

Co-marketing Strategy and Problem: Case of Luckin Coffee and COCONUT PALM

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Abstract. The Internet is becoming more and more important in people's lives. Nowadays, in today's marketing methods-based Internet, there is a cooperation method among brands called co-branding. Some brands choose partners entirely different from them to cooperate and launch new products; others prefer selecting some brands in similar industries and jointly developing new products. The case in this paper belongs to the second category. Luckin Coffee and COCONUT PALM jointly launched a coconut milk coffee called coconut cloud latte in the first quarter of 2022. This strategy not only gives full play to the two brands' market advantages but also attracts consumers to buy through Internet marketing means and excellent packaging design. However, in the actual marketing process, the taste and material preparation did not satisfy consumers generally. These problems can be avoided in early market research. In addition, brands must continue to deliver core values when co-branding and innovate based on quality assurance. Only when each of the above links is effectively implemented can the brand co-branding strategy maximize its effect.

Keywords: Co-marketing; Strategy and Problem; Luckin Coffee; COCONUT PALM.

1. Introduction

Freshly ground coffee is a kind of coffee made from fresh coffee beans. It is different from instant coffee sold online or offline in shopping malls. The coffee beans are made into powder; customers can drink them immediately after purchase. The freshly ground coffee is handmade by the shop clerk or barista and delivered to the customer quickly to retain the coffee's original aroma and pure taste to a large extent [1].

Drinking coffee seems to be a necessity for many white-collar workers. According to the 2022 Report on the Development of China's Existing Coffee Categories reported by Meituan Food & Kamen on May 31, 2022, in 2021, the market capacity of the hand-made coffee industry in China reached 8.97 billion yuan, an increase of 2.640 billion yuan (41.71%) over 2020. Moreover, it is estimated that the market size will reach 15.79 billion yuan in 2023. In terms of consumer groups, the post-90s female office workers, who have a high level of consumption, are the core users. Such large and high consumption groups have promoted the rapid development of the coffee industry. According to Research Report on China's Fresh Ground Coffee Industry, the market size of China's instant ground coffee will be about 87.6 billion yuan in 2021, an increase of 38.9% over the previous year. In addition, it is estimated that in 2024, it may reach 190 billion yuan. It can be seen that the potential for coffee industry development is still huge today.

On April 11, 2022, Luckin Coffee launched the coconut latte co-branded with coconut milk. On the first day, the total sales volume of 660,000 cups caused heated discussion. Luckin Coffee not only clarified its brand positioning again but also saved the embarrassing situation that the old brand coconut juice was not appreciated, making this co-branded drink truly a phenomenal product [2].

This study is based on the 3C strategic triangle model proposed by Ohmae Kenichi in Japan. He emphasized three key factors, the company itself (Corporation), its customers, and competitors, to make a successful strategy, and it must be considered when formulating any business strategy. He believed that only by integrating these three elements can enterprises maximize and sustain the advantages of their products.

Consequently, the practical significance of this paper is to analyze the advantages and disadvantages of the marketing method of coconut latte based on the 3C strategic triangle model and put forward some constructive suggestions to relevant enterprises. It is worthy of using for reference

and reflection that coconut cloud latte has achieved such gratifying success among countless joint drinks. Identifying and analyzing this kind of marketing strategy for competitors and consumers is also a practical significance of this paper [3,4].

2. Literature review

The product, in this case, is a coconut cloud latte. Luckin Coffee and COCONUT PALM have achieved considerable marketing effects as the leading enterprises in different industries. As a significant marketing present, joint marketing has attracted the attention of other scholars and marketers. Based on the previous literature, three research types can be concluded: industry, consumer, and product.

First of all, in terms of industry, scholars pay more attention to the heterogeneous industries of joint marketing, that is, whether the cooperation between two brands can promote the development of the two sectors. Standeven(1998) proposed that the symbiotic relationship between the two industries determines the success of joint marketing to achieve a practical synergistic effect [5]. In a word, the essential element of promoting joint marketing is whether there is a common point in how the two heterogeneous industries obtain benefits.

Secondly, from the perspective of consumers, Ahn, Kim, and Forney (2009) proposed to analyze the degree of harmony between co-branded products or brands. If the connection between the two brands is high, Consumers have a higher consumption desire for co-branded products [6]. For consumers in the purchase of co-branded products, the degree of violation of the two brands depends on the purchase decision to a large extent, and the product quality and cost performance factors account for less.

