

A Study on the Brand Marketing Strategy of Luckin Coffee Based on SWOT Analysis

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Abstract: Using a SWOT analysis, this study investigates the brand marketing approach of Luckin Coffee, a well-known Chinese coffee company. With the backdrop of the rapid evolution of marketing strategies driven by the Internet and new media, this study aims to address the gap in understanding how marketing strategies can be tailored to a specific company's unique characteristics. Specifically, it investigates Luckin Coffee's strengths, weaknesses, opportunities, and threats based on an analysis of its current marketing efforts across channels and relevant brand topics. The findings provide insights into how Luckin Coffee can optimize its marketing strategy to seize opportunities and mitigate threats, ultimately contributing to the enhancement of the brand's competitiveness and relevance in the market. This research is a valuable reference for other coffee brands seeking to formulate effective marketing strategies in today's dynamic business environment.

Keywords: SWOT Analysis, Marketing Strategy, Social Media Marketing, Coffee Brand.

1. Introduction

In recent years, marketing strategy has witnessed significant developments and advancements. These advances have been made possible by the development of the Internet and new media, which also provide important guidelines for business operations. Several previous studies have examined the selection and adoption of marketing strategies. For example, Moorman and Day investigated the individual and integrative roles of four elements of marketing organization: capabilities, configuration (including structure, metrics, and incentives), culture, and the human capital of marketing leadership and talent [1]. Yarbrough et al. focused on interrelationships among product market strategy decisions and organizational culture orientations [2]. Although these studies have offered useful insights, there are still deficiencies in the present comprehension of marketing strategies that may be applied to a particular company, considering the company's unique qualities. Meanwhile, not much research has been done on the marketing strategy used recently by well-known Chinese coffee business Luckin Coffee.

Therefore, this study aims to provide marketing suggestions for Luckin Coffee based on a SWOT Analysis, examining its strengths, weaknesses, opportunities, and threats through the investigation of its existing marketing across channels and hot topics concerning the brand recently. Moreover, this study has potential practical implications for the progress of coffee brands and the development of national brands, which can lead to improvements in the efficiency and effectiveness of marketing.

2. Marketing overview of Luckin Coffee

2.1. Brand overview

Luckin Coffee was founded in 2017 and is based in Xiamen, China. Positioned as a new retail speciality coffee operator, the company is committed to promoting the popularization and development of coffee consumption in China. At the end of October 2017, the experimental store of Luckin Coffee was open for business in Beijing Galaxy SOHO. Since then, with the rapid opening of stores, substantial price subsidies, celebrity endorsements and other high-profile promotional activities, Luckin Coffee began appearing in major cities' core areas. As of June 5, 2023, the number of Luckin Coffee stores has exceeded 10,000, becoming China's biggest coffee chain brand [3]. Luckin Coffee aims to provide customers with high-quality, cost-effective and convenient coffee and food and beverage products using a new retail model. The vision is to build a world-class coffee brand that becomes part of everyone's daily life.

2.2. Characteristics of marketing strategy

2.2.1. Discount promotions

In June 2023, Luckin Coffee launched the "¥9.9 Thanksgiving Campaign". Guo Zhenyi, Chairman and CEO of Luckin Coffee, said at the Q2 2023 earnings meeting that the ¥9.9 coffee promotion would continue for at least two years to increase market share. In the first week of the ¥9.9 campaign, Luckin Coffee sold more than 39 million cups. Throughout 2023, the number of new transaction customers of Luckin Coffee exceeded 95 million, of which the number of new transaction customers in the fourth quarter exceeded 26 million, and the average monthly number of transaction customers exceeded 62 million, with the cumulative number reaching 230 million.

2.2.2. Celebrity endorsement

When Luckin Coffee first launched, it focused on "young business coffee" and used young celebrities Zhang Zhen and Tang Wei to introduce the brand to young professionals, gaining significant attention.

In 2021, Luckin Coffee signed Eileen Gu early on, anticipating her Olympic success. On November 27, 2023, Luckin Coffee announced famous actor Yi Yangqianxi as its global spokesperson. Yi's youthful, energetic, and fashionable image perfectly aligns with Luckin's, sparking enthusiasm from fans and raising brand awareness. Fans have also expressed support and trust in this partnership, expecting it to bring more opportunities for Luckin Coffee.

