

Business Model Transformation of Luckin Coffee: Mechanisms and Pathways from a Platform Economy Perspective

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Abstract. In the context of the rapid expansion of China's coffee market and the deepening integration of platform-based economic structures, Luckin Coffee has undergone a remarkable transformation from aggressive expansion to sustainable profitability. This study adopts the platform economy as its primary analytical lens and employs a case study approach combined with stage-based analysis to investigate the mechanisms underlying this transformation. Luckin's development is divided into two distinct phases: an early stage characterized by traffic-driven expansion and a subsequent phase focused on efficiency-oriented restructuring. By integrating theories of economies of scale, digital synergy, and value co-creation, this paper constructs a comprehensive analytical framework to explain the transition from a subsidy-dependent growth model to a scale-driven profitability model. The findings indicate that Luckin achieved sustainable growth through a series of interrelated mechanisms, including governance restructuring, optimization of its store network, supply chain integration, and enhancement of data-driven operations. Furthermore, the firm strengthened its value co-creation system through rapid product innovation, refined pricing strategies, and youth-oriented branding. This study contributes to the literature by providing a systematic explanation of business model transformation in the platform economy and offers practical implications for new retail enterprises seeking to balance scale expansion and operational efficiency.

Keywords: Platform economy, Luckin Coffee, Business model transformation, Economies of scale, Corporate governance, Value co-creation

1. Introduction

China's coffee market has expanded rapidly in recent years, driven by evolving consumption patterns and the widespread adoption of digital technologies. The emergence of younger consumers and the extensive embrace of online purchasing behaviours have collectively driven significant growth in the ready-to-drink coffee industry. At the same time, the platform economy—through traffic aggregation, network synergies, and data-driven effects—is fundamentally reshaping value creation in chain retail. As a representative of domestic new retail coffee brands, Luckin Coffee

grew rapidly after its 2017 founding and went public on Nasdaq in 2019. Following a 2020 financial fraud scandal, it was delisted. However, within three years, it restored its governance, surpassed 20,000 stores, and achieved stable profitability, making it a paradigmatic case of crisis-driven transformation under the platform economy.

Existing studies tend to approach Luckin from narrow angles such as financial misconduct, marketing tactics, SWOT analysis, or delisting survival strategies. Some scholars note that Luckin's initial dependence on subsidies and rapid expansion resulted in an untenable profit model [1]. Others emphasise post-delisting initiatives in governance reorganisation, enhancements in internal controls, and alterations in management [2]. Further research analyzes the drivers of its recovery through consumer behavior, brand strategies, and new retail models [3, 4]. Moreover, many studies utilise a SWOT analysis to juxtapose Luckin with Starbucks, aiming to discern the critical elements that facilitated its survival post-scandal [5]. However, few existing studies systematically explain the underlying logic and pathways of Luckin's business model transformation from a holistic platform economy perspective, and even fewer integrate governance restructuring, scale economies, digital operations, and value co-creation into a unified analytical framework.

Therefore, this paper adopts the platform economy as its central perspective and constructs an analytical framework of "Governance Restructuring → Economies of Scale → Digital Synergy → Value Co-creation." It aims to answer three questions: (1) Why did Luckin's early traffic-driven business model fail? (2) How did Luckin achieve a systematic shift from losses to profits? (3) How can new retail enterprises reconcile scale and efficiency under the platform economy? The study enriches the theoretical understanding of business model transformation and offers practical insights for strategic adjustments in similar firms.

2. Theoretical basis and analytical framework

2.1. Platform economy theory

The platform economy is built upon digital infrastructures that facilitate interactions between multiple market participants, generating network effects and enabling efficient resource allocation. In the context of chain retail, platform-based operations reduce transaction costs, improve demand forecasting, and enhance coordination across supply chains [4]. On the demand side, user scale reduces customer acquisition costs; on the supply side, networked store systems distribute fixed costs more effectively; and on the data side, digital analytics enable precision marketing and product innovation.

2.2. Business model transformation and value co-creation

The essence of business model transformation is a systemic change in how a company creates, delivers, and captures value. In Luckin Coffee's case, this transformation was not limited to operational adjustment, but also involved governance restructuring, digital platform upgrading, and the rebuilding of relationships with external stakeholders [2].

