

Market Competition and Strategic Positioning of Luckin Coffee

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Abstract. There have been significant developments of the Chinese coffee market during recent years. The main factors behind the growth are changing consumer behavior in the coffee market and digitization. Even after experiencing growth, the Chinese coffee market still has great potential. Competition and pricing among other issues of the market have raised concerns regarding the profits that can be earned by the companies operating there. The purpose of the current work is to identify key trends in order to discover possible opportunities and risks associated with RTD coffee to Luckin coffee. In addition, the comparison between RTD and other more conventional approaches will be made. Finally, possible benefits associated with different methods of delivery in connection with Luckin Coffee will be discussed as well. According to research findings, entering the field of ready-to-drink (RTD) coffee is a wise decision on the part of Luckin Coffee. It offers a reliable means to expand the scope of profit sources.

Keywords: China coffee market, ready-to-drink (RTD) coffee, digital transformation, distribution strategy

1. Introduction

The coffee market in China has registered tremendous growth in recent years, driven mainly by urbanization, increases in income levels, and changes in consumer lifestyles. For example, consumption upgrading has played a huge role in transforming the beverage industry. This is because consumers are now demanding quality drinks with personalized experience based on their lifestyles. Drinking coffee has become one of the favorite beverages amongst the youth generation as a manifestation of their culture at work, study, and socialization in China. Even though great success has been witnessed in the coffee industry in China recently, the level of development of this market is not yet as developed as in other more developed countries like the US and Japan.

On the other hand, the coffee industry in China is experiencing massive changes because of the influence of digitization and the introduction of new forms of retail. Integrating both online and offline strategies, as well as making use of big data for operations and mobile payment methods, has been the key characteristic of China's coffee industry. However, there has also emerged intense competition in the market. Companies such as Cotti Coffee have joined the market and are relying on low prices to gain market share. This shows price competition is another hallmark of China's

coffee market. Although price competition may have driven tremendous growth in the market, there are worries about sustainability in terms of profitability.

Literature reviews reveal that many areas of the coffee industry and market have been extensively studied in China. Some researchers have highlighted digital transformation as an important component in helping firms become efficient and improve customer experience, as well as the importance of branding and innovation in engaging youth. Meanwhile, another set of literature reviews has discovered shifts in consumption upgrades towards more value-based than price-based consumption due to factors like quality, convenience, and branding. Nonetheless, a gap has emerged in literature regarding the utilization of available opportunities to discover sustainable business growth that is not solely based on price competition, particularly for emerging markets such as ready-to-drink coffee.

Hence, the purpose of this research is to identify one of the most important business opportunities that Luckin Coffee should capitalize on with regard to the retail market of ready-to-drink coffee.

2. Market overview and growth potential

Nowadays, the Chinese coffee market has expanded significantly, with the market value exceeding 200 billion RMB. Projections show rapid growth will continue into the mid-2020s. Experts also conclude that it will sustain a robust annual growth rate of 15% to 20% due to the fact that coffee has shifted from an occasional treat to a daily habit [1]. Since China's coffee market just got started, there is massive room for growth. Because its history with tea, people only drink 10 cups on average per year, which is only a tiny fraction when compared to well established market such as the USA and Japan.

The diverse consumer tastes and the rapid influx of new products make the market explode and shift constantly. There are three main categories in the market, including freshly brewed coffee (the dominant section), on-the-go ready-to-drink (RTD) products and instant powdered coffee. Moreover, the distribution channels for coffee products in China have expanded significantly. The distribution channels include coffee chain outlets and independent coffee stores. There has been a substantial increase in the number of coffee chain outlets, leading to significant standardization.

The environment becomes more and more competitive. The main companies in the market, such as Luckin Coffee and Starbucks, have different competitive strategies. The former focuses more on digitalization and rapid expansion, while the latter focuses more on brand experience. Meanwhile, the rise of new market participants such as Cotti Coffee is intensifying the price war in the market with their aggressive low-cost strategy.

In the future, the market is likely to be impacted by the following trends: First, the upgrading of consumption is driving the demand for higher-quality products. Secondly, digital transformation is becoming more and more important in the market. The ready-to-drink (RTD) coffee market is growing rapidly. Besides, the expansion of the market in lower-tier cities and the demand for healthy drinks will create more market opportunities in the market.

3. Emerging consumer behavior patterns in China's coffee market

China's market for coffee is affected by consumer trends. The first factor is that with an increase in the population aged between 18 and 30 years, the coffee demand also increases. These young people do not see coffee as only something which fulfills their needs; rather, coffee has become the symbol of their modern and urban lifestyle. Secondly, consumer behaviors have shifted toward convenience. People have a preference to use mobile apps to do pick up order or just to use delivery. Consumers

now can enjoy coffee wherever they are. Finally, driven by the need for on-the-go option, the demand for RTD coffee is growing. The trends is more flexible to consumer, as it allows them to enjoy coffee even when commuting or traveling.

