

Research on the impact of co-branding strategy on financial performance of coffee brand based on financial analysis---A Case study form Luckin Coffee

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Abstract. Recent years has witnessed the trend of co-branding activities, in which numerous enterprises engage in cooperation with brands and IP to make a better sales and enhance the brand influence among consumers, especially in beverage industry. Luckin coffee, as one of the representative of the coffee chain brands in coffee market, frequently launches co-branding products and services in the recent period, which gain popularity in the market. With China coffee market step into the fast development stages, the coffee chain brands face more challenge in competing with other rivals. How to survive from violent competition and ensure a long-term growth are important issues the enterprises need to handle with. Which role of the co-branding strategy plays in enterprises financial performance might offer an insight into how to measure and utilize the strategy properly for the development in market. The study observes the feature and specific details of the strategy, explore the influence mechanism on financial performance of Luckin coffee adopting documentary review method and quantitative method, figuring out problems and put forward related advice for the enterprise. The study find that co-branding strategy gives a positive feedback on sales achievement, building on which impact on other aspect of the enterprise. In terms of the long run of the coffee brand, the study suggest that the coffee brand should appropriately attain the marketing strategy comprehensively considering enterprise capacity.

Keywords: Co-branding; financial performance; coffee brand.

1. Introduction

The relevant research of co-branding was first introduced by NORRIS and RAO, stimulating extensive attention after that. Nowadays, co-branding alliance is not a topic out of mainstream and exhibit varying feature under the changing circumstances. Learning about how the strategy effect the enterprises and the proper way to employ the mean is far-reaching important. Study concerned are prevalent in diverse industries, such as luxury brand, sports brand, fast moving consumer goods and so on. Numerous and varied topic on the strategy have conducted. Many of the research focus on the effect of co-branding model or products in the context of consumer perspective. A portion of studies explore some factors that affect the result of co-branding strategy, which are the characteristics manifested by common representative or one of the parties such as brand equity of each participant, brand congruence, or attributes of the co-branding products and so on. Nevertheless, studies seldom conducted on the topic of co-branding effect on financial performance of enterprises. and research remains sparse in coffee market. The studies will focusing on the impact the strategy make on Luckin Coffee financial performance through following four aspect including solvency capacity, operating capacity, profitability capacity, and developing capacity, and purpose relevant suggestion on problem occurred in the context of strategy.

2. Analysis

2.1. Co-branding

Co-branding, also known as brand alliance , means two or more brand gather together to launch products or services. In 1994, when Rao and Rukert described the strategy as a long or short term cooperation among two or more partners in their study. In recent years, more and more brands are

inclined to seek cooperation with each other and launch products with elements representing the cooperates take part in. Over 75% of brands adopt the mean to promote their products or services [1]. As a marketing strategy, co-branding always lead a good situation, no matter in luxury brand or fast-moving consumer goods industry. Co-branding products gains more brand loyalty compared to the original one in Fast-moving consumer goods industry [2]. Another research shows that co-branding are more enable to stimulate positive response from consumer in masstige strategy of luxury brands [3]. Brand alliance also gains popularity in beverage market. In a case study about co-branding strategy of NAIKUE, co-branding awareness exert a beneficial effect on consumer perceived value [4]. Brand alliance can help the enterprises to enhance the influence of the brand, earning more profit from the sale, or offer an innovative means to open up new market [5]. The factors concerned also attribute to the final effect of the co-branding strategy or products. Different co-branding sorts based on product elements of main brands make a diverse influence on consumer evaluation due to products' position is functional or hedonic. Core element co-branding type is usually concerned about perceived quality of consumers while the peripheral element more lies on symbolic value and realization of ideal self [6]. In fashion brand's crossover alliance , brand image distinction exert a more pronounced impact on hedonic perception than variation of the products, which is an essential factor related to consumers online engagement [7]. On retail level, the downstream impact plays the main role in operation and dictates the corporation relationship of cooperating enterprise [8].

