

# The Development of Digital Operation in Catering Service Enterprises: A Case Study of Luckin Coffee

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**Abstract.** As a pillar enterprise of the tertiary industry, the catering service industry has important reference value for the transformation and upgrading of the entire industry under the wave of digital reform. Among them, the exploration of the coffee industry in the era of O2O operation and management has played a good role in the accumulation of experience for the development of the entire catering service industry. Through the in-depth exploration of the digital operation management mode, this paper systematically combs the development process and current situation of the coffee industry in the catering service industry. This paper first reviews the theoretical basis of enterprise digital transformation and operation management, and through case analysis, takes Luckin Coffee as an example to conduct an in-depth analysis of industry characteristics and problems. In the context of the current digital transformation, the coffee industry generally has problems such as a low customer retention rate, unclear market positioning, chaotic channel management, and cost control failure to meet expectations. In this regard, we can first determine the selection of operation management mode according to the enterprise's situation, and optimize the detailed reform of digital operation management with the help of "new retail" and digital marketing.

**Keywords:** Peration Management; Catering Service Industry; O2O; Luckin Coffee.

## 1. Introduction

The wide application of science and technology promotes the transformation of the catering industry, and the rise of online catering platforms promotes the integration of online and offline. With the flexibility of food delivery, more and more young people are turning to cheap drinks to supplement their lives. Under the new coronavirus epidemic, the coffee industry began to buck the trend due to its advantages in take-out delivery, and as the market rebounded, major brands accelerated expansion through the experience accumulated during the new coronavirus period. Local Chinese brands such as Luckin Coffee and other international giants such as Starbucks have begun to compete in the market through differentiated products and innovative services<sup>[1]</sup>. At the same time, the rapid rise of digital marketing has changed the traditional marketing model and brought new opportunities for enterprises, and the new retail model has also begun to emerge<sup>[3]</sup>. However, the competition in the coffee industry is also faced with challenges such as homogenization competition and limited industry growth. It is necessary to strengthen innovation and optimize industrial structure to cope with market changes and maintain competitive advantages<sup>[1]</sup>. How to effectively enter the C-end market and improve the retention rate has become the core of the Internet marketing battlefield, and the over-extensive digital marketing means also need to be used by enterprises to effectively ensure the growth of market share<sup>[2]</sup>. The role of brand effect is also becoming increasingly prominent, but how to use effective marketing means to improve brand awareness has become the focus of research on the market expansion of coffee enterprises<sup>[5]</sup>. Therefore, this paper aims to provide suggestions for the development of the catering service industry through in-depth research on the strategies and methods of Luckin Coffee to successfully occupy the current market share. In turn, it will help more coffee shops to survive in the long term and stimulate the vitality of market competition, to ensure that consumers enjoy more choices and enhance higher quality dining experience. This paper will use The Business Model Canvas (BMC) analysis and SWOT analysis to explore.

## 2. Coffee industry digital marketing model analysis

Digital marketing is the use of digital technology to integrate resources, expand marketing methods, achieve precision marketing, and improve corporate profits. Its role in enterprise development includes forming brand effect, expanding marketing channels and adapting to new consumption habits<sup>[2]</sup>. Digital marketing has a huge impact on the coffee industry, and expanding online marketing is the key to the development of the coffee industry. "New retail" promotes the full name of the online-to-offline (O2O) business model, realizes the integration of online and offline, and promotes the transformation and upgrading of e-commerce platforms and physical stores. New retail enterprises can make use of their business model characteristics to carry out financial fraud or self-reform and cut off the history of fraud<sup>[4]</sup>. With the social development, the catering industry is faced with consumers' increasing requirements for dining environment, dish innovation and service quality. Catering enterprises need to cope with challenges such as market competition, rising costs and changing consumer tastes, and seek strategies such as differentiated competition, brand building and marketing innovation<sup>[4]</sup>. In the modern marketing environment, the coffee industry has encountered difficulties such as fierce market competition, difficult brand building and changing consumer taste demands. To solve these problems, it is suggested to improve product quality, increase customer retention, optimize channel management and strengthen operation management to meet the challenges and achieve better development. The catering service industry is facing an existential crisis of low product prices and weak corporate profits. If the catering service industry insists on adopting the traditional pure offline marketing model and ignores Internet marketing, it will face the risk that its sales and profits will be far lower than those of its competitors, and thus fall into an existential crisis<sup>[1]</sup>.

