Analysis of profit earning after scandal for Luckin Coffee with the concept of marketing mix strategy 4Ps and SWOT

Ziqian Li[1,†], Jinghao Qian[2,*,†], Sheng Xie[3,†]

[1]School of Environmental Engineering, Northeastern University of China, Qinhuangdao city, Hebei province

[2]Institute of International Economics and Trade, Central University of Finance and Economics, Beijing, China

[3]College of Behavioral and Social Sciences, University of Maryland, The Unite States

*Corresponding author: sxie@umd.edu

†These authors contributed equally.

Abstract. This paper starts with an overview of Chinese coffee market. The rapid growth of Luckin coffee attract our attention so we further studied it. This paper used SWOT analysis, and studied the internal strengths and weaknesses, external opportunities, and threats of Luckin coffee with a thorough examination of internal and external situations. 4P method is also applied in the paper to analyze the weakness and strengths of Luckin coffee. Therefore, some suggestions are put forward for Luckin coffee and a prediction of the future Chinese coffee market is given. The paper also provides suggestions for Luckin coffee's strategy and mentions potential risks.

Keywords: Luckin Coffee, Marketing mix 4P model, SWOT analysis.

1. Introduction

1.1 Background

China's coffee market is spacious and has plenty of room to increase consumption. The Chinese coffee market is currently at a high growth stage, and with an annual per capita coffee consumption of 9 cups in mainland China. According to statistics, the annual growth rate of coffee consumption in China is 15%- 20%, while the global growth rate is 2% [1]. There is still much room for improvement compared to mature overseas markets; the strong dependency on coffee makes the coffee industry a long life cycle and high consumer stickiness, making it an excellent track within the ready-made beverage industry. According to Frost & Sullivan data, the China coffee market reached a CAGR of 29.54% from 2013 to 2018 and is expected to continue growing at a CAGR of 25.99% to reach 180.6 billion yuan in 2023. At the same time, economic development, industrial upgrading, and rising education levels are driving the growth of coffee consumers, and the accelerated pace of work-life is increasing the demand for caffeine. Around the world, freshly ground coffee made up 87% of the market, while instant coffee made up less than 13%. In China, however, freshly ground coffee made up only 16% of the market. The market for Chinese coffee consumption has not yet fully opened up due to historical influences with a long-term history, such as tea culture and the structure of the Chinese diet [1].

1.2 Research Gap

Luckin is a leading company in the domestic coffee industry. Although Luckin underwent debt restructuring in 2020, the operating profit of its stores improved significantly in the next two years, and the operating profit margin of self-operated stores in 2021 reached 20.2%; With steady progress, the series of problems caused by financial fraud have been resolved, and the company has entered a stage of high-quality development. Therefore, Luckin's marketing strategy and corporate decision-making to get out of the predicament are of great research value. Some researchers believe that the reason for Luckin's success at this stage is that it is good at using online platforms to expand consumer groups. Based XXX has not been studied in-depth, creating a research gap. Since Mao Luckin's advantage has not been accurately determined, the research gap will prevent Luckin from maintaining its leading position for a long time.

1.3 Structure of the Paper

This paper aims to analyze the company strategy of Luckin for online sales and physical marketing through qualitative analysis and evaluate the relationship between marketing mix theory and XXX, and further explain the research problem. Taking Product, Price, Promotion, and Place as the four dimensions of the 4P theory to evaluate Luckin's marketing mix strategy. The internal and external environment of Luckin is analyzed using SWOT analysis. Based on the four characteristics of strengths, weaknesses, opportunities, and threats, it is helpful to have a deeper understanding of Luckin's unique business strategy.

2. Definitions and Theories

2.1 Definition

When Neil Borden proposed the marketing mix, he mentioned an important marketing problem: what overall marketing strategy has been or may be adopted to achieve profitable operation according to the situation faced by the management [2]? In the process of pursuing customer loyalty and customer stickiness, the ultimate goal of enterprise marketing strategy is to generate profits. When an enterprise tries to meet the needs of customers, it needs to pay attention to whether the strategy it chooses is in line with the enterprise objectives, or profitable.

Based on the theory put forward by Boden, more scientists put forward more model combinations with the goal of making profits. These marketing combinations have been greatly developed in theoretical research, depth, and discipline system, and are still being continuously supplemented and improved. They have been widely used in the analysis of enterprise marketing strategies.