2.2.3. Cross-broader cooperation

Luckin masters the fan economy and carries out cross-border marketing with celebrity IP, film and television IPs. In addition to joining hands with real-life IP, Luckin has also ventured into virtual IP cooperations, such as the cooperation with Pikachu. The target consumers behind such cross-border derivatives are the loyal fan base of the cooperating parties. At the same time, Luckin also adopts innovative cross-border combinations, such as the union of Luckin and the Forbidden City, which demonstrates the integration of the brand with the excellent traditional culture. Whether in cross-border cooperation or event promotion, Luckin focuses on innovation and creating topicality, using the value of social communication and triggering consumers' attention and love for its cross-border derivatives.

3. The SWOT analysis of Luckin Coffee's marketing strategies

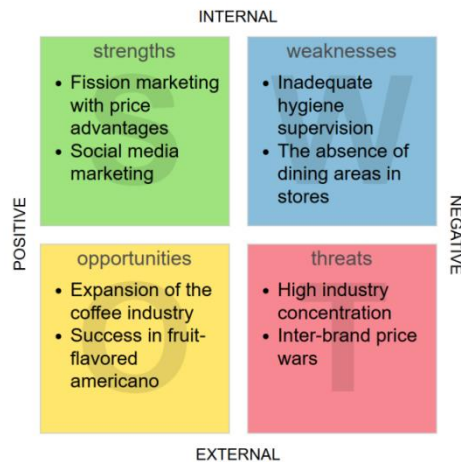


Figure 1: The SWOT analysis of Luckin Coffee's marketing strategies

3.1. Strength

3.1.1. Fission marketing with price advantage

Luckin Coffee carries out "extensive fission marketing" with comprehensive coverage and high frequency with subsidies. Fission marketing is a marketing model that combines the consumer market with social media to form the strategy of "socialization + sharing" [4]. Its main purpose is to introduce traffic from external social media platforms by encouraging consumers to share products. Therefore, by encouraging customers to join the community to receive coupons, Luckin Coffee has rapidly expanded its market by converting advertising costs into customer benefits, lowering the price of its goods while gaining high brand acceptance. Meanwhile, harboring the brand vision of making good coffee affordable and accessible to everyone, most of its products are priced at less than 15 yuan compared to high-end coffees such as Starbucks and M Stand. Hence, it has a much broader mass market.

3.1.2. Social media marketing

Social media marketing allows firms to use social media to build relationships with customers, employees, communities, and other stakeholders [5]. Luckin Coffee leverages social media platforms for marketing, capturing potential consumers' attention through appealing visuals and engaging content.

For instance, Luckin is active on WeChat, releasing videos in forms of commercials, lottery announcements, and themed dramas to showcase its products. These videos have concise yet engaging texts and a homepage activity entrance, motivating user participation. Additionally, its official WeChat account regularly promotes new products with "Click to get coupon" incentives and decorative animations, enhancing product promotion and visual appeal. Luckin Coffee also engages in sweepstakes and contests to boost consumer engagement and loyalty, broadening its brand reach and attracting target audiences.

3.2. Weakness

3.2.1. Inadequate hygiene supervision

On May 8, 2024, a netizen claimed moldy dots on Luckin ice cubes. Luckin Coffee has faced hygiene issues before, including Mr. Zhu finding a suspected plastic in his coffee. After complaints, he received 1,000 yuan compensation. These issues adversely affect customer satisfaction. A decrease in customer satisfaction leads to a decrease in customer loyalty [6]. Thus, the hygiene of Luckin Coffee needs to be more strictly regulated, which is not only for the protection of the brand reputation and customer loyalty but also for the guarantee of the health of consumers.

3.2.2. The absence of dinning areas in stores

More than 92% of Luckin Coffee's stores are quick pickup stores, which are smaller and mostly located in populated areas. While this design allows Luckin Coffee to expand excitedly at a small cost, it is also a disadvantage compared to coffee shops that focus on stores with office or dining areas, such as Starbucks. Starbucks has successfully created a high-end, professional brand image by providing comfortable dining and office areas. In contrast, Luckin Coffee's quick pick-up store design may give the impression of being more convenient and fast but relatively less high-end. This may affect the choice of some consumers who pursue quality and experience. Meanwhile, coffee shops with dining areas are not just places for buying coffee, they are also places for social interactions. People can chat with friends, hold meetings or conduct business negotiations there. However, the design of Luckin Coffee's quick pick-up store may limit the possibility of such social interactions.

3.3. Opportunities

3.3.1. Expansion of the coffee industry

With the improvement of the living standards of Chinese people and the ongoing growth of the domestic coffee market, coffee culture is gradually gaining acceptance in China, leading to a general uptrend in the local coffee industry [7]. According to London International Coffee Organization statistics, China's coffee consumption is experiencing a significant growth rate of 15% annually, outpacing the global average growth of 2% [8]. So, it can be recognized that China's coffee market has enormous growth potential, offering opportunities and laying the foundation for Luckin Coffee's future expansion and development.

