

Luckin Opens a New Era

-- Analysis of Development Strategy Based on SWOT Model

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Abstract: This article selects Luckin coffee, the legendary coffee company in the industry, as the research object, analyzes the important role of big data in cost management during its forced delisting and recovery process, aiming to provide help for the digital revolution of the coffee industry. The article takes SWOT model which is used to comprehensively analyze the current competitive situation of the enterprise, identify its advantages and disadvantages, so as to accurately drive the upgrade of cost management strategy. The last part, according to the above analysis put forward the enterprise expectation and industry outlook. By discussing Luckin coffee's comeback in the background of digital economy, this paper concludes that big data, as the most active element in the new round of industrial revolution.

Keywords: SWOT, Digitalization, Big data.

1. Introduction

Referring to the domestic market of new retail coffee operators, Luckin coffee will no doubt become typical representative, in an efficient and convenient delivery service as the breakthrough point, positioning of high quality commercial coffee, audience clear, positioning for young consumers -- a distinctively unique brand strategy, from many such as STARBUCKS coffee of fighting to stand out. What is more noteworthy is that Luckin coffee is also adopting a series of strategic management reform measures. This chapter uses SWOT model to discover and solve problems in a timely manner, capture market opportunities, and make full use of its strengths and avoid its weaknesses. It further analyzed how Luckin fundamentally adjusted and innovated the original cost management and business model on the basis of retaining the early advantages, made a set of combination of brand self-rescue and achieved remarkable results, in order to regain the trust of the market.



Figure 1. SWOT analysis of Luckin Coffee

Source: Luckin historical financial reporting data

2. Strengths

2.1. Efficient and Convenient New Retail Model

Under the new retail valve, operation and management have entered the full digital era. With the purpose of reducing management costs and customer acquisition costs and the

theme of scene flow, the company covers every purchase scene of consumers' social life through the continuous expansion of SKU. Online orders from customers to order until the product evaluation of the entire process, the system can immediately collect user data, analysis, user, and according to the store location for the customer to generate the optimal distribution scheme, coffee with the fastest speed sent to the hands of consumers, using big data algorithm maximum to meet customer diversification of consumer demand. Therefore, the surprise of the new retail model has undoubtedly become an important base card throughout Luckin coffee's marketing strategy.

2.2. Effective Management of Customer Relationships

Luckin coffee's client-side marks all expense-tracking records, consumption frequency and habits of consumers, so as to adopt more targeted marketing methods. To enhance the acceptance and identity of consumers by making profits, to build a brand and a platform, change back users' confidence, and create considerable profits through small profits and quick sales.

At the same time, a large quantity of incentive strategies, such as online promotion, word-of-mouth sharing and other disruptive marketing "gameplay", continue to attract new and old users to place orders. [1] In addition, the user purchase growth system can be visualized in the form of value saving and sending mailbox members or red packets, enhancing user stickiness and improving user repurchase rate. With rich and comprehensive operation activities, it has obtained a large number of orders, stable user growth and efficient customer relationship management.

2.3. Data-driven Precision Pricing Strategies

Due to the length structure of traditional retail marketing channels, the result of price escalation of middlemen is not satisfactory. Under Luckin coffee's new retail, the reduced degree of information asymmetry makes the price transparent. Coupled with the high efficiency of intelligent data supply chain management, the price gradually approaches the

reasonable intrinsic value of product. However, new retail is also accompanied by consumption upgrading. In this context, Luckin's pricing strategy fully considers the premium generated by scenarios, experiences and services. That is, it tries to make differentiated pricing for different scenarios, experiences and services, and formulates a more competitive pricing layout based on its market strategy with the maximization of marginal revenue as its orientation.

2.4. Continued Well-manage after Crisis

According to the public financial statements of Luckin coffee, Luckin announced positive cash flow in single stores just four months after its delisting. In December of the same year, the public financial statements showed that more than 60% of its direct-operated stores had made profits. Luckin also signed a stock investment agreement worth 250 million dollars with Yuyue Capital and Dazheng Capital. On October 21, 2021, Luckin announced its latest financial results for the first half of the year, with a total revenue of 3.182 billion yuan, double that of the same period in 2020. [2] The situation has already picked up. Luckin continues to gain customers while raising prices, which is related to the timely launch of Luckin coffee crisis public relations and the change of marketing strategy. As the overall situation is favorable, investors' capital increase has also become an important part of the logic explaining Luckin coffee how to win back the trust of the market.