4. Competitive environment

However, with these possibilities, there has also been a rise in the competition [1]. Some of the dominant players, such as Starbucks, Luckin Coffee, and Cotti Coffee, are expanding rapidly, which has increased saturation in the industry [2]. In particular, Cotti Coffee has led to saturation in terms of outlets due to its competitive pricing model [2]. This reflects that the business models in the coffee industry can be easily imitated [3].

4.1. Low switching costs

A key characteristic is that it is easy for consumer to switch brand. This is because most coffee orders are placed through apps, consumer can compare the prices and choose another brand with almost no efforts.

4.2. Price war and profit pressure

Due to the low switching cost, even tiny price adjustments can have a significant influence on consumer behavior. In response, a lot of companies are cutting the price to RMB 9.9. This triggered a price war and it forces companies to constantly slash prices to prevent losing consumers. Although it might boost sales in the short run, it ultimately destroys profit margins. Essentially, when it is too easy for customers to jump to a competitor, the market becomes a race to the bottom, making long-term differentiation a real challenge.

5. Luckin Coffee's competitive advantages

In this highly competitive environment, Luckin Coffee has managed to develop specific abilities to maintain its leading position in the industry [3]. The other advantage is the economics of scale, which enables the company to purchase raw materials at relatively lower prices [3]. For instance, the firm buys its coffee beans at relatively cheaper prices [4]. Also, efficiency in its operation can be attributed to the large number of outlets it has [5]. Luckin is able to achieve its sales target in specific regions [6]. However, this is going to be a thing of the past in the coming years when its competitors start opening up more outlets in the market [2]. Apart from the firm being cost effective, it has managed to create a fantastic digital ecosystem in its operations [7]. This has several advantages for the firm both in operation and in its marketing [8]. Operations performed by the firm are through the use of the firm's mobile application; therefore, data on consumers' behaviors are gathered from the consumers [9].

A remarkable feature is that Luckin has made innovative products. To drive sales, the company launched several new products under its most trusted and recognized brands. These have been introduced through efficient marketing strategies. Sales statistics indicate that Luckin has succeeded in generating product demand. What makes this really stand out is that Luckin is not just winning on price in a super competitive market. It shows they've managed to differentiate themselves in other ways despite the intense pressure in the industry.

6. Growth opportunity: ready-to-drink (RTD) coffee

The next growth opportunity will be RTD coffee. It allows consumer to have coffee in multiple situations and environments [10]. Those situations include home, workplace and traveling, which essentially offers flexibility and thus increasing the overall level of consumption.

Additionally, there are various ways to promote RTD coffees. Two good examples would be convince stores and online advertisements. Luckin is then able to target potential consumers who cannot afford the services offered by the company at the retail stores. Those will differentiate Luckin's RTD product from other competing brands.

7. Risks and challenges

This will equally pose some challenge to the company. First, there are great chances of stiff competition in the RTD coffee category. This is because other coffee shop chains and coffee/beverages firms will start venturing into the business. Due to the ease in copying their products, the company will find it hard to compete. This is an issue that can bring about stiff competition.

Second, the business of RTD is more complex than that of coffee. While the coffee business is one, this is the coffee production part and coffee business will equally be involved in the chain. This can be regarded as a challenge in the business. Such issues are likely to pose serious risk to the firm. This is not only because of the operational risks, but also because of the supply chain risk involved. However, the RTD coffee market segment is very profitable. By so doing, the company will earn from different streams.

8. Conclusion

In order for Luckin Coffee to successfully explore the RTD market, Luckin Coffee will have to undergo a series of steps. First Luckin Coffee should consider launching a pilot launch in big cities in China like Shanghai, Beijing, and Shenzhen. These cities are selected due to the high level of consumption of coffee in these areas. Given this, the product has strong potential to succeed in these areas. The study recommends a pilot launch to minimize the risks of entering a new market. Through leveraging on the customers' base of this firm, Luckin could promote the brand without investing heavily on the marketing process. Besides, social media will play a significant role in promoting the product through reaching out to more customers especially the youths. The last part of the strategy will be increasing the availability of the product. Increasing the product's distribution will take place within the different shops such as convenience shops, supermarkets, and even in online stores. This means that by prioritizing this part, the company will manage to expand operations. In summary, through the use of RTD, Luckin will have the opportunity to balance growth and risks. That means that the firm will gain adequate knowledge to compete in the RTD market without facing much risk.

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