2.2. China Coffee Market

The coffee market has formed a mature industry chain, including the top stream of planting and the sales of coffee makers, the middle of deep processing enterprise, and the down stream about instant coffee and coffee shop. Compared to tea culture, the coffee seems to lay behind due to the brilliant tradition, which become one of main difficulties for the brand to step into Chinese market at the very beginning. However coffee market has begun to gradually expand in recent years. According to China Urban Coffee Development Report in 2024, the market step into the fast -developing stages, with a 36930-million-yuan scale in 2025 predicted. Some subdivided business format mainly including instant coffee and brew coffee shop bursts with vitality. The amount of the coffee shop steadily grow. Up to 2023, the quantity of 21 coffee chain brands' outlets has reached to 25352 [9]. From coffee consumer's perspective, the customer pose higher demands on high-quality, refine and daily coffee consumption.

2.3. Luckin Coffee

Luckin Coffee has establish in 2017, positioned at fast-consuming coffee brand, anchoring office workers, students and other young ages. As the representative of new retail, the enterprise leverage technology such as big data and the Internet to establish own sales network, which makes it a preeminent coffee brand with the most outlets in China so far.

From 2018, Luckin coffee has frequently conduct business in partnership with other sphere, such as open pop-up shop , concept shop or launching products with elements from partners. In 2023 and 2024, Luckin coffee have cooperate with IP repeatedly and no less than 21 times up to October in 2024. In 2023, the co-branding activities with Black Myth: Wu Kong trend on social media platforms, successfully capitalized on the overwhelming influx of traffic from the domestically-make remarkable 3D game. The frequently co-branding activities accords with Viral Marketing strategy of Luckin Coffee, which display the features of fostering scarcity. The limited edition of co-branding also exert a positive impact on attracting consumer and enhancing brand quality [10]. The marketing expense grow gradually by years which indicated that the entity spared no effort in marketing its products. Luckin coffee gains popularity through these activities, and what's more, make a great achievement in the amount of sales.

2.4. Impact of co-branding strategy on financial performance

The study use quantitative method to explore the specific manifestations of the impact of co-branding strategy, adopting financial ratio analysis to observe the financial performance from 2021 to 2024 through company financial annual report. The analysis mainly include Solvency analysis, Operational capacity analysis, Profitability analysis and development capacity analysis, using related ratio index and combine with enterprise operating situation , figure out the nature inside.

Table 1 Financial Indicators

Financial analysis	Index	Formula
	Current ratio	Current assets/Current liabilities
Solvency analysis	Quick ratio	(Current assets-Inventory)/Current liabilities
	Debt-to-assets ratio	Total debt/Total assets
Operational capacity analysis	Account receivable turnover ratio	Net credit sales/Average accounts receivable
	Inventory turnover ratio	Cost of goods sold/Average inventory
Profitability analysis	Gross profit margin	Gross profit /Net sales
	Net profit margin	Net profit/Net sales
	Return on equity	Net profit/Average shareholders' equity
Development capacity analysis	Sales growth rate	(Current period sales-Previous period sales)/Previous period sales
	Assets growth rate	Current period assets-Previous period assets)/Previous period assets

2.4.1 Solvency analysis

Solvency analysis is a method to evaluate the capacity of an entity to pay off its debt,of which long-term solvency and short-term solvency of the enterprise in context of co-branding strategy will be considered.

Current ratio and Quick ratio are proper indicators to reflect the short-term solvency of the entity. Current ratio indicate an enterprise liquidity ability of current assets, of which the expected standard lies on 200% or so. Through the table, the current ratio fluctuates within the range of 1.27 to 2.13, revealing the unstable short-term solvency of the enterprise. The quick ratio assesses the short-term solvency competence by eliminating inventory, which falls on 100% or so is better. In 2021 and 2022, the ratio lies in the appropriate range, in which index are 1.18 and 1.71 respectively. Thereafter, the data fall to 0.99 and then rise to 1.23 in 2024. Involving in a series of financial disputes due to financial incident in 2020, Luckin Coffee face a great challenge to change the situation of operating. Though isn't stable enough, the short-term solvency seems to get recover and back to the normal standard.

From long-term perspective, the data seems not positive in 2021, in which reach to 0.58 and then decrease to 0.37 or so in the next few years . In 2021, the amount of Payable for equity litigants and convertible senior notes and settlement account for a large proportion in liabilities, which explain the anomalous ratio presented. The 4-year ratios might suggested that the enterprise bring the financial dispute to an end , regain the proper structure gradually and reap a promising beginning. The prominent enhancement of cash and cash equivalents and other main statements contributes to the improvement of solvency, which also is a signal of the upgrading of operation.