2.2 Development of Theories

Marketing mix theory has many complementary categories. 4P to 10p carry out macro analysis from the perspective of enterprises, while 7p and 4C supplement more micro analysis processes from the perspective of consumers. 4P theory is a detailed classification of marketing elements mentioned in the marketing mix created by Jerome McCarthy based on Neil Borden. Jerome McCarthy believes that the market is free, and no one can force consumers to buy their products [3]. The goal of 4P is to satisfy consumer groups and let consumers choose their own enterprises and complete transactions in their free choices. Products are services or physical goods created by the company for consumers. Price is the price that consumers are willing to pay for the products or services provided by the company in monetary units. Promotion is a means for enterprises to communicate with consumers, convey product information to consumers, and arouse consumers' interest. Distribution is the way a company delivers its products to consumers.

Later, in 2009, krasnikov Proposed the supplement of 7p, adding personnel, physical evidence, and process to cover a larger dimension [4-5]. Its essence is still to enhance consumers' experience and thus their willingness to consume. The people consumers face, the physical evidence they see, and the process of reaching a transaction can increase customers' favor and loyalty to the enterprise by improving three aspects.

Booms and Bitner added two elements in the subsequent model modification, which were defined by men and Qurneh to form 7p [6,7]. Personnel, tangible display and process display are the three major elements for enterprises to meet customer needs. Taking the personnel factor as an example, the attitude and behavior of the waiter will promote the consumer experience, thus affecting the consumer's judgment of the enterprise. Or the example of the process display factor is the time spent in queuing to obtain products, which is an important consideration for consumers to decide whether to complete the transaction.

The 4C concept was born in 1989 and proposed by Brunner. It is composed of consumer, cost, convention, and communication [8]. It strengthens McCarthy's goal of taking consumers as the marketing work proposed in the 4P theory [2]. The concept of 4C is more inclined to observe consumers and study consumers' needs.

2.3 Important Results

In order to meet the new environment, Brunner put forward the 4C theory, because the market has gradually changed from the enterprise as the core to the consumer as the core. From the perspective of customers, the product demand is more in line with the market demand to a certain extent, making it easier for enterprises and consumers to reach a deal. Therefore, many scholars believe that 4C should replace the 4P theory. However, 4C and 4P are complementary rather than the alternative. They analyze the elements required by the transaction from the perspective of customers and enterprises, so there is no conflict between them.

The 4C theory has been favored by many enterprises. Luckin coffee's early strategy is to take customers as the goal and increase customer loyalty as the core goal. In the early stage, Luckin coffee implemented the 4C concept, strengthened cost, convention and communication in an extreme form, and completed fission communication through the Internet [4]. Such a marketing mix has won them the attention of almost the world. However, while strictly implementing 4C, Luckin coffee ignores the most important goal of marketing strategy - corporate profits. Luckin's internal investigation team issued a report on April 2, 2020, admitting that it had forged income worth RMB 2.12 billion (US $310million) from 2019q2 to 2019q4.

After rapid responsibility handling and management rectification, Luckin coffee has re-selected its marketing mix. Based on 4P, with corporate profits as the core goal, Luckin coffee has re-established a new strategy with appropriate prices, rich products, targeted channels and interesting promotions, turning losses into profits in just two years.

2.4 Conclusion

From the literature review, the 4C theory is consumer-oriented, and marketing strategies based on consumers' personal needs have a great impact on customer loyalty. 4P theory focuses more on the concept of achieving enterprise goals and is more suitable for the marketing analysis of enterprise profits.

Meeting customers' needs is an important factor in reaching a transaction. After that, the profitability of the enterprise determines its value of the enterprise. It is not advisable to blindly meet the needs of customers and ignore the profits of enterprises. Whether an enterprise can attract the attention of investors in the market depends more on whether the enterprise can bring them enough income than on the satisfaction of consumers [1].

3. METHOD

3.1 Research Design

This research uses both quantative and qualitative approaches to analyse luckin coffee and qualitative mehod is more emphased, which focus mainly on SWOT Analysis. Moreover, data will be collected almost on desk since limitation for collecting first hand information due to online limitations and time limitation. Besides SWOT analysis method, other qualitative analysis is included in this research based on our analysis of data we collected, we also went through some other papers about the coffee industry to get insight about the industry and luckin coffee. To finish this research, not only the research focus on analysing the luckin coffee itself but also it focus on a horizontal comparison between luckin and world famous traditional Starbucks and new challenger Nayuki. In this research, not only traditional coffee shop was compared, but also new challenger with totally different products and designs was compared.