## 3. Analysis of digital operation means of Luckin Coffee

### 3.1. Company Introduction

Since its inception in Xiamen in 2017, Luckin has accounted for 9.5% of the market and is extremely popular with young people. Luckin Coffee aimed at the gap in the coffee market, with its new retail model based on the Internet, with the support of capital all the way to create a business miracle that was successfully listed 18 months after its establishment, and almost reached a market position against Starbucks. In 2023, Luckin Coffee opened its flagship store in Zhongshan Road, Xiamen, becoming the first coffee chain brand in China with more than 10,000 stores. Its "SOE Yegashefi" product won two platinum awards in the coffee tasting competition. The annual roasting capacity of Luckin Coffee's automated intelligent roasting factory has reached 15,000 tons, and the fully automated production base signed with Kunshan Economic and Technological Development Zone is planned to roast and produce 30,000 tons of coffee beans annually, which will help Luckin Coffee to improve product quality<sup>[6]</sup>.

### 3.2. Analysis of Luckin Coffee's business operation model

Luckin Coffee uses the O2O business management model, mainly through Internet marketing to expand its influence, while the offline timely logistics delivery model, quickly occupies China's affordable coffee industry market. However, early Luckin Coffee had the following problems (see Fig.1)<sup>[5,6,7]</sup>.

Problem Market feedback	Low retention rate	Low visibility	The marketing channel setup is chaotic	Costs cannot be effectively optimized
Consumer	The quality of coffee is not as good as Starbucks	In the social effect, the market awareness of Luckin coffee is low	Store finding difficulties	/
Luckin coffee	/		1. The source of raw materials cannot be guaranteed 2. The establishment of delivery channels has been slow	1. The offline omnichannel management cost is high 2. The store cost under the operation of offline store mode is higher

**Fig 1.** Luckin Coffee business operation mode analysis

Given the above problems in operation management, the analysis found that Luckin Coffee adjusted its model in the following ways.

**3.2.1 Accurate user portrait**

To solve the problem of low customer retention, Luckin Coffee adopts the method of combining big data with corporate positioning and accurate user portraits to ensure that the purchase of products is highly integrated with the needs of consumers (see Table 1.)<sup>[8,9]</sup>.

**Table 1.** Luckin Coffee Market Positioning and Elements

Elements	Description
Customer Segment	Young professionals and students in a fast-paced life
Customer characteristics	Ensure quality and convenience, willing to pay a certain price for high-quality coffee, follow fashion, value price, pay attention to service experience
Marketing positioning	Offer high-quality coffee, convenient access (both online and offline), and innovative and customized services at the highest cost performance
Market Strategies	1. the price strategy of the people 2. pay attention to quality assurance 3. constantly innovate products to cope with market competition and meet the escalating consumer demand of young people 4. provide a rich product line, extensive store layout and provide delivery services 5. sociability

**3.2.2 "New retail" model**

In the direction of operation management, Luckin Coffee has achieved remarkable success in operation management through a forward-looking strategic layout and excellent execution. By integrating online and offline channels, it has created a unique and efficient sales model, enabling a seamless online ordering experience and instant pickup service to enhance the shopping experience. At the same time, Luckin focuses on building long-term and mutual trust in customer relationships, increases customer stickiness through membership systems and point reward programs, provides quality customer service, and wins the love and trust of consumers, becoming the preferred brand in the industry<sup>[3,6]</sup>.

### 3.2.3 Transformation of digital operation management

In terms of channel management and cost management, Luckin Coffee adopts high-quality coffee beans, advanced coffee roasting technology and equipment, which constitute the competitive advantage of Luckin Coffee. In the direction of raw material collection, Luckin invests a lot of management in coffee bean procurement, coffee production, online and offline sales and customer service to ensure coffee quality and taste<sup>[9]</sup>. It also maintains stable cooperation with suppliers, logistics partners and IT technology providers to jointly ensure the stable supply of coffee beans, timely delivery of products and optimization of online platforms. In terms of cost control, raw material costs, operating costs and marketing costs have become its main cost components, and the focus is on maintaining coffee quality and operational efficiency<sup>[12,13]</sup>.

After the above business model adjustment, Luckin Coffee finally determined the choice of its O2O business model (see Table 2.)<sup>[13]</sup>.

**Table 2.** Luckin Coffee BMC analysis

Key Partners: Supplier, Logistics Company, Real estate Company, IT technology to provide business cooperation	Key Activities: Procurement, Production, O2O business model, Customer service, Own roasting factory	Value Propositions: High-quality coffee, A convenient and quick way to buy, Internet-based marketing strategy, Coupons and membership system	Customer Relationships: long-term mutual trust customer relationship, Membership system and bonus points	Customer Segments: Young professionals, Students
	Key Resources: High-quality coffee beans, Advanced coffee roasting technology, Equipment Huge customer data		Channels: Free online platform and offline stores for sales, Apps and mini programs cities as the main area	
Cost Structure: a lot of funds, personnel, rent and equipment		Revenue Streams: Coffee sales revenue Food sales revenue		

### 3.3. Analysis of digital operation management of Luckin Coffee

Luckin Coffee's strategy of combining big data with corporate positioning has many advantages in improving customer retention, such as achieving precision marketing, personalized experience improvement, operational efficiency improvement, and product development optimization<sup>[11]</sup>.