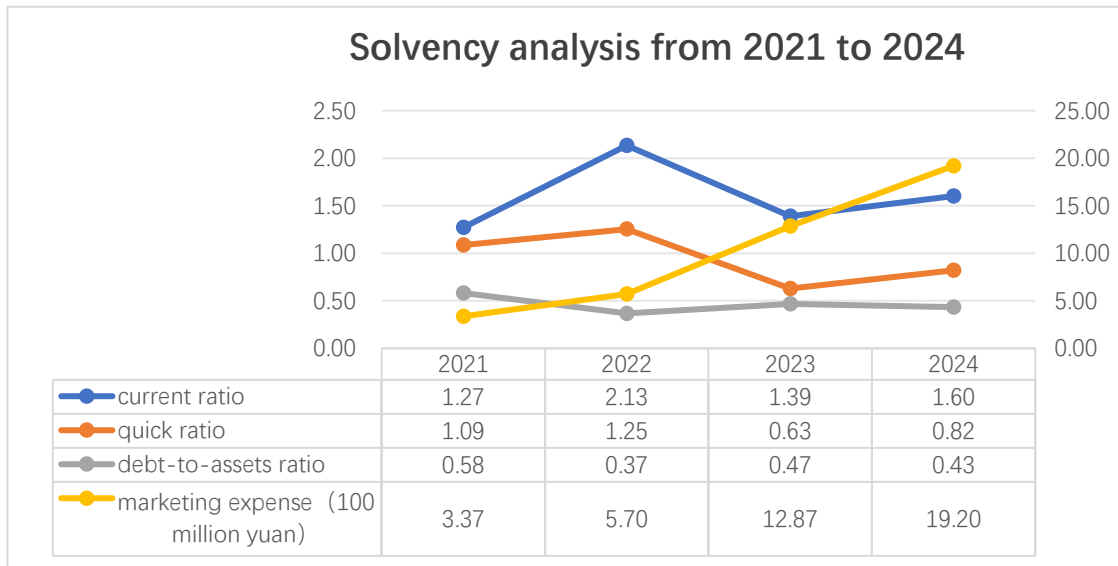


Fig. 1 Solvency analysis from 2021 to 2024

2.4.2 Operational capacity analysis

Inventory turnover ratio and account receivable turnover ratio are important indexes to evaluate whether the operation is well or not. In terms of Inventory turnover ratio, the index indicates the frequency with which the cycle of buying inventory, selling it, then subsequently buying it again within a specific period. The related data in figure 3 witness a substantially drop from 2021 to 2022, a minor upturn from 2022 to 2023, and a slight decrease from 2023 to 2024. Though presenting a fluctuations, the indicator still exceeds that of Starbucks in some period. The account receivable ratio intuitively reflect the ability of the enterprise to recover the payment, which show an upward trend in general except for a minor decrease form 2023 and 2024. The ratio of the four years all exceed 60 or so, which also indicate that the high efficiency in utilization of the item.

As the co-branding strategy being conducted substantially and sales and marketing fee increasing, enterprises has predicted the elevation of sales, which result in surge of raw materials and other inventory demand. However with the improvement of refined management of inventory, the situation has not pose the quiet adverse impact on operation.

