

Research on the Business Model of Luckin Coffee Under the Background of New Retail

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Abstract

The term “new retail” first appeared in 2016, when Ma Yun, the co-founder and former executive chairman of Alibaba Group, put forward the concept in his speech. Since then, “new retail” has become a hot word and means that traditional e-commerce has begun to change into new retail. The new retail concept and development mode has brought a great impact on the development of the traditional retail industry, and also opened up a new way for its development.

Since its birth, the implementation of the concept has brought the most direct impression to the public that a variety of unmanned retail experience stores have sprung up on a large scale nationwide. The experience stores take mobile payment and face recognition as the development basis, and show the concept in front of the public more intuitively, so that people can understand the concept of online payment and offline experience better, helping new retail win a lot of markets.

This article will focus on the exploration of Luckin Coffee as a new retail coffee in terms of business model. Compared with the traditional coffee mode, the new retail coffee breaks the shackles of the physical space of the traditional coffee shop with the help of the Internet and meets the coffee consumption needs of users in multiple scenarios. At the same time, Luckin Coffee can accurately portray users and carry out targeted marketing through the data about consumption frequency and period of ordering coffee and light food category retained by users in the mobile app. Operation management, intelligent replenishment and scheduling and membership system establishment will be determined by the big data system of Luckin Coffee. The thesis makes an introduction of the realization means and profit analysis of Luckin Coffee’s new retail mode and briefly summarizes the reference significance of Luckin Coffee for other new retail industries.

Keywords: Luckin Coffee, new retail, social media marketing, online and offline, financing

This chapter will start from the main form, combination structure and internationalization of retail formats, and discuss the changing characteristics and operating logic of format in different historical stages since the reform and opening up.

Seven decades after the founding of the People's Republic of China, we almost have had no theory and practice for exploring the development of the retail industry in China. For one thing, it lacks sufficient economic basis and practical process, for another, there is no inherent requirement to study the development theory of the retail industry. With promoting the reform and opening up and establishing a market economy system, the shortage of supplying consumer goods has been rapidly reversed. The buyer's market has gradually formed, and the competition has become increasingly fierce in the retail industry, which in practice affects and determines the change of the overall pattern of the retail industry and injects practical impetus for theoretical exploration of the law of the retail industry (Wang, 2008).

1.1 The Single Stage of the Main Body of Business (1978-1990)

From the implementation of reform and opening up to the 1980s, China had changed the system from a planned economy to a socialist market economy, with sustained high-speed growth of the national economy and consumer purchasing power, which stimulated the development of the retail industry with department stores as the main body. By the middle and late 1980s, the retail industry had gradually implemented multiple circulation channels and economic components, but the industry of department stores is still the main body. At this stage, the advantages of large-scale department stores in the retail industry competition are increasingly prominent, becoming a hot investment spot and driving the retail industry to be large-scale and comprehensive. In just four years from 1986 to 1990, the number of new large-scale retail stores in China was equivalent to the total of the previous 35 years. The number of stores had grown from 164 thousand to 174 thousand, and the number of employees has increased from 1.092 million to 2.12 million (Sajid, 2016). The overall development level of the retail industry in this stage is shown in

Figure 1.

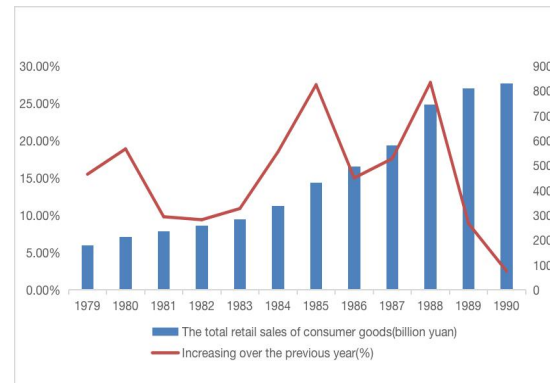


Figure 1. The total retail sales of consumer goods in China and its growth rate in the same period (1978-1990)

1.2 Diversified Stage of Business Combination (1991-2000)

In 1992, Comrade Deng Xiaoping's South Tour Speech opened a new chapter of China's reform and opening up. The process of market-oriented reform was speeded up rapidly, providing a brand-new institutional environment for the development of the retail industry and promoting the retail industry to experience a comprehensive revolution. Driven by the double wheels of both the transformation of traditional business forms and the development of new business forms, the retail industry entered the stage of diversified business forms combination, the domestic market had gradually changed from the seller's market to the buyer's market. The change in the market structure had prompted the retail industry to start a new round of business transformation, and the retail system had steadily become complete.

