

Analysis of Marketing Strategies of New Retail Coffee Brands in the Chinese Market: Based on a Comparative Study of Starbucks and Luckin Coffee

Yizhen Xu

Guangzhou Huamei International School, Guangzhou, China

emccord80766@student.napavalley.edu

Abstract. This study delves into the marketing strategies of emerging retail coffee brands in the Chinese market, with a focus on a comparative analysis of Starbucks and Luckin Coffee. As China's coffee culture experiences a remarkable upsurge, understanding the dynamics of these two industry giants becomes pivotal for both practitioners and scholars. The research investigates and compares the strategies employed by Starbucks and Luckin Coffee in their quest for dominance. Specifically, it scrutinizes their market entry approaches, branding strategies, customer engagement techniques, and pricing models. By conducting a thorough analysis of these aspects, the study aims to shed light on the underlying reasons for their differential market performance. Furthermore, this comparative study explores the adaptation strategies adopted by each brand in response to the unique characteristics of the Chinese market, such as local consumer preferences and the prevalence of mobile payment systems. The research seeks to uncover the key factors contributing to the success or failure of each brand and offers valuable insights into the broader context of new retail coffee brands in China. In conclusion, this analysis provides a comprehensive overview of the marketing strategies employed by Starbucks and Luckin Coffee, offering a deeper understanding of the competitive dynamics within the Chinese coffee market. These findings can guide future market entrants and existing players in devising effective strategies for navigating this rapidly evolving industry.

Keywords: Marketing Strategies; New Retail; Luckin Coffee; Starbucks Coffee.

1. Introduction

Coffee was introduced to China in the 1980s, with Starbucks establishing a dominant presence in the consumer market. However, the late entry of coffee into the market hasn't hindered its growing popularity. In recent years, coffee culture has gained traction in China, with increasing demands for coffee in various scenarios, including work, study, relaxation, and even during long-distance drives. This trend underscores coffee's rising importance in people's daily lives, signifying substantial potential for the coffee market's development and consumer market expansion.

The advent of e-commerce platforms has paved the way for various new coffee retailers, with Luckin Coffee entering the Chinese market in 2018. Thanks to its affordability, chic packaging, and efficient delivery services, Luckin Coffee quickly carved a niche in the Chinese coffee market, emerging as one of the fastest-growing coffee brands in recent years. It employs an innovative new retail model that seamlessly combines online and offline sales. Orders are placed through a mobile app, and customers can pick up their orders in person. This new retail approach leverages high-tech capabilities to pinpoint customer needs, offering convenience and a more diverse consumer experience.

The ever-evolving landscape of retail, driven by technological advancements and the internet, demands adaptation to changing times. New retail businesses excel in accurately identifying consumer needs, optimizing supply chains through data analysis, and classifying customer preferences. Fierce competition has pushed many brands with traditional marketing models to embrace new retail concepts, aligning more closely with the demands of modern consumers to enhance their service experiences. Luckin Coffee, a rapidly growing coffee brand, has triumphed in

the Chinese coffee market by embracing the new retail model and outpacing Starbucks to become China's largest coffee chain brand.

This study's significance lies in its analysis of the marketing strategies employed by Starbucks and Luckin Coffee, as well as an exploration of the success factors behind Luckin Coffee's rapid growth. Subsequently, it offers recommendations for the optimization of coffee marketing in China. Through case analysis, this paper selects the well-established Starbucks and the emerging Luckin Coffee as research subjects. The comparative analysis method highlights the similarities and differences between Starbucks and Luckin Coffee's marketing models, shedding light on their respective strengths and weaknesses.

2. Literature Review

2.1. Competition in the Chinese Coffee Market

With coffee gaining increasing popularity and a growing fondness among the Chinese population, the coffee market in China holds substantial promise. This has led to the emergence of numerous new domestic brands like Sumida River and Miton Half. Furthermore, various foreign coffee brands, such as Tims, Lavazza, and Manner Coffee, have ventured into the Chinese market. Consequently, competition within China's coffee market has intensified. Each coffee brand is proactively engaging in innovation and development, in search of fresh marketing strategies, and has initiated efforts to expand into the market to reach a broader spectrum of potential customers.