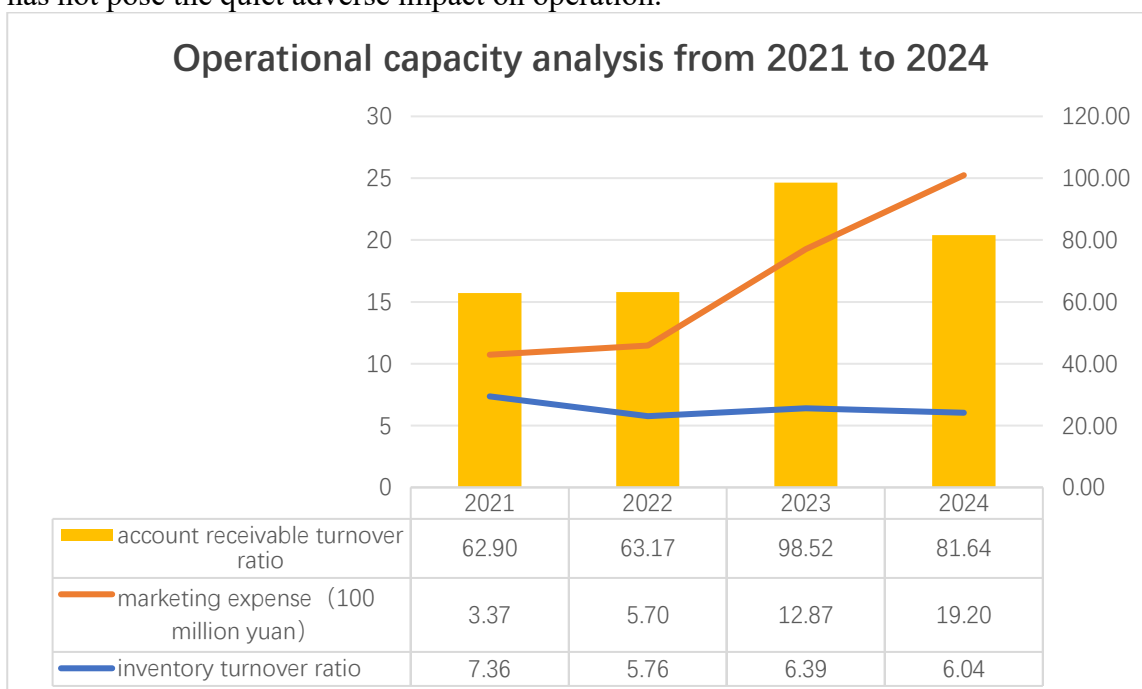


Fig. 2 Operational capacity analysis from 2021 to 2024 [11]

2.4.3 Profitability analysis

The ability of profit-making is extremely essential for a company. Appropriate indicators are available to judge the profitability standard, mainly including gross profit margin, net profit margin, return on equity and so on. Usually higher the ratios are, the better the entity performs. The gross profit margin is a useful tool to assess the capability of the products or services on reaping profits. In the graph presented, the index varies from 28.66% to 35.82%, which manifest Luckin Coffee enjoys the space for generating profits, also revealing the core business of Luckin Coffee possess the capacity to drive the profit growth of the enterprise. The net profit margin stands for the quotient of net profits and revenue, considering every expense in the course of the enterprise’s operation. All of the data during the 4-year period present a variation in the range of 20% to 30% compared with gross profit margin. The reason behind might be the higher depreciation and amortization expenses and general and administrative expenses, which is an evidence to illustrate the ability of the enterprise to gain profits conquer the burdens from expenses. The return on equity of an entity might concern about the ability of the efficiency of equity usage and making profits. In the graph below, the ratio exhibit an upward tendency by fluctuations and witness a huge improvement from 18.40% in 2021 to 43.20% in 2023. The well performance will probably give chance for the enterprise to win the trust from investors and obtain more capital in near future.

The co-branding strategy embody in the increasingly amount in marketing and sales expenses. Lukin Coffee grasp the proper timing to propagate and always considerably boosted the sales volume. Although the cost of marketing and sales grow gradually , it take account for 4.2%~5.6% during the four years, bringing more benefits for the enterprise. The strategy set up a positive circle about promoting the co-branding activities, induce consumers make purchase, magnify sales meanwhile extend brand influence and awareness, and all these mentioned also fulfill the role of enhancing the scale of profits in return.