Table 1. Total Revenue and Profit (millions of RMB)

	In the first half of 2020	In the first half of 2021	The growth rate of
Total revenue	1544.5	3182.5	106.1%
Among them: direct stores	1448.2	2741.3	89.3%
Its franchisees	96.4	441.1	357.6%
Total operating cost	3180.4	3593.9	13.0%
Including: material cost	843.1	1299.7	54.2%
Operating costs	517.5	460.4	- 11.0%
loss	1635.9	411.4	- 79.9%

Source: Luckin historical financial reporting data

3. Weakness

3.1. Imbalance of Online and Offline Layout

Luckin coffee's main customer group is white-collar salaried workers, so in the process of brand marketing, it has always focused on efficient and convenient purchase. This concept is mainly reflected in "online order, offline delivery at the fastest speed" or "online order, offline take". As a result of this marketing strategy, most Luckin stores do not have a large construction area. If customers place an order in the peak period, they can only stand outside the store and wait, which leads to poor experience. Blindly pursuing time experience while ignoring offline space experience is difficult to please customers for a long time, and customer loyalty is difficult to maintain, which affects customer loyalty and is detrimental to the construction of brand image.

3.2. The Permeability of Urban Grading Is Uneven

According to the report, like other coffee brands, Luckin prefers first - and second-tier cities. Its stores in Jiangsu,

Guangzhou, Shanghai, Zhejiang accounted for 50% of the direct stores. However, the number of stores in third - and fourth-tier cities is far from the same. With the gradual capping of traffic in first - and second-tier cities, third-tier and lower-tier cities, which account for 70% of the national population, are bound to become Luckin coffee's "second main battlefield".

3.3. Insufficient Socialization of Smart Platforms

At present, Luckin focuses on the development of mobile APP terminal functions are not satisfactory, platform functions are not perfect. Except for the consumption service when buying coffee, the APP is idle in the rest of the time, which has become a big waste of enterprise resources. Based on this, Luckin should fine-tune the development positioning of the current APP and focus on creating an intelligent consumption platform with more social attributes. By stimulating consumers' potential purchase desire, Luckin can enhance user experience and realize the overall improvement of marketing effect.

4. Opportunities

4.1. Policy Opportunities

From the macro point of view, China's policies support the development of new industries include active policies and tax reduction policies. At the same time, General Secretary Xi Jinping has pointed out the importance of the real economy at several meetings. Luckin coffee is a new marketing model integrating coffee industry, real economy, logistics industry, technology industry and network marketing. It actively responds to the policy of "mass entrepreneurship and innovation" and forms a favorable situation in promoting brand marketing strategy.

4.2. Market Opportunities

At present, China's domestic coffee market is growing at a rapid rate of nearly 30% per year. Based on China's basic national conditions, it is expected that the size of China's coffee market is expected to reach 100 million yuan in 2025. Meanwhile, according to the global coffee drinking structure, instant coffee accounts for less than 13% of the total coffee sales, while freshly ground coffee accounts for far more than 87% of the total coffee consumption. In China, the considerable market development gap can be effectively quantified: the market share of freshly ground coffee in China is only 16%. The freshly ground coffee brands represented by Luckin are in line with the trend of domestic consumption upgrading, and the increase of market share will become an inevitable trend.

4.3. Opportunities for Consumption Transformation

Under the trend of China's economic growth, especially under the powerful power of the Internet economy, China's urbanization speed is accelerating, per capita disposable income and beverage diversification consciousness have entered the next stage. Especially the younger generation of consumer groups, their marginal propensity to consume is very high, for coffee, milk tea, this kind of "new Chinese style drinks" this kind of product demand, consumption concept is no longer just limited to the purchase of the product itself, but hope to enjoy a multidimensional by buying products, such as

the social scene of satisfaction, leisure, entertainment, etc.

4.4. Information Diversification Opportunities

With the intervention of Internet big data, consumers can compare the economic applicability of products more independently and conveniently, in line with their consumption inertia. At the same time, the vast and complicated data processing system improves the efficiency of consumer choice of goods, but also meets consumer demand in price change and quality comparison. Such an environment of diversified information undoubtedly promotes the faster and more efficient development of coffee online shopping platform like Luckin Coffee.

5. Threats

5.1. Threats from Similar Competitors

The leading enterprises represented by STARBUCKS Coffee have basically achieved market monopoly. At the same time, many small and medium-sized tea brands have joined in and occupied market share continuously. The two have similar customer groups and vague consumer boundaries, so the strong incoming tea industry is bound to have a certain impact on Luckin. In addition, like the coffee industry, the milk tea industry has shifted from simply selling products to social Spaces and brands, and there are plenty of similar competitors coveting the Chinese consumer market.