1.3 New Stage of International Development (2001-2022)

In the 21st century, China's economic operation has changed from plan orientation to market orientation. The overall strength of the national economy has been greatly improved, and the consumption demand of urban and rural residents has become increasingly rich. At the same time, the supply of social consumer goods has increased significantly, easing the structural spear of supply and demand of consumer goods and releasing part of the stock of purchasing power from middle

and high-income people.

In 2001, China successfully joined the World Trade Organization, the retail sector was further opened to the outside world, the global economic integration and progress of science and technology were increasingly accelerated, and China's retail industry was jointly promoted to enter a new stage of international development.

2. Strategic Opportunities for Retail Format Innovation

Under the new situation, China's retail industry is stepping into a strategic opportunity period of transformation and upgrading. The transformation of economic growth mode, the growth of residents' income, the reform of science and technology, the acceleration of urbanization, the upgrading of residents' consumption structure, and the guarantee of macro system level bring unprecedented opportunities for the transformation and retail industry.

2.1 Definition of New Retail

The term "new retail" first appeared in 2016, when Ma Yun, the co-founder and former executive chairman, put forward this concept in his speech. Since then, "new retail" has become a hot word and means that traditional e-commerce has begun to change into new retail. The new retail concept and development mode has brought a great impact on the development of the traditional retail industry, and also opened up a new way for its development.

Since its birth, the implementation of the concept has brought the most direct impression to the public that a variety of unmanned retail experience stores have sprung up on a large scale nationwide. The experience stores take mobile payment and face recognition as the development basis, and show the concept in front of the public more intuitively, so that people can understand the concept of online payment and offline experience better, helping new retail win a lot of markets.

Compared with the traditional retail model, the new retail model has great innovation in goods, price, convenience, environment and service. The core requirements of the new retail business model are self-operation, joint operation and leasing, which are also the basic requirements of

the initial retail business model. The new retail business model is mainly composed of the primary retail business model and one or more marginal elements to form an advanced retail business model. In addition, forming a high-level retail business model mainly depends on the unique combination of marginal elements in enterprise development. The biggest advantage of the network channel is that the operating cost is very low, and the developing market is broad. There are a large number of commodities in the market. The comprehensive integration of commodity-related information can search for the required commodities in a short time, so it develops rapidly. However, compared with the physical channel, the network channel lacks the functions of experience, service and warehousing logistics, so the combination of the two can achieve great complementarity. "New retail" helps network channels to connect physical channels through big data, the Internet of Things and VR technology, and integrates information data, logistics and capital flow in the pre-sale, sale and after-sale stages of retail. Compared with the traditional retail business model, the new retail business model and the traditional retail business model are basically the same in terms of operation. Both of them adopt the combined operation mode. The new one is more intended to connect offline and offline, and the offline convenience stores and online shopping provide consumers with more convenience and diversified choices.

With the introduction of new technology, the development of the retail industry and "new retail" has entered a new stage, with a broader development path. "New retail" has begun to break away from the traditional production mode and developed towards the direction of intensification, refinement and precision, "new retail" has been developing in artificial intelligence, and the relationship between e-commerce and physical stores has become increasingly close. The logistics industry has become an important means of connection, providing impetus for the development of retail operations.

2.2 Definition of Social Media Marketing

Social media marketing is not only to use of the online community, social networks, blogs, forums and other social media platform marketing but

also the use of social media technology for marketing activities, it is a new marketing way, field and business attempt which is hotly discussed in the marketing field in recent years. As a branch of “plus marketing”, social media marketing can be regarded as a supplement to traditional marketing. It is a strategic and systematic process, being used as a long-term strategy of an enterprise (Song et al, 2008). Social media marketing is based on interactive marketing. Compared with traditional marketing, social media marketing has a significant feature, creating interactive marketing value through “two-way” communication. The “two-way” communication of social media marketing includes the communication between enterprises and customers, and the communication between customers and customers. Therefore, in social media marketing, there is not only the interaction between enterprises and customers but also the interaction between customers. The “double interaction” is the important foundation of social media marketing.