Finally, from the perspective of products, scholars have analyzed the two significant factors of consumption and cost for co-branded products. Jeitschko et al. (2017) once proposed that most co-branded products appear in bundled consumption. This marketing method uses the two significant enterprises' brand power to increase the co-branded products' corresponding value to increase profits [7]. Therefore, the linkage benefits of joint products are far higher than single-brand products. This marketing strategy is often an important way for significant enterprises to improve their reputation and brand value, but it also brings some problems with product premiums. Zhang et al.(2010) mentioned that enterprises try to change consumers' demand through joint marketing, including accepting products with high prices and increasing the consumption threshold [8]. However, they often take "ensuring supply security" as the reason for rising product costs, To make the increase in product price more reasonable. It can be seen that joint marketing can bring some positive effects to the product. Still, the resulting product premium problem may lead to a negative impact on the reputation of enterprises.

Based on this, in the case of coconut cloud latte, the main issues in this paper are how the two brands specifically apply the 3C strategy and design their personalized marketing strategies and whether this strategy is deficient.

3. The influence and conclusion of joint branding

3.1 Case Description

Formerly known as Coconut Palm Group Haikou Canned Food Factory, coconut water is one of the leading products of COCONUT PALM. As an old and famous brand in Hainan, coconut water is one of its star products. From 1995 to 1999, the sales volume of it had continued to increase for five years, with an annual sales volume exceeding 1 billion yuan. By 2013, its revenue had exceeded 4.456 billion yuan. However, a decline has been seen in its revenue for several consecutive years (2014-2019). Although it has increased slightly during the last three years, it is still grim: the income was 4.45 billion yuan (2014), 4.336 billion yuan (2015), 4.021 billion yuan (2016), 4.157 billion yuan (2017), respectively, with only about 5% growth in 2018 and 2019. One of the dominating reasons is

that its products lack innovation. Products other than coconut water have not deeply impressed consumers successfully. Moreover, it does not adopt some positive approach to promote sales and build strong brand awareness, catering to new concepts of consumption in the Internet era.

Founded in 2017, Luckin Coffee has won the love of many consumers since it first opened in 2018. This is mainly because of its strategy: consumers can order their daily coffee in their app (the company's in-house delivery service the coffee). Furthermore, the rich flavor of the coffee and coupons issued irregularly are two reasons for consumers' support and affection. According to Luckin Coffee's second-quarter financial report in 2022, its total net income was 3.299 billion yuan, 72.4% from the year. In comparison, Starbucks' net income in China has fallen 14% since it opened its first store in Beijing in 1999. At the end of the second quarter of 2022, Luckin Coffee had 1,434 more stores in China than Starbucks. That is to say; it took only four years for Luckin Coffee to surpass Starbucks' 20-year store layout in the Chinese market.

As for the joint branding activities, these two brands publicized and previewed this new product on various platforms on April 8th, 2022. Specifically, COCONUT PALM released a countdown poster, while Luckin Coffee recently released a co-branding poster on Sina Weibo. Xu Dongdong, the former spokesperson of COCONUT PALM, posted a blog when the co-branding activity started on the 11th of April and took pictures with a coconut cloud latte in the same iconic Posture as she used to be in advertising. The opening day of the latte was a trending topic on RED, Sina Weibo, Bilibili, and other major platforms in China.

3.2 Analysis of Strategy on Coconut Cloud Latte

The following content will describe and analyze this joint case and propose some problems that can be improved.

3.2.1 corporation

First of all, COCONUT PALM has never cooperated with other manufacturers before. This is the first time it has collaborated with other brands in 32 years since its creation. However, Luckin Coffee has always been a brand favored by young people and has been exploring new products to attract consumers. For instance, on April 6, 2022, Luckin Coffee announced that it had sold more than 100 million cups of raw coconut latte on the first anniversary of its launch. These two co-branded companies have different positioning, but they have professional skills in coconut juice and latte, respectively, so the combination of coffee and coconut juice can attract consumers' acceptance and love. It is a successful cooperation between the old-fashioned packaging of COCONUT PALM and Luckin Coffee's pursuit of fashion and youth. Nowadays, people are living in an era of product homogeneity; it is a vast topic that this cooperation highlighted the contrast between two brands' uniqueness. Second, the coconut cloud latte is a new product launched based on raw coconut latte, so it won't do much to erase Luckin Coffee's product positioning. In addition, the slogan of COCONUT PALM was "from childhood to adulthood". The coconut cloud latte's motto was "from childhood to adulthood", keeps not only the style of coconut palm coconut juice but also integrates the description of Cyclic Molecular Embedding Technology (a technology to stabilize vegetable protein cream covered with milk with cyclodextrin) of this product.

However, the packing materials provided by the supplier are not sufficient. Mainly, the business did not do complete market research to estimate the demand for product packaging; the company did not do thorough market research to assess the need for product packaging. According to the posts on Sina Weibo and RED, many consumers found that the coconut cloud latte they bought was not sold in new packages on the second day of the sale. The distributor without notified even though the new packaging was sold out. However, after purchase, consumers may find that the packaging was not what they expected, and the stores would use the original packaging for sales, reducing the brand image of new consumers.