2.2. Overview of Starbucks Coffee

Nevertheless, Starbucks maintains its dominance in the highly competitive Chinese coffee market. Starbucks is committed to evolving as a business that embraces coffee culture and delivers a unique experiential journey to its patrons. Since its initial entry into the Chinese market in 1999, Starbucks has established an extensive presence, operating more than 5,000 outlets spanning over 200 cities across mainland China [1]. Starbucks ensures the consistency of its coffee's flavor by subjecting its coffee beans to a rigorous and specialized process. The company employs contemporary marketing strategies, apart from offering a standard selection of coffee and an array of widely available Frappuccino varieties in-store. Starbucks also introduces seasonal and holiday-themed limited-edition coffees [1].

Starbucks' development took root with the introduction of the "Third Space" concept, signifying that Starbucks aimed to provide a space where people could unwind and relax outside their work environments, akin to a second home. In its early stages, Starbucks coffee shops predominantly opened near office buildings, which drew in a white-collar clientele, providing them with a leisurely setting to work and relax [1].

2.3. Overview of Luckin Coffee

In recent years, a new entrant has made a significant impact on the Chinese market – Luckin Coffee. They've rapidly expanded with over 1,400 Net New Store Openings and recently marked the milestone of having over 10,000 stores in operation. Luckin Coffee's rapid expansion sets them apart in the crowded coffee market. They employ an innovative marketing strategy, blending online and offline sales to draw in a diverse customer base. This approach provides customers with the convenience of ordering coffee online and collecting it in-store upon arrival. This not only saves time for consumers but also grants them the freedom to make well-considered choices. Furthermore, Luckin Coffee leverages celebrity endorsements to promote their brand. They harness the influence of celebrities to inspire their followers to purchase their products, enhancing their brand reputation.

3. Analysis of Starbucks' Coffee Marketing Strategy Based on the 4P Theory

3.1. Product

Starbucks places a strong emphasis on delivering a premium coffee experience. They are meticulous in their coffee bean selection process, sourcing their beans from regions with favorable climates, soil quality, and high altitudes, such as East Africa, Indonesia, and Latin America. These factors contribute to the production of coffee beans known for their exceptional quality and rich flavors. After procuring these top-grade beans, Starbucks takes them to a roasting facility, where they undergo a rigorous roasting process before being packaged and made available to customers. The art of crafting coffee is considered a pivotal and demanding step, leading to stringent training for every Starbucks barista responsible for coffee preparation. Beyond the excellent coffee quality, Starbucks also prides itself on the overall service experience and presentation. They offer personalized coffee options to allow customers to tailor their beverages according to individual preferences, thereby creating a unique and satisfying experience. Starbucks continually introduces seasonal and holiday-themed offerings, such as the Spring 2022 Cherry Blossom First Burst Latte and Mansakura White Peach Tea Latte. This approach adds a sense of novelty and excitement to their product lineup.

3.2. Place

Starbucks is credited with introducing the concept of the "Third Space," which offers individuals a setting to unwind, engage in conversations, and even conduct business activities, apart from their homes and workplaces. Starbucks places great emphasis on both the quality of coffee and the overall experience it provides to customers. This goes beyond coffee flavor enhancement. It extends to the provision of excellent service and amenities, such as complimentary Wi-Fi, accessible power outlets, comfortable seating arrangements, and climate control. Starbucks primarily concentrates on in-person, direct sales, and traditional retail channels. They strategically position their stores in proximity to upscale office complexes and buildings, as they understand the significance of offering a convenient and appealing place for people to enjoy their coffee while also having the opportunity to engage in work or relaxation.

3.3. Promotion

Starbucks does not consider publicity as its primary marketing objective. Instead, it entices customers by offering a wide range of accessories. For instance, Starbucks has introduced various lines of coffee cups, including designs such as cherry blossom-themed cups, Christmas Limited, Autumn Limited, and cat claw cups. Based on our findings, many customers have expressed their appreciation for the Starbucks ambiance and have expressed their interest in buying coffee cups directly from Starbucks [2].

3.4. Price

The primary customer base for Starbucks comprises individuals who seek a high-quality lifestyle. Starbucks coffee, priced at around 30 yuan per gram, has maintained relatively stable pricing in the global market for many years. The coffee industry as a whole is positioned at a medium to high price level. This higher pricing is a reflection of Starbucks' self-identity as a "light luxury" brand. Moreover, Starbucks can afford to slightly increase its prices to maximize its profits, as its major customer segments are less price-sensitive, and such minor price adjustments do not significantly impact consumers' desire to make purchases.