Social media marketing is closely related to relationship marketing (Erdoğan & Cicek, 2012). It is a new way for enterprises and customers to establish, maintain and develop relationships and establish a positive image. It is true that social media marketing based on social relations requires enterprises to use social media platforms in order to effectively interact with their stakeholders and promote the realization of marketing objectives by establishing and maintaining good public relations. In addition, social media marketing is closely related to word-of-mouth marketing and viral marketing. Word-of-mouth marketing is a process in which enterprises intentionally influence customers’ communication through professional marketing technology. Influencing communication among customers is the basic content of word-of-mouth marketing. Saravanakuma and Suganhalakshmi (2012) believe that social media marketing is a marketing way to promote websites, brands, or enterprises through social media channels. Social media marketing with “double interaction” advocates interactive communication between customers, encourages customers to spread product information, promotes online “word-of-mouth” and releases the word-of-mouth

effect so as to improve customer loyalty and obtain new customers.

To sum up, social media marketing includes key elements such as social media platform, content, attention, interaction, relationship and word-of-mouth. It is closely related to direct marketing, interactive marketing, content marketing, relationship marketing and word-of-mouth marketing. Social media marketing is indeed based on the emergence and rise of new media tools and new marketing platforms. Enterprises use social media platforms such as blogs, microblogs, social networks to achieve marketing purposes, forming a new way of marketing. This kind of new marketing mode mainly shows that enterprises actively generate specific content to attract or gather the attention of potential customers, followers and supporters, and then have timely interaction with them. In the process of frequent interaction, enterprises and customers build and continuously strengthen their “true relationship” (Bullock & Agbaimoni, 2012) and cooperative relationship. Based on this strong and lasting interaction or relationship network, enterprises are committed to developing larger community groups, developing products and disseminating marketing information by using the group’s intelligence, wisdom and influence, especially releasing word-of-mouth effect, and ultimately promoting enterprises’ industry and sales promotion.

2.3 Definition of Online and Offline Interactive Integration

The integration of online and offline interaction is generally represented by O2O mode, which is the abbreviation of online to offline. This mode is quite different from the traditional e-commerce mode (Kong, 2015). B2B, B2C, C2C and other business models improve shopping efficiency and overcome the limitation of time and space, but there is still a gap between the consumer experience and the specific needs. The O2O model effectively closes this gap, highlights the communication and interaction between consumers and businesses, emphasizes the experience of consumers, and meets the personalized, social and entertainment needs of consumers, being a trend of business development. Alex, the founder of Trailpay, first proposed the concept of O2O in 2010. The core is to make full

use of online user resources for offline consumption (Chen & Guo, 2015).

2.4 Development Trends of Online and Offline Interaction and Integration

In the past few years, the development of the retail industry has made rapid progress, showing a trend of “a hundred schools of thought contend, a hundred flowers bloom”. Each online e-commerce goes close contact with consumers offline, improves the consumer experience, establishes a sense of authenticity in online shopping, and enhances consumers’ shopping confidence. At the same time, offline traditional retail enterprises also have access to the Internet, breaking through their own physical limitations, so that commodities have a wide range of attributes of time and space.

2.4.1 Clear Position

In the fierce market competition, traditional e-commerce and offline retailers constantly adjust their development positioning and find their own foothold in the Red Sea to meet the needs of market segmentation. In the integration of online and offline interaction, clarifying the functions and positioning of each channel can prevent the cognitive deviation of consumers, and then form a unified brand image; otherwise, it may lead to consumer cognitive conflicts and bring negative brand impact. For the development of offline physical retailers online and upper end, it is necessary to clarify the role of the platform, whether it is positioned as an auxiliary sales network of physical channels, a service platform, or the focus of future strategic transformation. How to combine online and offline consumer behavior data to classify their customers is the premise for the realization of precision marketing, and it will help solve the problem of online and offline resource integration (Liu et al, 2016). The goal of online and offline integration is to meet the needs of different consumers. A good positioning means a specific consumer market. Market positioning and segmentation need to affect not only the current level of capital investment and profit but also the strategic direction of enterprise development.

