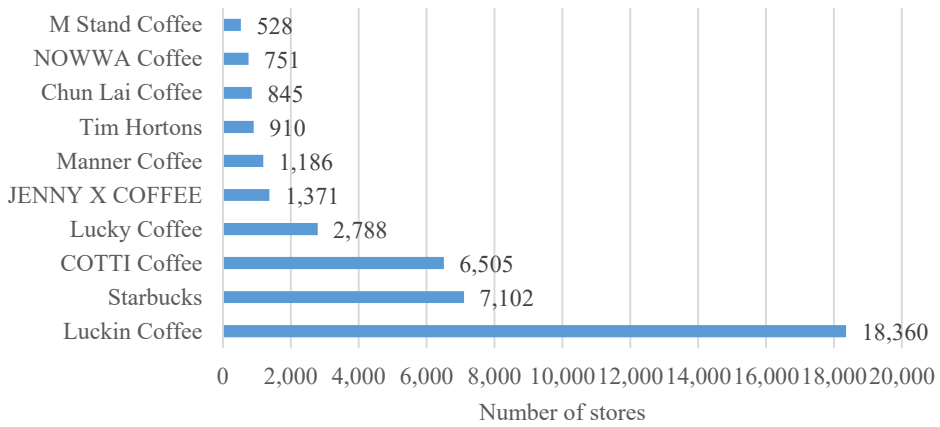
reputation. The study highlighted the importance of factors such as consumer behaviour, brand credibility, product quality and big data to Luckin's success [6].

## **2 Methods**

This study aims to analyze the positioning and brand competitiveness of Starbucks and Luckin Coffee in the market of China. By comparing their brand positioning, target segments, product and service differentiation, and digital strategies, the study explores their strengths and challenges in competition. Using market data, literature reviews and case studies, the study evaluates the current market situation and the operation strategies of the two companies in China. Data analysis and graphical presentations illustrate Starbucks and Luckin's performance and trends in brand competition, highlighting how their strategic approaches affect their market positioning and competitive dynamics in China.

## **3 Overview of China's coffee market**

China's coffee market has experienced significant growth in recent years, becoming one of the fastest-growing regions in the world in terms of coffee consumption. From 2016 to 2023, the number of cups of coffee consumed per capita per year in China increased by approximately 86%, rising from 9 to 16.74 cups annually. In 2023, China's coffee market achieved a size of 265.4 billion RMB, growing at a compound annual growth rate (CAGR) of 17.14%, which exceeds the global average growth rate. The scale of China's coffee industry will continue to maintain stable growth in 2024. Shanghai, as a major city for coffee consumption in China, had 9,553 coffee outlets in 2023, with a continuous year-on-year increase. Coffee is gradually transforming from a niche market to a daily consumer product as a result of accelerated urbanization, upgraded consumption, and increased acceptance of Western-style beverage culture by the younger generation of consumers. Freshly ground coffee, instant coffee and convenience store coffee provide consumers with diversified choices. In this competitive landscape, many domestic and foreign coffee brands have accelerated the layout of the Chinese market, forming a fierce market competition pattern. As one of the earliest international coffee brands to enter the Chinese market, Starbucks has been a leader in the Chinese coffee market. With its global brand influence and high-quality product positioning, Starbucks has attracted a substantial amount of mid-to-high-end consumers. Luckin Coffee has captured the market through its low-priced strategy and large-scale expansion, attracting young and value-for-money consumers. COTTI Coffee, in contrast, has attracted consumers with unique tastes and the pursuit of comfortable experiences through community-based operations and personalized services. As of March 2024, China featured 52,308 coffee stores, with the top three coffee brands accounting for more than half of them. Among them, Luckin Coffee has the most coffee shops in China, having approximately 2.5 times the coverage of Starbucks, at 35% and 14% respectively. COTTI Coffee ranks as the third-largest coffee chain in China with 12% of the country's coffee outlets (Fig. 2). The coffee market in China will continue to grow and become more competitive in the future. In this changing market environment, it is crucial for coffee brands to accurately understand consumer needs and maintain a competitive advantage through innovative models and differentiation strategies.