3.2.2 Customer

Regarding consumers, the purchasing power and discussion degree of products are two important factors. First, the marketing strategies of the two brands were very appealing. More specifically, early publicity was carried out on various platforms (RED was the leading platform). The limited-edition package of this latte led to my subsequent purchase. In addition, most consumers learn about this product through social media platform topics from peripheral paths. The entry of “coconut cloud latte” on Sina Weibo has exceeded 14 million readers, while the “product of Coconut Co-branded” has more than 30 million readers; On RED, “Coconut Latte” has been on sale for more than a week, and netizens have created more than 30 thousand notes. From “product evaluation” to “teaching you how to make coconut lattes” and then to the “outdated packaging” of COCONUT PALM, this product did attract much attention.

3.2.3 Competitor

Compared with HEYTEA (who cooperated with Hiroshi Fujiwara), one of Luckin Coffee’s competitors, coconut cloud latte is a more targeted co-branding because it is two drink brands that create a new drink. Luckin Coffee and COCONUTPALM’s professionalism makes consumers trust them more. In terms of Starbucks, it lacks localization. Starbucks is more prevalent among international white-collar workers, so it has limitations on the choice of partners for local Chinese beverage brands. Still, Luckin Coffee has a high degree of support in China [10]. Through this cooperation, Luckin Coffee not only brought the brand rejuvenation to COCONUT PALM consumers but also brought many middle-aged consumers to Luckin Coffee.

3.3 Impact of Joint Branding

By analyzing the Latte case and relevant data, it is believed that co-branding will impact both sides of the brand.

First, the co-branding market could enlarge new age groups of customers. According to the data from Mobtech, from March to August in the year of 2021, Luckin Coffee’s consumers aged 18 to 24 accounted for more than 25 percent in both new first-tier and second-tier cities. There is no doubt that the coconut cloud latte is a success. It has not only rejuvenated coconut water to some extent but also expanded Luckin’s original consumer group (students, young office workers) to make the old customers of the coconut water want to taste the coconut cloud latte.

Aside from that, it can promote the original image of both two brands. Before the corporation, two brands were dedicated to their products separately. But after they join, their customers will be delighted to buy the innovative development, and such an appealing product will attract many customers.

In contrast, this strategy may let the brand face more challenges simultaneously. When a co-branded product enters a new market, it will inevitably face competition from homogeneous products. For example, in the case of coconut cloud latte, it competes with coconut latte in Luckin Coffee; at the same time, it competes with other coconut milk tea and coffee. In addition, the increase in the risk of brand maintenance could be another problem. In the past, enterprises only spent time and money to maintain their brand image. However, after co-branding, enterprises also need to worry about the brand image of partners. If the partner has a scandal or product problem, even if it does not affect the quality of the cooperative product, consumers will still reduce their trust in its co-branded brand, resulting in lower sales.

More importantly, if the quality of the product is difficult to maintain, it will lead to a decline in customer satisfaction, resulting in customer loss. Its taste is not as fresh as the original raw coconut latte, and the taste is too sweet. According to the data from April 10, 2022, to August 24, 2022, in RED, 8208 notes mentioned coconut latte as one of the drinks with a high volume at the beginning of its sale. However, 1639 notes included negative comments on the taste of the coconut cloud latte. The main reason for the decline of the coconut cloud latte sales volume was the taste.

The solutions to tackle these problems are described briefly below. In the future, the brand itself should correctly use the marketing strategy to maximize its advantages, focusing on the selection of partners with common objectives about the innovation of marketing strategies to make good use of the great potential and value brought by the co-branding cooperation model.

4. Conclusion

To sum up, this paper set out to analyze some highlights and challenges in the case of coconut clout latte and come up with constructive solutions to problems that generally known brands may encounter in the process of joint branding. Co-branding is undoubtedly an effective method in the process of formulating media strategies. It can improve the influence of products and increase profits. At the same time, it can open up new markets and expand the service scope of the brand. However, the brand also needs to conduct complete market research in advance to avoid problems that cannot be solved in the actual sales process, thus affecting the development of the subsequent brand and customers' overall impression of the brand.

The scope of this paper was limited in terms of time. Because the overall data for Luckin Coffee in 2022 is not complete, this study only refers to the relevant product data in 2021 and the first quarter of 2022. More broadly, this research is also needed to analyze the data later this year to get more reliable and persuasive data, putting forward personalized advice on Luckin Coffee and COCONUT PALM.

In the future, brands should choose partners with similar values and common objectives for cooperation. Even though different brands may have personalized problems in the face of a joint branding strategy, a suitable partner can effectively reduce the risk of brand maintenance and ensure the brand's reputation. Because of this, brands can also have more energy to improve the quality and heterogeneity of standard products and make products that consumers are satisfied with.

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