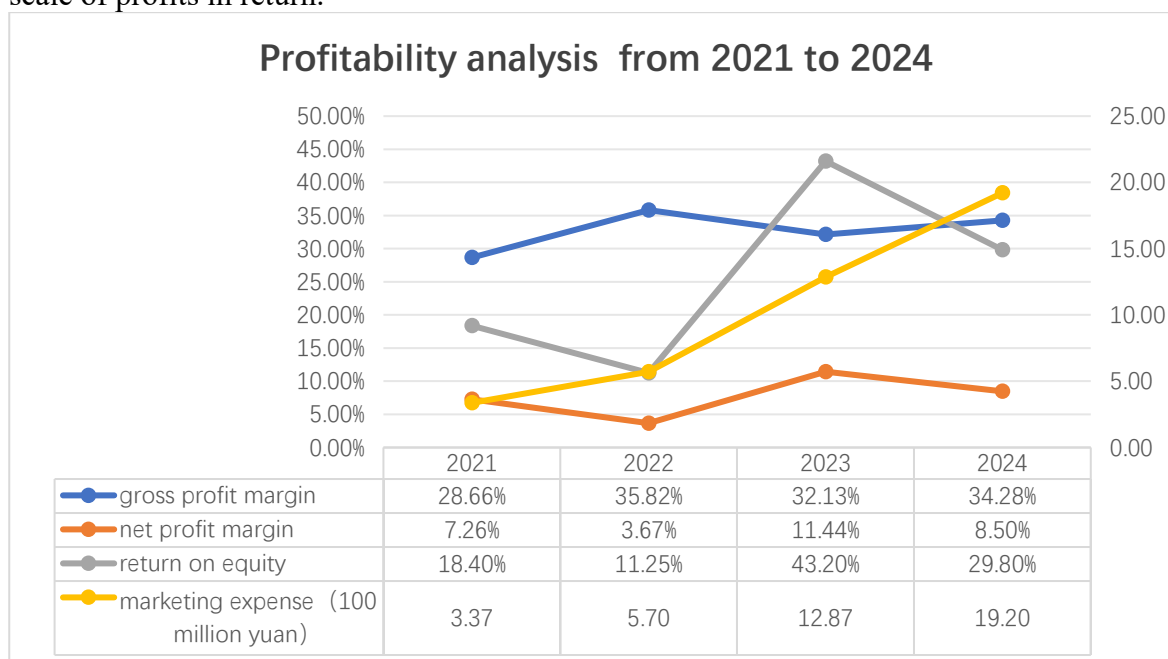


Fig. 3 Profitability analysis from 2021 to 2024

2.4.4 Development capacity analysis

Luckin coffee is at a stage of expansion, in which extending its scale is an essential task for the cooperate. The co-branding strategy enhance the brand awareness and loyalty of the consumers and induce them to make a second payment for the new products and new consumption experiences, which may influence the growing achievement in sales volume of the cooperative, leading the change in development capacity. The sales growth ratio illustrate the competence of an enterprise to gain popularity in the market, which indicates better performance with the higher figure. From 2021 to

2024, the ratio fluctuate prominently, go downward from 97.48% to 66.89%, then rose to 87.34% and subsequently fell to 38.44%. In high ratio 97.48% in 2021 mainly because the income turn to plus value during the year from minus one in 2020. The variation in data imply the unstable capability of expending the market. Assets growth ratio stands for the speed of the enterprise to extend ther scale of assets. As shown in figure 5, the data present volatility during the periods. The negative value of -14.88% in 2022 primarily due to handling bad assets through closing some shops that gains lower revenue, which also cause the extreme upgrade in 2023 with the value of 74.54%. Through the series of data performance, the capacity of development seems no stable enough, demanding a enduring efforts to enhance the competence in the years ahead.