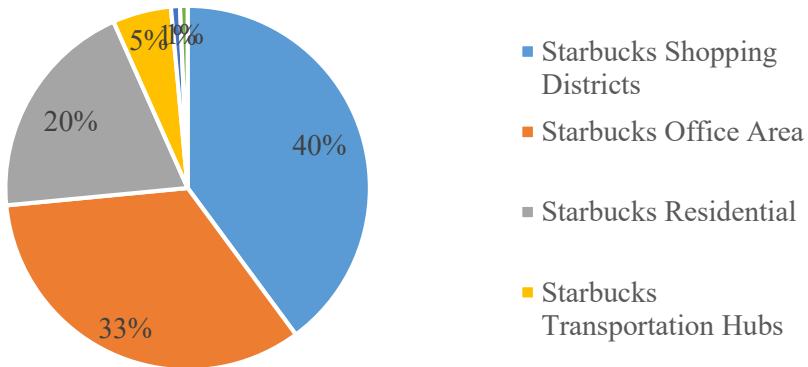


**Fig. 2.** Total Number of Stores of the Top 10 Coffee Brands in terms of Coverage in China (until March 2024).

## 4 Market positioning of Starbucks and Luckin Coffee

### 4.1 Market positioning of Starbucks

Since entering the Chinese coffee market, Starbucks has been focusing on premium brand positioning and providing high-quality freshly brewed coffee. Starbucks' target customers include urban white-collar workers, young consumers, expatriates and middle-class people who are passionate about coffee culture. These customers are typically highly loyal to the brand and are willing to pay a premium price for a quality experience and brand value. Starbucks has always been committed to sourcing and roasting high-quality Arabica coffee beans. For example, in 2021, Starbucks established a coffee plantation in Yunnan, China to ensure the quality and stable supply of Arabica coffee beans. Additionally, Starbucks employees receive uniform vocational training to provide consumers with standardized, high-quality service. Starbucks promotes the concept of the 'third space', so the design of Starbucks shops and the service experience is centered around creating a comfortable space between home and work. Starbucks is committed to providing customers with a unique 'Starbucks Experience' in a warm and friendly shop environment. In Starbucks shops, consumers can enjoy free WIFI, mobile phone charging, or laptop outlets. Starbucks offers high-quality coffee, decaffeinated juices, Frappuccinos, and localized Chinese teas to cater to varying customer preferences [7]. The strategic location of Starbucks shops also reflects its premium brand positioning. Starbucks typically selects areas with high customer traffic and high spending power, such as high-end business districts, shopping malls and transportation hubs (Fig. 3). Through its unique brand positioning and deep understanding of its target customers, Starbucks has successfully established a high-quality brand image in the Chinese market.



**Fig. 3.** Starbucks's Store Locations.

#### 4.2 Market positioning of Luckin Coffee

Luckin Coffee has developed significantly since its establishment, becoming a major competitor in China's coffee market. Its cost-effective core stands in stark contrast to established coffee chain companies like Starbucks. Luckin Coffee focuses on the price-friendly route, providing consumers with high-quality coffee at a cheaper price. This brand positioning has quickly attracted a significant number of cost-conscious consumers, contributing to its substantial customer base. In contrast to the high-end positioning of Starbucks, Luckin Coffee prioritizes making coffee an accessible part of daily life rather than a luxury. Another notable feature of Luckin Coffee is the 'new retail' model, which means that users can place an order through the APP, and then go to the offline pick-up shop or choose takeaway to deliver the coffee. This integrated online and offline operation mode greatly improves the convenience and efficiency of consumption, which is especially suitable for fast-paced urban life. Luckin Coffee primarily targets young white-collar workers, students and young people starting their careers in the city, who are more concerned about price and convenience. Their demand for coffee is more for refreshing their minds or getting a moment's rest in between work and study, rather than pursuing a sophisticated coffee culture or social experience. Consequently, Luckin Coffee strategically locates its shops in office areas, residential neighborhoods, and university districts (Fig. 4). Luckin also attracts consumers through a large number of discounts and promotions, such as first-order discounts for new users, buy-one-get-one free, and discounts in limited time. The brand positioning of Luckin Coffee gives it the advantage of price competitiveness. Compared to Starbucks, the price of Luckin Coffee lowers the purchase threshold for consumers, making its coffee more accessible to a wide range of consumers [8]. Through its aggressive price strategy and 'new retail' model, Luckin has significantly expanded its market share in a short period of time, becoming the coffee brand with the largest number of shops opened in China.