2.4.2 Open Platform

The opening platform enhances the distribution capability. The online and offline interaction

integration needs to be built on the open network platform. The traditional information platform has improved the relationship between producers and suppliers, and it will be more open and directly facing consumers in the era of “Internet plus”. The platform access behavior of consumers has great uncertainty due to the openness of the network. In a period of time, huge online traffic may flow into the online platform. Therefore, the online platform needs to improve the bearing capacity of the platform to prevent the situation that the online retail of Walmart was paralyzed due to the inability to bear too much consumer traffic at Christmas, thus affecting the promotion of online business. The openness of the platform will further change people’s payment habits. The traditional mode of “hand in money and hand in delivery” has been eliminated, and the convenient payment method becomes the boundary condition of platform influence.

2.4.3 Innovative Model

The key to modeling innovation and improving the integration of different experiences is to bring different experiences to consumers, so as to enhance attraction. Online shopping information of individual consumers can outline the characteristics of consumers’ needs, so as to accurately push relevant products. Online shopping information uses big data analysis to get the best-selling products that target customers buy frequently in order to provide commodity guidance for offline physical stores. The stronger the product heterogeneity becomes, the better the sales effect will be (Zou, 2014). Whether consumers come from online or offline, they can experience personalized customized service from merchants.

3. The Realization Means of Luckin Coffee’s New Retail Mode

Coffee is one of the three major drinks in the world. It has been popular for nearly 500 years since introduced into Europe in the 17th century. Coffee is not only a drink but also a culture. At the same time, coffee is a huge business. According to the 2018 China Coffee Industry Insight Report released by CBN data (Zhu, 2018), Chinese per capita coffee consumption is 6.2 cups. Compared with developed countries and areas, this consumption volume is only 1.6 percent of that in

the United States and 2.5 percent of China Hong Kong. In other words, China's coffee market has great potential, which gives a golden chance for the development of Luckin.

Founded in November 2017, Luckin opened its first store in Beijing Wangjing SOHO in the next month. It had 1.5 million users and 500 stores during half a year and reached a valuation of 1 billion US dollars. Luckin's success in brand marketing has brought beneficial enlightenment to brand marketing under the new retail background. Through rapid passenger flow diversification, fission growth and digital operation, the brand can get explosive growth in a short time.

Being different from Starbucks', the concept of "infinite scene" is introduced by Qian Zhiya, the founder and CEO of Luckin. With the opportunity of the rapid development of Internet technology, they have made full use of big data to operate. While greatly reducing the cost of space and physical consumables, Luckin can also make use of the convenience and rapid spread of "online" to focus on the coffee takeout business. At the same time, a large number of subsidies and multi-dimensional marketing in full combination with major social media platforms have further enhanced the development of Luckin. The core competitiveness of the fast-moving consumer goods industry lies in brand influence, economic scale, network effect and user migration cost. Luckin is closely related to consumer psychology. In addition to ensuring the comprehensiveness of its product type, it is closely following the characteristics of the times in the choice of marketing strategies. Based on focus media holding, social media especially WeChat is widely used for marketing promotion. Whether it is WeChat's friends circle advertising, the official account of the public's care push, dazzling coupons, or the joint popular brand or the latest focus topic to open a short-term flash shop, Luckin has all the fresh sense and a good sense of experience to attract the consumer's attention. These endless marketing methods make consumers busy, and they can excavate and stimulate customers' desire to participate. The following thesis will explain Luckin's publicity model, consumption experience and product quality.

3.1 Propaganda Model

Through "Online and Offline" publicity, Luckin online quickly targeted a wide range of user groups, and highlighted the brand positioning of new retail professional coffee, so as to obtain a large number of user traffic and brand influence for Luckin in a short time (Gu, 2018).

3.1.1 Offline Advertising

The offline advertisements are launched precisely, and Luckin's offline segmented advertisements are launched by selecting the office building in the city and the closed elevators in the residential area. Because elevators are the only place for white-collar workers to pass through, with continuous promotion to improve brand awareness. The advantage of elevator advertising is good compulsion, and it may be repeatedly watched. In this way, the purpose of promoting the brand and occupying the user's mind is achieved.

3.1.2 Online Advertising

The online advertising of Luckin mainly focuses on the precise orientation of WeChat Location-based service (LBS). The geographical location relationship between stores and users can be accurately matched by positioning. That is to say, once an office building opens a Luckin Coffee shop, all users who can be covered by the shop will be likely to see the advertisements put by Luckin on WeChat. After users are swiped on the screen, it will arouse the subconscious attention of the target users and push the address of Luckin Coffee shop near the user's location, and make it more convenient for users to order and consume in real-time.