5.2. Threats from Competitors

In the huge competitive market, the number of consumers is huge and the demand is strong, so many businesses are attracted to enter the market to compete. Well-known brands such as STARBUCKS have successively started cooperation with takeaway platforms for online sales and logistics distribution. In contrast, Luckin's advantage of efficiency and convenience is gradually weakened.

5.3. Potential Threats to Profit Model

In the early stage of development, Luckin's "social disruptive marketing" has opened the market with a strong performance, but there are still many problems behind it. First, the negative impact of delisting is not only reflected in the impairment of the company's goodwill, but also may make Luckin face huge claims from investors in the follow-up. Second, the "social fission marketing model" in which subsidies were used to trap consumers in the early stage could not be sustained, and preferential policies were reduced. At present, Luckin coffee product price has slightly increased. If dealers continue to reduce these preferential policies in the later period, customers' purchasing behavior will inevitably continue to reduce their demand for coffee, thus affecting Luckin's revenue and cash flow. If the capital recovery period is prolonged, it is bound to affect the sustainable development of enterprises. In light, bad debts increase and funds are difficult to go, and in serious cases, the enterprise directly leads to the fracture of the capital chain, which is difficult to maintain.

6. Looking Ahead -- Digital Leads the New Trend

Luckin coffee's financial statements show a trend of continuous growth, which indicates that the digital strategy formulated by the new management not only gives full play

to the new retail advantages of the traditional Internet, but also smoothly and timely adjusts the previous drift of sacrificing cost for traffic, helping Luckin to return to the track in line with the law of business development. After a series of "combination measures" including settlement, store expansion and capital transfusion, Luckin coffee seems to have made a half-time turnaround and has entered the new 2.0 era after recovering from the financial turmoil.

By deeply ploughing into the core coffee business, adopting a new strategy of fine operation, integrating big data to analyze its own problems and user preferences, and exploiting sales channels through new media, Luckin is now making steady progress and bringing confidence to the capital market with real profits. Combined with the latest results from the first half of 2021, Luckin coffee while still loss-making situation, and not on the right track, but losses gap has narrowed sharply, while considering the provision of financial cost for compensation, after one year of effort, Luckin has been away from the survival boundary, and the capital market is no longer a bad-mouthing situation at that time. In addition, Luckin has entered a new stage of rapid recovery and development. Its store management, daily operation, innovative sales, development strategy and many other aspects have taken on an entirely new look. Luckin's strategic direction has been transformed from the past "subsidizing low prices + rapid direct expansion" to the idea of "increasing prices + controlling costs + steadily expanding franchise stores".

Luckin was able to rise from the dead, because from the perspective of supply side, there is no fundamental problem with its product fundamentals, and it has implemented the marketing strategy of adding new product lines and increasing customer unit price. The guarantee of product quality has become one of the main reasons why its customer acquisition capacity has not decreased but increased. From the demand side, the involvement of big data is indispensable. Private domain traffic patterns become the points of the core competition is luckily in the future, whether the Internet attract all channels to promote the product flow, and the continuous improvement of the cultivation system, digital community is able to undertake traffic, transformed into stable customers, and keep a passenger capacity of recruiting, regarding Luckin present output is very important for good management of marketing strategy.

After hitting a wall in the rush to achieve success, Luckin coffee may be able to gain a firm foothold in the market and embark on a steady development path in the future. Customer-centric is more than a slogan, it is the basic common sense of the future. In the future, Luckin can still gain new customers by virtue of consumers' word-of-mouth. No matter behind the scale, digitalization and capitalization, we will never forget to create value for customers. This is the reminder and inspiration brought to us by Luckin coffee's resurrection. It is believed that this coffee brand, which has experienced great storms, will still be able to surprise the market again with the help of digital road in the future.

7. Summary

Based on the establishment of SWOT model, fundamentally speaking, Luckin still takes discount as its core business to attract customers, but in specific operation, it adopts the new retail sales strategy under the Internet mode, absorbs new users with lower cost and more novel and ingenious ways, and establishes a stable and lasting

relationship with customers. On this basis, Luckin need to focus its development on products in the future to cultivate more loyal customers by improving the quality and taste of products. More popular products like raw coconut lattes will surely help Luckin's second rebirth. This is what Luckin should do in the future, and what Luckin must do in the context of diverse and complex industries.

References

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