From a theoretical perspective, the value co-creation model offers several advantages. Following its delisting, Luckin restructured its ownership structure, reorganised its board, and strengthened internal controls, shifting its business model from "traffic expansion" to "efficiency first," while collaboratively developing a value creation framework with suppliers, franchisees, and users. However, weaknesses also exist: value co-creation depends heavily on the stability and quality of the digital platform; technical flaws or privacy breaches could trigger a trust crisis. Moreover,

excessive focus on co-creation might dilute core brand equity, and inconsistent quality among franchisees may harm user experience.

Scholars hold differing views. Wu et al. [2] consider Luckin's governance restructuring and value co-creation as a successful self-rescue path. In contrast, Zhang and Chen [4] warn that, without effective governance controls, value co-creation can become a new source of risk. This paper argues that the Luckin case shows that value co-creation's effectiveness depends on governance restructuring as a prerequisite—only after internal risks are cleared can external synergies unleash positive effects.

2.3. Analytical framework

Based on the above discussion, this study constructs the following analytical framework:

Governance Restructuring → Economies of Scale → Digital Synergy → Value Co-creation → Sustainable Profitability. This framework highlights the sequential and interdependent nature of business model transformation under the platform economy.

3. Evolution stages and characteristics of Luckin Coffee's business model

3.1. Traffic expansion stage (2017–2020): a capital-driven, unbalanced model

In its early phase, Luckin positioned itself as "internet coffee," adopting a light-store model based on online ordering, self-pickup, and delivery, and rapidly acquiring users and expanding store counts through heavy subsidies [1]. However, this model had notable defects: First, over-reliance on subsidies and marketing spending resulted in high price sensitivity and low brand loyalty. Second, an overly concentrated ownership structure and weak internal oversight set the stage for later financial fraud [2]. Third, expanding through self-operated stores was essentially asset-heavy. However, the company claimed an asset-light model, leading to a severely skewed cost structure and classic diseconomies of scale [4].

In 2020, the financial fraud came to light. Luckin admitted to inflating revenue by about RMB 2.2 billion and was subsequently delisted from Nasdaq, rendering its original business model invalid.

3.2. Efficiency transformation stage (2020–present): a sustainable model with platform synergy

Following its delisting, Luckin initiated a comprehensive restructuring process. Governance reforms included management replacement, increased board independence, and improved internal control systems, which restored organizational stability [2, 6].

At the operational level, the company adopted a dual model combining direct-operated stores and franchising, enabling both cost control and rapid expansion. Digital systems were further enhanced to support demand forecasting, inventory management, and logistics coordination. Investments in supply chain infrastructure also improved cost efficiency and ensured product consistency. Meanwhile, digitalization played a critical role in improving operational efficiency and supporting data-driven decision-making.

In addition, the company optimized its operational model by adopting a dual-track strategy combining direct-operated store densification with franchised expansion into lower-tier cities.

As a result, Luckin achieved significant performance improvements. The company reported consecutive quarterly profits in 2022. By the end of 2025, Luckin Coffee had expanded its store network to 31,048 stores, further consolidating its position as one of the largest coffee chains in China [7].

4. Core logic of the transformation

4.1. Realization mechanisms of Luckin's transformation under the platform economy

The essence of Luckin's business model transformation is a return from capital-driven unsustainable scale expansion to genuine scale efficiency within the platform economy, shifting from traffic capture to value co-creation and ultimately achieving risk resolution and sustainable growth.

A high-density store network greatly improves delivery efficiency while spreading fixed costs such as rent, equipment, and IT systems. Centralized procurement and supply chain integration further lowers raw material costs, generating supply-side scale advantages [4, 8].

This study suggests that, unlike Starbucks' reliance on large stores in prime business districts, Luckin's "small store, high density" approach, which relies on self-pickup and delivery, is more aligned with the rapid consuming behaviours prevalent in China's densely populated urban areas [5]. This strategy outperforms traditional coffee chains in rent costs and delivery speed. For example, when covering the same city, Luckin's small-store model may reduce rental pressure compared with Starbucks' traditional large-store format, while improving delivery and self-pickup efficiency. This indicates that achieving economies of scale depends not only on the number of stores but also on the alignment between store format and urban structure.

4.2. Value co-creation mechanism: product–user–channel synergy

Luckin leverages digital platforms to engage consumers in the value creation process. Through data-driven product development and continuous innovation, the company enhances user participation and strengthens brand engagement. Membership systems and digital interactions create a feedback loop that supports ongoing optimization.

However, reliance on promotional incentives may weaken brand loyalty. To address this issue, Luckin has gradually shifted its focus toward product quality and brand differentiation.