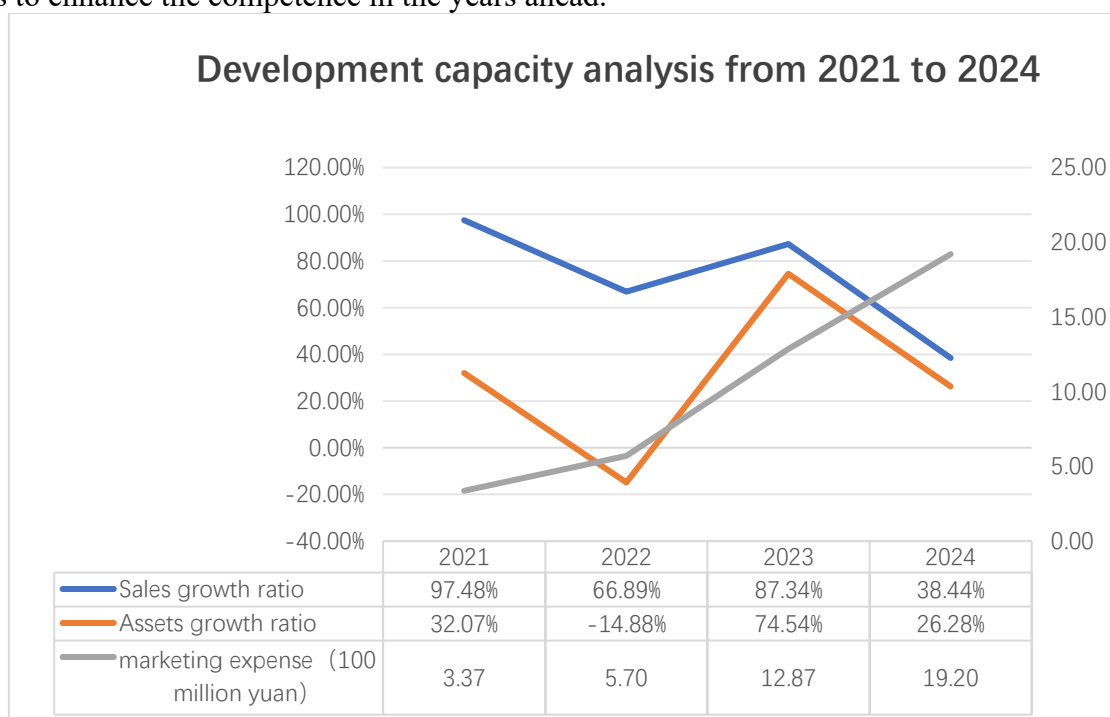


Fig. 4 Development capacity analysis from 2021 to 2024

3. Suggestions

Co-branding strategy as a useful marketing statics yield higher brand influence in every aspects for the enterprise and as a result furnished the profits for the enterprise through enhancing the sales of the products. Through the analysis above, most of financial indicators exhibit a positive momentum in the context of co-branding strategy, pose a significant effect on the operation and future development of the enterprise. To improve the competence of the enterprise in coffee market, the study purpose following suggestions below.

Luckin Coffee should make reasonable use of collaboration strategies to expand its brand influence and improve sales performance. As can be seen from the financial situation of Luckin Coffee, the company is at the stage of growth, of which the profit situation is unstable and the capacity of the enterprise to open up market is fluctuating. Lifting the brand awareness and consumers' purchase intention can pose a positive effect on enlarging the sales volume so that can benefits the enterprise's comprehensive competence.

Luckin Coffee should strengthen the management of operational capacity to achieve a more appropriate match for the co-branding strategy. Luckin coffee frequently cooperate with IP or other brands to sell new products launched together. To settle down the downward tendency of inventory turnover ratio, company ought to take actions in inventory management.

Luckin Coffee should spare effort on covert more cost input into profitability. In terms of co-branding strategy, make full use of data analysis and other method to get insight into the preference of consumer, cooperate with appropriate brands or IPs to make the co-branding more popular among

consumer in order to enhance the performance of sales to obtain more profits. What's more, dissect the cost properly and make the cost more into earnings, optimize the structure of cost and reduce procurement cost.

4. Conclusion

The study conduct the analysis focusing on the strategy of brand alliance, exploring the financial performance of Luckin coffee under the strategy. In this case study, the co-branding strategy exert a positive and direct effect on sales performance of the enterprise. This might suggests that the model of co-branding gains popularity among target consumers, which cause the increase in the amount of sales and brings more profits for the enterprise. In order to better implement the brand co-strategy, the case study puts forward suggestions on rational use of co-branding strategy considering operation circumstances to expand the market share and increase the scale of enterprise assets.

The study offer a new perspective from coffee brand to explore the mechanism of co-branding strategy preliminary and provides an example on how coffee brands survive in violently competition, nevertheless lack of the effect of marketing strategy on other types of enterprises in the coffee market, as well as whether the strategy are appropriate for them. Future studies can explore the more comprehensive mechanism of co-branding strategy in corporate financial performance from the perspective of empirical analysis, explore the influence of co-branding activities on enterprise brand equity and other aspects of enterprise long-term development process, or conduct a research on congruence degree of the strategy in other coffee brands.

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