4. Analysis of Luckin Coffee's Marketing Strategy Based on 4P Theory

4.1. Product

Luckin Coffee has innovatively departed from traditional brewing methods by adopting Ultrafiltration spinning foaming technology. This approach enhances the taste of the coffee and effectively preserves the coffee beans' aroma. Their product range is diverse and includes coffee, tea, and light snacks. Among these offerings, the "deer tea" series of milk tea has gained substantial popularity.

4.2. Place

Luckin Coffee stands out as the first café to pioneer a unique blend of online and offline dual-channel strategies, distinguishing it from traditional selling approaches [3]. The brand positions itself as a full-scene coffee provider, accompanying customers in various settings such as the office, study, meetings, contemplation, gatherings, and even during commutes. They offer Relax shops with seating for those who wish to dine in and Pickup shops primarily focused on takeout orders. High-density store locations make it convenient for customers to pick up their orders. Additionally, they cater to the needs of customers who prefer home delivery, guaranteeing a 30-minute delivery time.

4.3. Promotion

Luckin Coffee has executed a compelling promotional strategy. During its initial foray into the coffee industry, well-known actors with qualities of "artistry, understated elegance, and seriousness," such as Tang Wei and Zhang Zhen, served as brand spokespersons. To enhance brand exposure, Luckin adopted an aggressive advertising approach in first-tier cities, with ads appearing in the subway, elevators, and other key locations [3]. The brand also leverages celebrity endorsements and offers promotions such as autographed memorabilia from star endorsers. Luckin places great emphasis on interaction and engagement with a younger audience. In a recent collaboration, they partnered with Moutai to create a unique Moutai-infused latte, successfully attracting both younger and older demographics.

4.4. Price

Luckin Coffee aims to establish a cost-effective, mid-range coffee brand in China. Their coffee prices are notably competitive. Before Luckin Coffee entered the market, Starbucks essentially held a monopoly on freshly ground coffee, and prices had traditionally remained high at around 30 yuan. However, at this price point, coffee cannot become a common consumer product, especially considering China's lower average daily coffee consumption compared to Western nations. This market exhibits tremendous growth potential [4]. The distinction between high-end and low-end coffee brands is significant. To bridge this gap, Luckin Coffee decided to create an affordable mid-range coffee brand in China, with prices ranging from 10 to 20 yuan. Additionally, Luckin employs tactics like offering free coffee to users who download their app and register for the first time. They also run promotions such as "buy one, get one 50% off" deals and provide 82% discount coupons to incentivize customer sign-ups and orders [5].

5. Comparative Analysis: Market Success Factors of Luckin Coffee

(1) Pricing Strategy: While Starbucks adopts a relatively economical pricing strategy in the Chinese market, where coffee is priced at over 30 yuan, it can still be considered a luxury for some Chinese consumers. Recognizing this gap in the market, Luckin Coffee positioned itself to offer both high and low-priced coffee, making its products affordable in the range of 10-20 yuan.

(2) Location Strategy: Starbucks invests significant resources in creating physical locations that focus on providing a "third space" for customers, aiming to offer a spacious and comfortable environment for coffee consumption. These locations are typically situated near high-end office

buildings and areas with heavy foot traffic. In contrast, Luckin Coffee places a stronger emphasis on convenience and quick service in various scenarios, enabling customers to access coffee more swiftly and conveniently. This approach helps Luckin Coffee save costs related to store construction [6].

(3) Digital Management: Luckin Coffee excels in its innovative sales approach. It supports both online orders and offline order collection, boasting fast production efficiency, which is particularly convenient for white-collar workers. In contrast, Starbucks' coffee preparation often requires a longer time, allowing Luckin Coffee to gain an edge in the market. Importantly, Luckin Coffee's proprietary app platform has broad reach and allows the creation of a comprehensive membership structure and extensive data collection. The brand has accumulated a wealth of data on consumer behavior, enabling efficient and precise analysis of customer consumption data for targeted advertising. This data-driven analysis helps identify user preferences and serves various other purposes [7].