4.3. Governance safeguard mechanism: risk resolution and long-term development

Optimizing the equity structure, professionalizing the board, and tightening internal controls fundamentally resolved governance risks, allowing the company to refocus on product, operations, and long-term profitability [2, 6].

From a practical standpoint, this phenomenon implies that governance restructuring was a precondition for Luckin's turnaround. Many companies caught in financial fraud fail to truly recover because the original interest groups still control the firm. The key to Luckin's recovery was its radical governance restructuring, including the substantial replacement of the previous management team and the introduction of professional investment institutions to lead governance. This suggests that business model transformation in a crisis-stricken firm cannot rely solely on strategic tweaks; it must begin with a thorough "cleanup" at the governance level. Otherwise, any operational improvements may be offset by conflicting interests.

4.4. Marketing strategy upgrade and market competitiveness construction

Product Strategy: Data-Driven Blockbusters and High-Frequency Iteration

Utilising user consumption data, Luckin achieves rapid product development and iteration. Popular products such as the Raw Coconut Latte and Moutai Latte have enhanced sales and substantially increased brand visibility and consumer engagement [1, 3].

In summary, unlike Starbucks' fixed seasonal new offerings, Luckin's product iteration is much faster, with new items appearing almost monthly. This "fast fashion"-like product strategy reduces user fatigue while generating a continuous stream of fresh topics. From a consumer behavior perspective, high-frequency launches also stimulate a "collectible" buying psychology—users increase consumption to try new products. Furthermore, Luckin excels at using social media to create blockbuster buzz; for example, the Moutai Latte went viral on social feeds on its launch day, embodying a "product as marketing" model that significantly cuts traditional ad spending.

4.5. Pricing strategy: high value-for-money and refined user operations

Luckin abandoned early-stage undifferentiated large subsidies and moved to structural discounts and tiered pricing, preserving its cost-performance edge while improving profit margins [1, 8, 9].

Examining the evolution of the pricing strategy, Luckin shifted from deep across-the-board discounts to limited-time RMB 9.9 offers and member-exclusive coupons. Compared to Lucky Cup (under Mixue Ice City & Tea), priced at 5–8 yuan, Luckin's 9.9 yuan strategy occupies a "high value-for-money but not low-price" niche, appealing to price-sensitive consumers while leaving room for future price increases. Significantly, through varied coupon distribution—where new users, frequent customers, and inactive users receive distinct discounts—Luckin attains sophisticated user lifecycle management. This data-driven pricing strategy optimally reconciles user expansion and profitability compared to uniform discounting.

4.6. Brand strategy: youthfulness, localization, and cross-border breakthroughs

Through IP collaborations and the integration of local cultural elements, Luckin continuously strengthens its youthful brand image. The amplifying effect of cross-border partnerships (e.g. with Moutai) on brand communication effectively enhances brand identity and premium pricing ability [3].

Luckin's collaboration strategy demonstrates a high degree of market segmentation precision. The Moutai partnership successfully reached the mid-aged business demographic, while collaborations with characters like Line Dog and Doraemon captured Generation Z. This "two-way breakthrough" approach provides valuable strategic insights. Internationally, the language app Duolingo gained over 1 million new users in Japan in a single month through its collaboration with "Demon Slayer," driven by fan word of mouth. Similarly, Luckin's collaborations with game IPs such as "Genshin Impact" sparked check-in trends among anime/gaming communities. This shows that successful co-branding goes beyond logo placement; it transfers fans' emotional attachment to the product. Luckin's advantages are its speed and frequency of collaborations, which allow it to consistently occupy social conversation topics. However, excessive co-branding might blur brand identity. Balancing the core coffee business with collaborations is an issue Luckin needs to keep monitoring.

5. Conclusion

This study examines Luckin Coffee's transformation from a rapidly expanding yet unsustainable enterprise into a profitable and efficient market leader. The findings suggest that business model transformation in the platform economy requires the alignment of governance structures, economies of scale, digital capabilities, and value co-creation mechanisms. This study contributes to the literature by developing an integrated framework that links governance restructuring, scale economies, digital synergy, and value co-creation. It highlights the foundational role of governance in enabling transformation and extends the understanding of value co-creation in digital contexts. Despite its contributions, this study has limitations. It relies on a single-case analysis and secondary data, which may limit generalizability. Furthermore, platform-based models may introduce risks such as technological dependence and potential erosion of brand equity. Future research could adopt comparative or empirical approaches to address these issues.

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