Beijing upstart looking to challenge Starbucks

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A battle is brewing in China's coffee market.  
Home-grown Luckin Coffee, based in Beijing, is positioning itself as a lower-cost alternative to Seattle's Starbucks, which has been operating in China for 20 years.  
Established in November 2017 by Qian Zhiya, co-founder of ride-sharing firm Ucar, Luckin has rapidly expandedopening 525 coffee chain stores in four months and creating much buzz among netizens.  
With more than 1 billion yuan ($157.8 million) kicked in by Lu Zhengyao, CEO of Ucar, Luckin hopes to grab share by focusing on delivery services and smaller stores.  
Starbucks accounts for almost 75 percent of specialist coffee stores in China, according to Euromonitor International.  
"The market will not only have Starbucks," Qian said. "Every country has their own coffee brand."  
China's growing coffee-shop market grew to 30.1 billion ($4.72 billion) in 2017, compared with 26.1 billion in 2016, according to Euromonitor.  
The competition got frothier earlier this month, as Luckin accused Starbucks of engaging in monopolistic practices by signing exclusive rental contracts and pressuring suppliers.  
In a May 15 letter to Starbucks, Luckin said that the American chain has signed contracts with property owners in China prohibiting them from leasing space to coffee chains other than Starbucks; shops with 30 percent or more revenue derived from coffee products; or brands related to coffee.  
Luckin said many of its suppliers that also supply Starbucks said they were asked to stop serving the Chinese company.  
Guo Jinyi, vice-president of Luckin, said Starbucks' actions have affected operations and competition. Guo didn't identify suppliers that were asked by Starbucks to stop cooperating with Luckin, China Daily reported on May 15.  
"We have instructed King & Wood Mallesons to file a complaint with the national anti-monopoly administrative law enforcement agency on the above issues in the near future, and formally file a lawsuit with the People's Courts in the relevant cities," said an attorney for Luckin, according to Tencent News.  
In response on May 15, Starbucks said: "We have no intention of participating in the promotion hype of other brands. We welcome orderly competition, mutual promotion, continuous innovation, continuous improvement of quality and service, and creating real value for Chinese consumers."  
Luckin has about 50 outlets in Beijing, while Starbucks has around 300 in the capital, which, considering its population, suggests the coffee market has much growth potential.  
At its first China Investor Conference in Shanghai on May 15, Starbucks announced plans to add 600 stores over the next five years on the Chinese mainland, which would bring the total to 6,000 across 230 cites.  
"No Western company or brand is better positioned to evolve with the rapidly expanding Chinese middle class - and we continue to mindfully evolve a coffee culture in China where the reward will be healthy, long-term, profitable growth for decades to come," said Starbucks CEO Kevin Johnson.  
Luckin hopes to have 500 stores in China by the end of the year. It is going for the young white-collar workers, with a taste geared to Chinese tastes, founder Qian said.  
In an interview with Kr-Asia, she said her company can address two weak spots in China's coffee shop industry: high prices and inconvenience.  
In Western countries, a cup of coffee takes only 1/1,000th of a person's monthly income, but it is almost 1/100th for people living in China, she said.  
A late at Luckin costs 24 yuan ($3.74), while the average in China is 36 yuan ($5.62).  
However the competition turns out, there will be a lot more caffeine flowing in China.

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