3.2 Luckin Coffee

China is not yet a mature coffee market, people hold a low acceptability towards most coffee types. Comparing to traditional coffee shops which provides more conventional coffee types, Luckin coffee provides products which suits Chinese people especially Chinese young people more. For instance, the hot-sale "Coconut coffee" series, eliminating most sour and bitter flavor in coffee, suits well with Chinese taste, gradually turns many bubble tea consumers to coffee consumers. In 2021, over 100 new products were put forward, "Coconut series" were sold for over ten million cups.

For the price-setting perspective, Luckin coffee perfectly satisfy larger range of people than conventional coffee shops do. Before the arise of Luckin coffee, Chinese industry comprise two major types of coffee shops, first is the coffee shop of convenience stores which provide coffee less than 10 yuan, second is more expensive ones such as Starbucks, the average price over 30 yuan. Luckin coffee offers coffee slightly less than 20yuan, perfectly fill in gaps between the cheap and expensive prices. Nonetheless, Luckin coffee also absorb many customers who get used to take-away coffee from luxury coffee shops like starbucks, those customers can still enjoy great coffee in Luckin without having to pay the extra fee for good environment.Luckin Coffee frequently offers steep discounts on their products, such as buy two get three free or buy five get five free promotions. With these kinds of special deals, a group of friends or coworkers can have coffee for as little as 10-20 yuan ($1.5-$3) on average [9,10].

After adjusting for a year and a half, Luckin is one step beyond comprehensive profit. In 2021, the profit rate of Luckin's self-operated stores is 20.2%, the operating cash flow turns into positive, the 12-month surviving rate increases from 63% in 2019 to 93% in 2021, debt restructuring caused by financial fraud is basically solved.

Chinese citizens drink an average of 5 cups of coffee per year； for comparison, the US consumes 400cups per year; while Switzerland and Norway consume more than 1,000 cups [10]. There's still a huge gap in consumption between Chinese and people in developed countries, which might be seen as a great potential in Chinese coffee industry. Judged from the amount of stores, business frame and customer loyalty, Luckin coffee is absolute the head brand among fair-price coffee shops.

3.3 SWOT Analysis

3.3.1 Strength

First of all, in terms of marketing operations, through the combination of online and offline, Luckin conducts digital marketing for urban white-collar workers, the main group of coffee consumers, to quickly realize social fission. After using a large number of brand advertisements to increase awareness, Luckin pushed accurate LBS advertisements through WeChat based on existing user groups, quickly and accurately covering the main consumer groups, which effectively improved operational efficiency and reduced intermediate costs and obstacles.

Second, Luckin positions itself as a master coffee, emphasizing the selection of high-quality Arabic beans, the use of advanced coffee machines, and supporting equipment, which indicates that its high product quality is guaranteed. The logo design is elk, reflecting the uniqueness of the brand design; the elk is elegant and noble, in line with the style of coffee products, Luckin Coffee chooses white-collar workers as the brand positioning, the nobleness of the elk and the main color is blue are in line with the target consumers. Coffee represents a high-quality life. On the premise, its brand design helps to build a unique brand image and increase the added value.

3.3.2 Weakness

In the early stages of development, Luckin increased its customer base through a large amount of financing debt, which posed a greater operational risk to the company. Increasing the number of users by issuing consumer vouchers and other means could lead to consumers becoming dependent on the company for such subsidies. If the company's strategy shifts in the later stages, and if Luckin does not have a high enough quality product to retain its consumers, consumers' brand loyalty to Luckin may decrease, which will lead to a reduction in the company's profitability. The upgrading of coffee quality is the main issue that Luckin must address. According to the prospectus released by Luckin in 2018, the reorder rate of consumers reached 54%. If consumers find the coffee to be truly gratifying, the rate of consumer repurchase will rise without the need for subsidies, a successful coffee brand will be more likely to emerge in the Chinese coffee industry.

3.3.3 Opportunity

First, Chinese coffee industry is a high speed growing market with a great number of potential customers. According to statistics, Compared to the global growth rate of 2 percent, China's annual growth rate of coffee consumption is between 15 and 20 percent. The demand for coffee rises as China's economy develops and its consumer base with disposable income broadens. Luckin's permeability in Chinese first-tier city is of the highest among middle-class coffee shop and it also occupies 20% market of Chinese third and below tier cities, theoratically, there's lots of room for Luckin to expand in third and below tier cities for there's much less competitors. Once people in third-tier cities, a tremendous amount of people, are turned into Luckin customers, will generate much profit to it.