(4) Advertising: Starbucks, upon entering the market, places relatively less emphasis on advertising and instead focuses more on mutual publicity surrounding the quality of its coffee. Conversely, Luckin Coffee dedicates substantial efforts to advertising and celebrity endorsements, substantially enhancing its visibility and popularity in the Chinese market. Luckin Coffee's long-term strategic development goal is centered on establishing a multi-brand, multi-category, multi-channel, and multi-scene platform, aligning with an asset-light operation concept and the characteristics of its internet-based operations. This approach not only enhances the brand communication's effectiveness but also fosters brand marketing for Luckin Coffee.

(5) Brand Design: A notable feature contributing to Luckin's appeal is its outstanding brand design, effectively capturing consumers' attention and helping them recognize and remember the brand. The elk-themed logo is distinctive and unique, signifying luck and good fortune, characteristics that resonate with Chinese consumers, who aspire to embody conventional ideals of beauty. This design sets Luckin apart from competitors and fosters a sense of contentment and happiness among customers. In contrast, Starbucks' logo primarily consists of green and white colors, which offer a different visual identity [7].

6. Suggestions on Chinese Marketing Optimization Strategies for Coffee Products

6.1. Expansion into Emerging Markets

Given the intensifying competition within the coffee market of major urban centers, coffee brand companies are continuously extending their reach into emerging markets, identifying these areas as the next frontier for growth.[8] This expansion is strategically tailored to align with the economic status of the respective cities, allowing for adaptable store adjustments to minimize unnecessary losses. In doing so, these brands can strategically secure a larger market share as these emerging markets experience economic recovery [9].

6.2. Ongoing Innovation and Enhancement of Brands

Currently, China's coffee market lacks significant innovation. As coffee brands predominantly adhere to standardized coffee production processes, the industry is witnessing an increasing convergence in coffee tastes and brewing methods. Furthermore, there's a dearth of creativity and personalization, and marketing and advertising strategies are characterized by significant similarity. To address this, freshly ground coffee brands can introduce innovative elements, considering the growing demand for enhanced coffee quality and flavor. They can craft products from freshly ground coffee, blending them to cater to diverse consumer preferences and requirements. For example, by incorporating an array of additional ingredients, such as milk froth or various nuts, coffee brands can better appeal to the distinct tastes and needs of Chinese consumers, solidify their position in the market, and attract a wider customer base [10].

6.3. Targeted Advertising Campaigns

Additionally, there's potential for coffee brands to execute more precise and targeted advertising strategies. For instance, they can tailor their advertising campaigns to specific consumer segments. For a younger audience, the introduction of complementary merchandise and specialty beverages could be explored, coupled with endorsements from celebrities to captivate fans. In contrast, for middle-aged and older consumer demographics, brands could introduce products that resonate with traditional cultural or customary aspects. As an illustrative example, Luckin Coffee's collaboration with Moutai effectively appealed to a significant number of middle-aged individuals, demonstrating the potential of such targeted efforts [10].

7. Conclusion

In summary, this article has conducted an extensive examination of the historical backgrounds, marketing strategies, and distinctive attributes of Starbucks and Luckin Coffee within the context of the Chinese coffee market. We have scrutinized four principal dimensions of their marketing endeavors: product, pricing, promotion, and placement, providing valuable insights into the distinctive strategies each brand has embraced.

The analysis has underscored the strengths that have propelled Luckin Coffee to emerge as a standout player amidst the competitive landscape of emerging coffee brands. The brand's emphasis on digitalization, aggressive expansion, and cost-effectiveness has been pivotal in facilitating its rapid growth. However, it is crucial to acknowledge that the competitive landscape within the Chinese coffee market is in a constant state of flux, and achieving future success will necessitate a flexible adaptation to evolving consumer preferences and market dynamics.

Looking ahead, there exist several avenues for potential future research endeavors. One noteworthy area pertains to the collection and application of empirical data to furnish a more robust analysis. A deeper comprehension of consumer psychology and behaviors when making coffee-related purchases could provide greater insights into the decision-making processes. Furthermore, an exploration of how Chinese coffee brands expand and establish their presence in foreign coffee markets presents an intriguing opportunity for further research.

Within a market as dynamic and continually evolving as China's coffee industry, persistent research is imperative for remaining at the forefront of emerging trends and identifying prospects for growth and innovation. This study serves as a foundational platform for forthcoming comprehensive inquiries that will contribute to the ongoing progression and transformation of China's coffee market.

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