3.3.2. Success in Fruit-Flavored Americano

In 2024, Luckin Coffee triumphantly announced its sales of Orange Americano surpassed 100 million cups. The niche product's floral-citrus blend, using top-grade beans and NFC juice, captured consumers' taste buds. Subsequent grapefruit and lemon variants were also well-received. Hence, Luckin should seize this opportunity to invest in R&D for more fruit-flavored series to stand out.

3.4. Threats

3.4.1. High industry concentration

Starbucks entered China in 1999 as the fastest-growing market. Although the emergence of Luckin Coffee caused a sudden downturn in Starbucks in China, the high density of the coffee industry is still a threat to Luckin. For example, there has been a proliferation of small and medium-sized coffee brands in recent years, such as M stand, Manner coffee, Cotti Coffee and Tim Hortons, which are

new local Chinese brands created in recent years. These brands are expanding rapidly and are favored by Chinese consumers. At the same time, the big brands that entered the Chinese market long ago, such as Costa and Starbucks, also occupy a significant market share. Therefore, in such a dense industry, innovating, surviving and growing is a challenge for Luckin Coffee.

3.4.2. Inter-brand price wars



Figure 2: Luckin Coffee's Net income growth trend and operating profit/(loss) from Q4 2021 to Q4 2023[9]

In the fierce competition in the coffee industry in 2023, Luckin and Cotti opened more than 13,000 new stores, far exceeding the total number of Starbucks stores in China. The intensity of the price war is evident, with Luckin's low price strategy and Cotti's coupon making ¥9.9 the industry's keyword. However, the side effects of the price war also showed up at the end of last year. Although Luckin's total net revenue in the fourth quarter of 2023 increased by 91.2% year-on-year, mounting to RMB7,065.0 million (US\$995.1 million), operating expenses as a percentage of net revenues raised to 97.0% in the fourth quarter of 2023 from 91.5% in the same quarter of 2022, mainly due to the increase in cost of materials as a percentage of net revenues resulting from the decreased average selling price of the Company's products [9]. In fierce market competition, coffee brands must seek new ways to grow beyond the price war. Changing consumer focus from price to brand value is a new challenge for Luckin.

4. Recommendations for Luckin Coffee's marketing strategies

4.1. Strengthening quality supervision

Safe food saves lives. Many millions become sick, while hundreds of thousands die every year because they consume unsafe food [10]. With the previous hygiene incidents, a negative impression of Luckin Coffee. In order to correct the mistake and repair the image, what Luckin can do is to strengthen the regulation of hygiene to ensure food safety. At the same time, this process can be translated into part of the marketing. For a brand to recover, it needs to work with its stakeholders and the more comprehensive industry network, revitalizing transparency, providing tangible evidence, and restoring trust are all key factors [11]. Regarding Luckin, the products can be sent for inspection regularly, and food safety reports can be put in the form of monthly or quarterly reports in the newsletters so that consumers can be assured of their safety, and this can be transformed into a highlight in marketing to publicize its products and attract consumers.

4.2. Promote brand extension

Brand extension strategies provide opportunities to use brand awareness and image to enter new markets [12]. Moreover, it is important to promote brand extension because it positively impacts the brand equity of the beverages [13]. Luckin Coffee can strengthen its cross-border cooperation with famous brands in different industries to create a unique consumer experience through co-branded products and joint promotion. For example, cooperating with fashion brands to launch limited-edition coffee cups, which not only leverages the brand influence and consumer base of the other party, but also brings freshness and topicality to Luckin Coffee. Luckin can also take advantage of its image as a local Chinese brand by combining coffee elements with traditional Chinese culture and launching limited-edition products, such as coffee mooncakes and coffee rice cakes, to enhance its cultural heritage and affinity.

5. Conclusion

After a thorough analysis of Luckin Coffee's marketing strategies and the corresponding SWOT evaluation, it is evident that Luckin Coffee has emerged as a major player in China's coffee market through discount promotions, celebrity endorsements, and social media marketing.

Its strengths lie in pricing advantages and social media outreach, while hygiene supervision and limited dining space are weaknesses. Opportunities abound in the expanding coffee industry, but threats from high competition and price wars persist. To strengthen its marketing, Luckin Coffee should enhance quality supervision, promote brand extension through innovative campaigns, and differentiate itself from competitors. By leveraging its strengths, addressing weaknesses, seizing opportunities, and mitigating threats, Luckin Coffee stands a good chance of continuing its impressive growth trajectory.

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