Second, "beveragize" the coffee products. Although Luckin's stores density in Chinese cities is already high, however, there are still a great percentage of people who do not drink coffee at all in their daily lives for coffee culture is yet not popular and profound enough. In order to raise the percentage of loyal customers, Luckin could try to beveragize the products. "Beveragize" means that reduce coffee's character and increase drinks' character in coffee products to suit most people's taste and win more people's acceptance. Beverage like coffee makes coffee consuming a thing with less threshold, nonetheless, it might also make these people into real loyal coffee consumers.

3.3.4 Threaten

First, a gap in health in China is high among different tiers of cities, also, the aging society phenomenon is profound in undeveloped areas of China. Thus, it might be easy for Luckin to expand in certain areas, but, whether the expenditure will generate more profit is doubtful because consumptive power, especially towards coffee products, is likely to be low. In that case, the profit generated later might not cover the cost.

Second, inflation during the epidemic period is high around the globe, which leads to price rises in raw materials, and might lead to a necessary rise in price and loss of some loyal customers.

4. Result

In general, Luckin is dominating the middle-price coffee industry of China. From the SWOT analysis, Luckin is competitive with its first-mover advantages (higher store density and brand popularity), perfect networking, and unique ways to cut costs.

Customers in favor of Luckin not only because of its high quality with a comparatively low price and convenience for its stores are everywhere, but also because Luckin successfully makes some of the coffee products taste like ordinary drinks, making them much more acceptable to Chinese customers with little acceptance to pure coffee drinks. Luckin should seek to establish a larger consumer group outside the first-tier cities of China for there is a much larger population in those areas. Once successfully propagate coffee culture and rise coffee drinking habits in those places, the gain potential will be profound.

As for threats and weaknesses, the expansion outside first-tier cities might face obstacles on account of the wealth gap between regions, obstacles while introducing coffee culture(since China is a country with no foundation of coffee culture), and an aging society making coffee-consuming much more difficult. Luckin also facing profound financial pressure since leverage is high, expanding speed is high and advertisement fee is tremendous.

5. Discussion

In summary, Luckin is the best chain coffee shop in China. However, it still needs to focus on several issues while expanding, for instance, it needs to pay extra attention to its financial circumstances since the leverage is high and it is expanding with a tremendous speed in the meanwhile. Since the vulnerability in finance, black goose events like epidemics or scandals might lead to a decline in profit and cause a financial crisis easily.

Luckin also needs to pay attention to the response to the fierce competition in the first-tier city coffee industry, to keep gaining from such a market, enough differentiation in products must be made, "leveraged" coffee products are a great method and other potential ideas must be put forward, otherwise could only lead to a way in homogenization, lowering the profit rate.

Finally, Luckin also needs to consider carefully when deciding to expand in a Chinese suburb area, on account of wealth gaps, unpopular coffee culture, and sparse population, the investment return rate might not be ideal.

6. Conclusion

In conclusion, this essay studies Luckin through qualitative analysis and discusses how Luckin got out of the predicament and improved the profitability of the company. The essay also analyzed Luckin's internal and external business environment through SWOT analysis and evaluates the company's development opportunities and challenges. At the same time, the article refers to the data and opinions of many research reports and papers and uses the 4P marketing theory to analyze Luckin's products, promotions, strategies, and other aspects. In general, it can be analyzed that the substantial increase in Luckin's operating profit is closely related to the adjustment of its operating strategy. In addition, although Luckin has a leading advantage and a large space for development in the domestic coffee industry, Luckin still faces many challenges. In today's extremely competitive environment in the domestic coffee industry, the company will still face challenges from competitors in the future.

The research of this essay also brings enlightenment to different enterprises in the retail industry. In the process of development, enterprises should adjust their business strategies in time. When the customer group is large enough, they should focus on improving product quality and providing cost-effective products to further improve user viscosity. At the same time, with the development of the Internet, enterprises should actively engage in the online brand operation, focus on young groups, and increase brand awareness through online advertising and celebrity endorsements, which can continuously attract new users and increase consumers' repurchase rate.

The limitations of this study are as follows. This essay mainly adopts the method of qualitative analysis, such as analyzing the business strategy of enterprises through marketing theory. Quantitative analysis of consumer and enterprise data is lacking. The results of the analysis may deviate from the actual situation, which may affect the accuracy of the conclusions. Combining quantitative analysis with qualitative analysis is recommended in future research to obtain more precise research results.

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