However, this also brings challenges such as data security and privacy protection, technology inputs and costs, reliance on human services, and the uncertainty of market changes<sup>[12]</sup>. Therefore, when enjoying the benefits of big data, Luckin Coffee needs to prudently deal with these potential problems (see Fig 2.)<sup>[13]</sup>.

<p><b>Strengths:</b></p> <ol style="list-style-type: none"> <li>1. big data to achieve precision marketing, personalized experience improvement, operational efficiency improvement and product development optimization</li> <li>2. ERP whole process management saves operating costs</li> <li>3. Build brand advantages to make it stand out in the competitive coffee market</li> </ol>	<p><b>Weaknesses:</b></p> <ol style="list-style-type: none"> <li>1. the strategic layout and execution need to be timely to ensure that it can adapt to the changing market environment</li> <li>2. Over-reliance on suppliers and partners may bring supply chain risks</li> <li>3. High investment and maintenance costs as well as market competition and cost control challenges are also potential problems that cannot be ignored</li> </ol>
<p><b>Opportunities:</b></p> <ol style="list-style-type: none"> <li>the combination of big data and corporate positioning strategy to improve the retention rate.</li> <li>2. Digital operation software can improve operation efficiency and optimize resource allocation</li> <li>3. Business model transformation can enhance market competitiveness and improve employee morale</li> </ol>	<p><b>Threats:</b></p> <ol style="list-style-type: none"> <li>1. Challenges such as data security and privacy protection, technical input and cost, dependence on manual services, and uncertainty of market changes</li> <li>2. ERP full process management system: risk accumulation, high input costs, difficulty in execution and difficulty in adapting to a rapidly changing market and other potential disadvantages</li> </ol>

**Fig 2.** SWOT Analysis

#### 4. Opportunities and Challenges

New retail can help the development of the catering industry, reduce costs, improve efficiency, expand sales channels provide personalized services, and promote the upgrading and reform of the catering industry. The new retail model combines the advantages of online and offline, which can not only broaden sales channels and attract more consumers but also improve operational efficiency and service quality through data analysis and intelligent technology<sup>[10]</sup>. For traditional catering enterprises, the transformation to new retail means breaking the inherent sales model, extending the business online, and using the Internet platform for marketing promotion and trading. However, the new retail model has certain challenges for the transformation of traditional catering services, and enterprises need to adjust their operating models<sup>[11]</sup>. The mode of pure offline operation or offline operation, supplemented by online operation, has changed to O2O operation mode, which may lead to the risk of a large number of customer losses or the weakening of corporate brand effect<sup>[12]</sup>.

In terms of digital operation management, the digital whole-process management mode can ensure that the source of raw materials of enterprises can be checked, the transportation is stable, and the operating costs can be reduced to the maximum extent to help enterprises obtain higher profit value. For the traditional catering industry, the development of digital operations can ensure the market share of enterprises in the era of Internet marketing, while expanding its brand influence and ensuring stable transformation and development<sup>[8,9]</sup>. However, in the initial stage, the transformation of digital operation mode requires enterprises to spend a lot of manpower, material resources and financial resources to update the mode<sup>[6,12]</sup>. Therefore, the transformation of enterprises needs to consider the influence of social reputation, the balance of cash flow of enterprises and the adaptation of employees under the new mode, and it is not easy to carry out a "one-time" transformation, otherwise it will easily lead to the collapse of the overall operation and management of enterprises.

#### 5. Conclusion

In conclusion, through the analysis of Luckin Coffee, a company with the strongest development momentum in the catering service industry, this paper finds that there is a problem of unclear

operation and management modes in the coffee industry. This can be solved using new retail and detailed market positioning. However, operation management is only a part of enterprise digital transformation, and in the process of enterprise digital transformation, such as manpower management, technological innovation, cost design, etc., are of great significance to the sustainable development of enterprises. Therefore, in the follow-up research, the problems of other enterprise digital transformation modules except operation management will be analyzed and explored, to ensure the integrity of the reference of other enterprises in the industry, enhance the theoretical reference value, and help enterprises quickly carry out digital transformation and development.

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