3.1.3 Fission Growth

Fission growth of new consumers quickly informs the surrounding population through IBS advertising, and then obtains the first batch of downloading users with the first order free of charge, and uses the powerful fission growth (attract one free one) to attract the stock and find the increment to obtain the virus growth. It only takes about two months on average to become the best coffee shop in the surrounding area.

As mentioned above, the entrance of social media marketing flow of Luckin Coffee is WeChat at present, which is responsible for the payment function. Although the promotion and preferential

sharing of official website information and other marketing means should be combined with WeChat, the main purchase experience of Luckin Coffee depends on its official website app terminal. With the coming of 5G era, enterprises must attach great importance to digitally intelligent platforms and other aspects. At present, Luckin uses high and new technologies such as AI and AR, it records consumers' preferences, frequencies and addresses and combines cloud computing, big data and other high-tech technologies to make consumer portraits, realizes precise marketing for consumers, and digitally monitors the distribution, use and recycling of coupons, reduces marketing costs and improves marketing efficiency.

3.2 Consumer Experience

Infinite scenes explore more space for the current coffee market. Different from the "social space" of traditional coffee brands, Luckin pays more attention to meeting the coffee consumption needs of users in different scenarios. Luckin puts forward the brand strategy of "infinite scenes". No matter the user is in the city business center, university campus, station, airport and other scenes, Luckin accurately analyzes the consumption characteristics of various scenes, and correspondingly opens different types of stores to realize the full coverage of consumption scenes, bringing more abundant experiences for users. Luckin Coffee stores implement the direct business model without being open to the outside world. At present, the stores are mainly divided into leisurely, flagship and cache, each with a different scale and focus. Cache stores mainly meet the daily consumption of users. Infinite scenes support users to purchase on the app and pick up coffee by self-delivery or delivery. On the one hand, it exploits more potential Internet users and consumption space in the coffee market, on the other hand, it greatly reduces the operating cost of physical stores, and defeats the traditional space premium through the infinite scenes of the Internet (Yang, 2018).

The upgrading of coffee retail mode not only breaks through the single consumption form of traditional stores and effectively saves the time cost of users, but also realizes the diversification of consumption scenes. As takeout is more and more loved and accepted by people, coffee and other non-fast food categories expand to a wider range

of scenes through instant delivery services, including office buildings, hotels, entertainment places and so on.

3.3 Product Quality

Luckin claims to be the leading high-quality and professional coffee in China, changing the concept of coffee consumption with high-cost performance. By choosing better raw materials, better equipment and technology, Luckin brings customers a mellow and oriental coffee.

3.3.1 Raw Materials and Accessories

Luckin uses top-grade Arabica beans, whose prices are 20% to 30% higher than the commercial coffee beans currently on the market. The manufacture of a green tea latte is made of Japanese traditional tea. The syrup is made of Italy's famous brand Fabre syrup without artificial colors and flavors, so each cup of coffee is flavored.

3.3.2 Equipment Technology

Luckin adopts the world's top brand of Swiss Shelley coffee machine. Founded in 1892, Luckin is the world's first machine manufacturer that fully uses automatic coffee with the largest output. The high-quality automatic coffee machine improves the stability of coffee quality so that every cup of coffee can reach the highest quality.

3.3.3 In Terms of the Coffee Formula

Luckin signed with three WBC champions to be responsible for product matching and quality control. The company constantly polishes the product formula, testing from more than 180 matching schemes, especially in line with the taste preference of oriental people, in order to ensure that the taste is not too bitter or too sour.

3.3.4 Distribution Service

Luckin signed a contract with SF to provide coffee takeout in terms of delivery service. The delivery requirement is that the service store within 1.5 km must finish delivering within 30 minutes. In fact, goods usually can be delivered in 10 to 15 minutes to ensure the quality and taste of coffee. In the future, unmanned distribution technology will reduce the cost of instant distribution to a certain extent, bringing consumers a coffee consumption experience with higher technology content, faster speed, better service and wider coverage.

4. Luckin Coffee's Profit Analysis Under the New Retail Mode

Venture capital is a form of private equity and a type of financing that investors provide to startup companies and small businesses which are believed to have long-time growth potential. Venture capital generally comes from well-off investors, investment banks and other financial institutions. However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise. Venture capital is typically allocated to small companies with exceptional growth potential, or to companies that have grown quickly and appear

poised to continue to expand.