**Fig. 4.** Luckin Coffee's Store Locations.

## 5 Comparison of brand competitiveness

### 5.1 Similarities and differences between products and services

Starbucks and Luckin Coffee both emphasize diverse products and new product development, though differ in their respective service models. Starbucks, a leading coffee roaster and retailer, provides a various range of products, including coffee, tea, and snacks and biscuits. At the same time, Starbucks continuously introduces new products and customized drinks to meet the needs of different consumers' tastes and enhance the brand's appeal. As a foreign brand, Starbucks is also actively promoting product localization in the Chinese market [9]. For instance, Starbucks launched a series of products related to the Mid-Autumn Festival, a traditional Chinese festival, including mooncake snacks and osmanthus-flavored coffee. Starbucks uses cultural marketing to enhance the brand's emotional connection with local consumers. Similarly, Luckin Coffee pays close attention to product development and innovation. Luckin Coffee's product line includes coffee, tea, nuts and light desserts. Luckin develops new products based on local consumer preferences to broaden the appeal of its products. Luckin Coffee has launched a series of new products to get out of the corporate dilemma after the financial fraud scandal. Notably, the Coconut Milk series of products was a significant success upon its launch, with the Coconut Milk Latte selling over 70 million cups in 2021 [10]. In addition, Luckin Coffee attracts young consumers through co-branding initiatives with popular films, TV dramas and IP characters. For example, Luckin co-branded with Crystal Liu, the actress who played the female lead in the hit TV series Full Bloom in 2024 and launched the Yellow Rose Latte, which was enthusiastically sought after by consumers. Luckin Coffee responds quickly to market demand by regularly releasing new products suitable for the Chinese market, especially focusing on local cultural elements in flavor and packaging. However, the service models of Starbucks and Luckin Coffee are completely different, reflecting their respective different market positioning. Starbucks' service model prioritizes customer interaction and personalized service, increasing the customer experience. Starbucks focuses on creating a 'third space' atmosphere in its stores, offering a comfortable environment complemented by music and friendly staff. This approach aims to provide a relaxing and engaging experience. However, Luckin Coffee's service model emphasizes efficiency and convenience. Its shops are mainly small pick-up shops, which are small in size, have few seats, and are simply decorated. Typically, these shops feature only two or three chairs for customers to briefly wait for their drinks. As of 31 December 2023, small pick-up shops are the focus of Luckin Coffee, accounting for 98.5% of the number of Luckin shops [10]. This model benefits from lower rent and renovation costs, making Luckin Coffee's asset base more streamlined. The emphasis on fast service and convenience aligns with the needs of a fast-paced urban lifestyle.

## 5.2 Digital and mobile internet strategy

Although Starbucks and Luckin have adopted the 'new retail' model, their digital and mobile internet strategies differ to some extent. In 2018, Starbucks announced its partnership with Alibaba, entering into a strategic partnership for 'new retail'. The core of this 'new retail' model is the in-depth integration of online services, offline experience and modern logistics to achieve the integration of online and offline. Starbucks' "Say it with a Star" function was fully launched on the Alipay platform and the official online ordering platform "Star Delivery" was formally launched, which realized the successful practice of the digital strategy in the Chinese market [11]. Starbucks offers mobile apps that support loyalty points, mobile payments and personalized recommendations. Starbucks also interacts with customers on social media platforms such as Weibo and Little Red Book to promote new products and brand stories. The app includes a section dedicated to educating users about Starbucks' coffee culture, covering aspects like coffee farming, roasting, and brewing. By emphasizing brand culture and fostering an emotional connection with consumers, Starbucks has cultivated a strong brand identity. Although Starbucks has implemented a digital strategy, Starbucks does not primarily focus on online ordering and takeaway delivery. Instead, it places greater emphasis on its offline experience, with a strong focus on shop location, size, and decor. This aligns with its premium brand positioning, where offline shops remain the central marketing channel. For example, a Starbucks shop in Beijing's China Central Place shopping center has designed its interior space inspired by batik, one of China's traditional printing techniques. This store not only serves coffee but also has an area dedicated to displaying Chinese non-legacy artwork, attracting frequent visits from consumers. In contrast, Luckin Coffee places a stronger emphasis on its digital strategy. Luckin Coffee has digital management as its main driver, with all orders being fulfilled through a mobile app. The efficient take-out and pick-up model allows consumers to access products easily and quickly, which is one of the keys to Luckin's ability to expand rapidly in a brief period of time. Luckin Coffee's mobile app provides customers with a cashier-free environment, allowing them to purchase coffee, tea and other products through online channels. Luckin Coffee has innovatively designed a live streaming feature in its mobile app, allowing customers to watch the preparation of the drinks they buy in real-time. This feature offers transparency and helps build trust with customers by providing updates on their orders. Through its app, Luckin offers an integrated experience from ordering to payment, addressing the modern consumer's need for efficient and convenient consumption. Additionally, Luckin uses social media platforms for high-frequency marketing and user interactions, leveraging online channels to drive brand communication.

## 6 Conclusion

Overall, Starbucks and Luckin Coffee leverage their distinct brand positioning and target customer segments to achieve competitive advantages in the Chinese coffee market. Starbucks maintains its market leadership through its premium positioning and unique customer experience, while Luckin wins over a wide range of young consumers with its value for money and convenience. Starbucks relies on omnichannel experience and strong brand loyalty, whereas Luckin Coffee is rapidly expanding its market through digitalization and big data precision marketing. For both, how to break through in the highly competitive Chinese market is a question worth exploring. As consumers pay more attention to healthy lifestyles, there is potential for Starbucks and Luckin to expand to new market segments by promoting low-sugar and low-fat beverages and adopting more environmentally friendly packaging to attract health-conscious and environmentally friendly consumers. In China's highly digitalized market, Starbucks should continue to strengthen localized innovation and digital

transformation to maintain its market dominance. Starbucks can enhance customer stickiness by optimizing its digital services, membership system and takeaway business. Conversely, Luckin Coffee should work on enhancing its brand value and product quality, including strengthening its corporate social responsibility or using high-quality raw materials, to strengthen its position in the emerging market.

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