Though it can be risky for investors who put up funds, the potential for above-average returns is an attractive payoff. For new companies or ventures that have a limited operating history (under two years), venture capital funding is increasingly becoming a popular – even essential – source for raising capital, especially if they lack access to capital markets, bank loans or other debt instruments.

4.1 Financing of Luckin Coffee

The following is the financing history of Luckin Coffee.

Table 1. Financing history of Luckin Coffee

No.	Time	Financing Amount	Financing Method	Investor
1	April 15 th 2018	189.9 Million Dollars	Angel Round Financing	Lu Zhengyao's Company
2	July 11 th 2018	200 Million Dollars	A Round Financing	Centurium Capital, Joy Capital, GIC, Legend Capital
3	December 12 th 2018	200 Million Dollars	B Round Financing	Centurium Capital, Joy Capital, GIC, CICC
4	April 18 th 2019	150 Million Dollars	B plus loan	BlackRock
5	May 17 th 2019	695 Million Dollars	IPO Financing	BlackRock, Centurium Capital, Joy Capital

According to the financing records of Luckin, it has experienced five large-scale formal financing and several informal financing. The reason why Luckin expands so fast with more and more influence, and still supports under the condition of continuous loss. Luckin's running is inseparable from the strong support of these capitals.

This thesis briefly analyzes the impact of various financing methods on Luckin. First, because of the new concept proposed by Luckin in the coffee industry, the capital strength is gradually growing, attracting various venture capital investors to join in succession. These huge amounts of financing laid a solid foundation for Luckin's rapid expansion. Second, Luckin makes full use of innovative financial instruments, such as financial leasing and mortgage loans, maximizing the value of all equipment and timely alleviating the problems of insufficient funds and cash flow

shortage in the early stage of development. Third, in the B Plus round of financing, BlackRock's Private Equity Fund led the investment of \$125 million, and its value reached \$2.9 billion after the investment. The entry of private funds stimulated the response of the market, and then Luckin Coffee was successfully listed on Nasdaq with a valuation of US \$4.253 billion.

4.2 The Strategy of Burning Money

In fact, Luckin has been in decline before going public. After all, the practice of expanding stores by burning money business model has brought high losses. To be sure, subsidies are a topic that Luckin can't escape. However, in fact, all Internet companies in the early stage are through the way of burning money subsidies to delineate a large number of users. As a result, capital is not so concerned about losses. In fact, Luckin's loss is not as serious as many people think. The loss of 857

million in 2018 included a one-time investment in the cost of new stores, monthly costs of staff, leasing, marketing and so on. Among them, the cost of new stores accounted for the most. In the future, the layout of the Luckin store will be completed, and the cost of this part will be reduced rapidly. When the market matures, the marketing expenses will be reduced on a large scale. You can compare with JD, which lost 12 years in order to build its own logistics and finally became the second-largest e-commerce in China.

Prior to that, Luckin also said that the loss was in line with the company's expectations, and it established a strategy to quickly obtain customers through subsidies. "We will continue to subsidize for three to five years! We will continue to expand rapidly without considering making profits at present." Qian Zhiya, founder and CEO of Luckin, said. It is worth noting that after the news that Luckin lost 500 million yuan, the company's share price closed at \$21.53 per share, up about 13% year on year.

4.3 Profit Becoming in Sight

What Luckin needs to face most may not be others, but itself. It has been in a state of financial loss, and the voice of market doubt has never subsided. When can Luckin really make profits after relying on high subsidies for scale and speed? Can it continue developing in the future?

According to the basic logic of retail, we roughly give the break-even calculation formula of Luckin Coffee, $\text{Revenue} = \text{Flow} \times \text{Conversion Rate} \times \text{Repurchase Rate} \times \text{Unit Price} - \text{Customer Acquisition Cost} - \text{Store Operation Cost} - \text{Platform Cost}$. Among them, the product of flow and conversion rate is the number of users who generate transactions. Customer acquisition cost is used to absorb the sales and marketing expenses of new customers. Operation cost is mainly related to the material cost, store rent, labor cost and depreciation cost at the store level, while platform cost is the administrative cost and pre-store expense at the company level. The essence of break-even is to increase revenue and reduce cost. It can be seen that Luckin is indeed moving in this direction from the current performance. There are roughly three aspects as follows:

4.3.1 Increasing the Unit Price of Consumers and Transportation

What directly affects the unit price of consumers and transportation is the sales price and subsidy price of Luckin products. As can be seen from the public data, the sales price of Luckin products is gradually increasing. According to the statistics of transaction data in the third quarter of 2019, the average price of products had reached 11.2 yuan, up 6% month on month and 15% year on year. This is due to the fact that Luckin has been expanding and updating its products and constantly enriching coffee varieties. In addition, it has successively launched the Luckin Tea Series, Master Coffee Series, Global Snack Series and various popular surrounding areas, creating a more diversified product chain and enriching income structure. Luckin also tightens promotion subsidies and freight subsidies as consumer unit prices owe room for improvement. With the increasing density of Luckin's stores, the self-delivery is convenient enough, and the delivery volume is declining, which is consistent with Luckin's development concept of using distribution as the main way to open the market and focusing on self-delivery in the later stage.

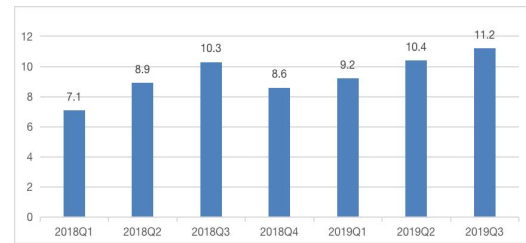


Figure 2. The net selling price of a single cup (RMB: yuan)

4.3.2 Improving the Number of Users and Purchase Frequency

The number of users and the consumption frequency linked to the repurchase rate are the key factors affecting the income side. Luckin has a variety of ways to stimulate people's desire to buy, promoting the increase in consumption frequency. Diversified products expand the scope of choice, distribute coupons based on big data for accurate marketing of users, recommend relevant products according to consumption records and so on. Until the end of the third quarter of 2019, the number of trading customers had increased to 30.7 million, a fourfold increase year on year. From the

perspective of customer contribution value, the overall value is in the shape of a checkmark, and the transaction value had a declining process at first, which may be that some customers leave the platform after enjoying the new customer discount, with an obvious upward trend in the middle and later stages. The customer transaction value indicates the level of customer participation in Luckin and the subsequent growth trend proves that user stickiness is indeed generated to ensure a certain repurchase rate.

4.3.3 Strictly Controlling the Operation Cost

According to the financial report in the third quarter of 2019, Luckin achieved a profit of 186 million yuan at the store level for the first time. The operation cost of stores mainly consists of three parts, material cost (including raw material cost, low-value consumables and warehousing logistics cost), store rent, labor cost and depreciation cost. It is closely related to Luckin's strict cost control to turn a loss into a profit at the store level. The access to the Internet makes offline stores become simple pick-up points and changes the traditional cost structure of coffee retail. As there is no cash register in the store, the whole transaction is conducted by app, which not only simplifies the staffing but also makes the order data more controllable. At the same time, Luckin combines technology with management systems and supply chains to further improve decision-making speed and operational efficiency. Luckin has its own digital management system for scheduling and inventory, in addition to automatic replenishment, automatic dispatch and other systems, which not only reduces the dependence on the store manager but also schedules timely according to the actual situation, making the whole operation process more intelligent.

4.4 Unpredictable Valuation

At the beginning of 2020, Luckin put forward the strategic layout of "unmanned retail", and planned to open two intelligent terminals - "Luckin Coffee EXPRESS" (selling coffee and other drinks) and "Luckin PopMINI" (selling snacks and other products). Compared with the store, the vending machine is lighter in assets and more flexible, it is not limited by the site being closer to the consumer. The orders are all from the app, and the experience is the same as that in

stores. The introduction of unmanned retail brings a more intensive layout, which is the enhancement of Luckin's layout of the infinite scene, attracting more customers and generating higher consumption frequency. The unmanned retail mode also greatly reduces the operation cost, directly saves the labor cost and decoration cost before opening the store, and the rental cost is greatly reduced. The cooperation between the unmanned retail terminal and the store not only ensures the replenishment and machine maintenance of the unmanned retail terminal but also brings more data to the intensive Luckin network, which provides support and help for the next development and improves the overall operational efficiency. The "flywheel effect" is gradually forming (Liu & Yang, 2020).

At the same time, Luckin also announced to reach cooperation with PepsiCo, Nestle, COFCO, Orion, Yili and other suppliers, which will further enrich products and help Luckin to further improve customer unit prices, all of which are in line with the above three directions of increasing revenue. Through Luckin's business logic, we approve its business model and analyze the hope of profitability. It seems that Luckin's infinite possibility in the future has been shown in front of us.

5. Conclusion & Reference Significance to Coffee Industry

In the era of new retail, the rapid rise of Luckin Coffee lies in effective product management tactics and marketing strategy incubation. For a fast-growing coffee market, we can be pleased to see that the growth of Luckin Coffee is closely following the changes of the times, the new retail thinking and the breakthrough of the Internet era represented by this innovation and change. Though it has a good development trend, its potential problems and risks cannot be underestimated. As the market is mature, there will be more opportunities to penetrate into any potential consumption scenario around us. What Luckin has to do is to become the innovator of the coffee industry.

5.1 Huge Losses but Continuous Subsidies

Although the money-burning marketing strategy can quickly accumulate customers and seize the market, it has brought a lot of losses after all.

There are two reasons why investors are willing to invest when they see the result of a loss. On the one hand, Luckin's burning money marketing is also the marketing mode of Meituan and Didi when they first entered the industry. Meituan and Didi respectively put out 800 million US dollars and 2 billion yuan. At present, Meituan has a 59% market share in China's take-out market, Didi has more than 87% market share in China's special vehicle market, and Didi has more than 99% market share in the online taxi market. It can be seen that a large number of subsidies can effectively occupy the market. It is used to cultivate consumers' preferences in the early stage, enhance consumers' dependence on the brand and exchange appropriate subsidies for a year's market scale and development speed with amazing results. On the other hand, China's coffee market is still very young and in the early stage, while China's large population makes the market difficult to saturate. It is predicted that China's coffee market will reach 1 trillion cups in 2025. At present, China's annual per capita consumption is 5 cups, while Europe and the United States and other countries' per capita consumption is 350 cups, almost becoming a necessity of life. China's future rising space is obvious in this gap. Under such a rapidly rising situation, investors are still very confident.

5.2 *Quality Becoming the Most Stable "Flow Pool"*

Subsidies will always have an end. If there is no guarantee of quality, Luckin is just a flash in the pan. In the early stage, Luckin achieved the function of accumulating users and saving the "flow pool" through a large number of subsidies to seize the market. However, the quality itself is a huge flow pool, even if there is no subsidy for coffee with great quality, everyone will rush to it. Quality includes not only the coffee itself but also the delivery service. Luckin claims to use the world's top coffee beans and machines. At the beginning, Luckin cooperated with the fastest SF logistics to deliver coffee. All factors affect consumers' impression of the brand including the time of delivery, takeaway packaging and taste. Luckin started with online-driven coffee and achieved the best take-out service, which is one of the few competitive advantages. Quality can determine consumers' preferences and dependence on a brand. Luckin Coffee's quality

and delivery service are the most stable "flow pool" for the brand to seize market share.

5.3 *Product Diversification*

If an enterprise wants to form a certain scale, it can not only rely on a single product or a cup of coffee to achieve a high market concentration. At present, Luckin has properly introduced light food, such as sandwiches, cakes and chicken rolls and so on to drive the demand for coffee, which is also a marketing strategy. At the same time, the coffee brand can involve other fields other than coffee, and there is no need to worry about whether the introduction of other products will lead to the ambiguity of brand strategy. The ultimate goal is sales. Under the principle of not violating the law and morality, as long as it can increase the demand for coffee and drive the growth of profits, it is desirable. After having several stable classic products, Luckin can debug new coffee products with different tastes and visual effects in each cycle, and even create derivative products together with the cooperative big IP so as to expand the scope economy while achieving the scale economy.

Luckin Coffee is a new rising star in the coffee retail industry and a black horse in the Chinese coffee market in 2018. It is not the first one in China to make new retail coffee, but it can quickly encroach on the market and threaten Starbucks, not only because of the subsidy of burning money but also because it caters to the era of the decline of foreign brands and the rise of local brands. Under the Internet thinking, Luckin's new retail not only creates its own app but also cooperates with all kinds of big IPs. In essence, it is a marketing mode integration with technical content, which is a unique marketing strategy.

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