

## *Original Paper*

# Studying JD's Value Creation-Based Business Model

Zihan Li<sup>1</sup>

<sup>1</sup> Zihan Li, Lanzhou, Lanzhou University of Technology

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### **Abstract**

*People's spending patterns are changing due to the economy's quick expansion, and one such change is the advent of e-commerce, which has drawn a lot of investors. This article uses JD as an example to study the fundamental elements of its business model and assess and evaluate it from the standpoint of value creation.*

### **Keywords**

*value creation, JD, business model*

## **1. Introduction**

In the 1990s, computer and information technology underwent an extraordinary period of growth, ushering in a new age for human civilization. The volume of e-commerce transactions in China surged from 1.3 trillion yuan to 43.83 trillion yuan between 2004 and 2022. The survival of the fittest scenario is illustrated as the e-commerce market develops, and new e-commerce platform businesses keep popping up. The main indicator of an e-commerce platform enterprise's market competitiveness is whether it generates value. Enterprises must select a business model that can realize value growth in order to realize value creation.

## **2. Overview and Business Model Analysis of JD**

### *2.1 Overview*

China's largest independently run e-commerce company is Jingdong (JD.com) Group, which was established in June 1998. JD, the most complete e-commerce platform in China, offers services in a variety of industries, including consumer products, financial technology, logistics, lifestyle services, digital home appliances, and lifestyle franchising. B2C e-commerce, global logistics, O2O business, smart hardware business, etc. are some of its main industries. JD Group's net revenue were RMB104.62 billion for the entire year of 2022, increasing 9.9% from the previous year. Additionally, JD's yearly revenue has already surpassed the RMB 1 trillion threshold for the first time. In the

meantime, JD Group's non-GAAP net profit attributable to common shareholders increased by 64% year over year to RMB 28.2 billion. After a number of years, JD has emerged as one of China's most significant and well-liked retail e-commerce enterprises.

## *2.2 Business Model Analysis of JD*

The "quality of Jingdong" has always been stressed by JD Mall, and from the perspective of corporate positioning, "save heart" is the mall's central idea. JD's fundamental tenet derives from the user behavior-oriented, user-centered business model. JD's distinctive business model, which is also excellent owing to its innovation in the sector, is the basis for how the company has been able to gain the trust and recognition of customers.

### *2.2.1 Retailing Across all Channels*

The retail channels used by JD are extremely varied and include both online and offline outlets. While the offline channels mostly consist of self-operated, franchised stores, offline experience stores, etc., the internet channels primarily consist of PC, mobile, and APP. Together, these channels provide an omni-channel retail structure that completely covers consumers across the nation.

### *2.2.2 The Fundamental Standard Is Brand Authorization and Consistent Service Quality*

JD has always upheld the philosophy of "being true to yourself," not only to give brand merchants real and effective authorization so that brand merchants seeking to join the platform can gain a greater level of trust, but also from the point of view of the output merchants to consider the quality of service, to ensure that the quality of all commodities is reliable, and at the same time to provide a wealth of commodities to satisfy user needs.

### *2.2.3 Provide for the Varied Needs of Customers*

As we all know, consumers have wants beyond only obtaining the items itself, including more spiritual needs like shopping experience, security, perception, and abilities. To address the varied needs of consumers and to raise the share of B2C in China, JD has launched Jingdong ZhiSelect, Jingdong Global Sale, and Jingdong Supermarket.

## **3. Analysis of JD's Ability to Create Value**

### *3.1 Non-Financial Indicators to Assess JD's Capacity for Value Generation*

Analysis of non-financial indicators is primarily based on the two facets of resources and capabilities. Both suppliers and customers are valuable resources that belong to JD. Because JD is an integrated mall with its own platform and works directly with its suppliers, its products are 10% or more cheaper than those of other e-commerce businesses. Additionally, JD works to pay suppliers promptly and has stabilized its own gross profit margin at a lower level in order to increase advantages to both suppliers and customers. Additionally, JD has a following of devoted customers because of the combination of its affordable prices and high-quality goods. JD's active users have stabilized at 580 million as of 2022.

JD has been concentrating on building its own logistical infrastructure and developing its self-operated retail business on the basis of a proprietary technology platform to support its operations from the

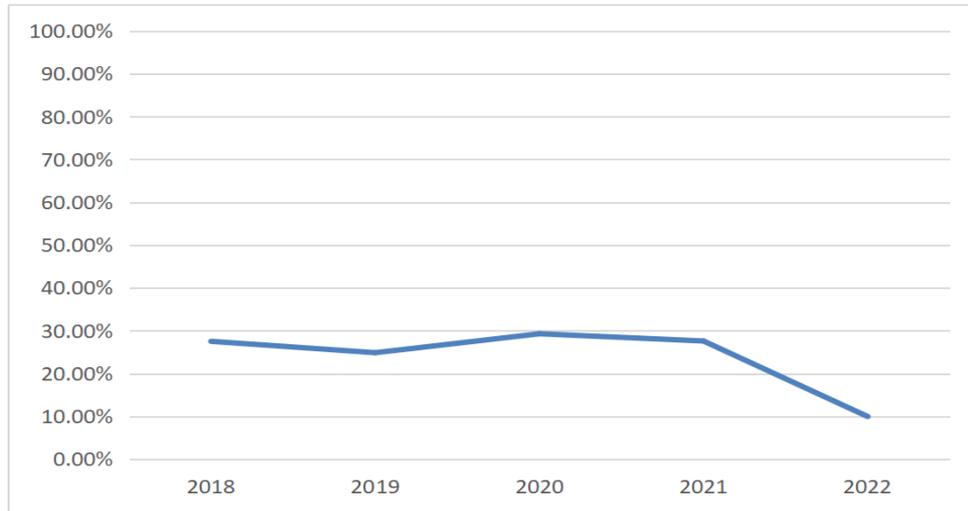
company's founding. Along with the significant expansion in the scope of its self-operated retail company, JD has made use of its current technological platform and logistics infrastructure to develop e-commerce platforms to support and broaden its product categories and provide a superior shopping experience for its customers. While actively promoting the idea of customer-centered service, JD is also committed to offering first-rate customer service, particularly in terms of after-sales service. This will help JD improve response times for a variety of issues and their ability to be resolved. Additionally, JD Cloud has accelerated the "digital integration" of the industrial landing by offering one-stop digital intelligence technology services for more than 1,500 large enterprises, including BAIC, Zoomlion, and Shaanxi Coal Transportation and Marketing, as well as more than 1.52 million small and medium-sized microenterprises.

### *3.2 Financial Indicators to Assess JD's Capacity for Value Generation*

#### *3.2.1 Business Revenue Growth Rate*

Operating income, which is influenced by the business model of the firm, can intuitively depict the operation and growth of the enterprise, therefore demonstrating the enterprise's contribution to value creation. Accordingly, the higher the value of this index, the better the operating situation and development prospects of the enterprise, and the better the enterprise realizes the effect of value creation. The growth rate of operating income is a measure of the development prospect and value creation effect of the enterprise from the relative growth rate within the enterprise.

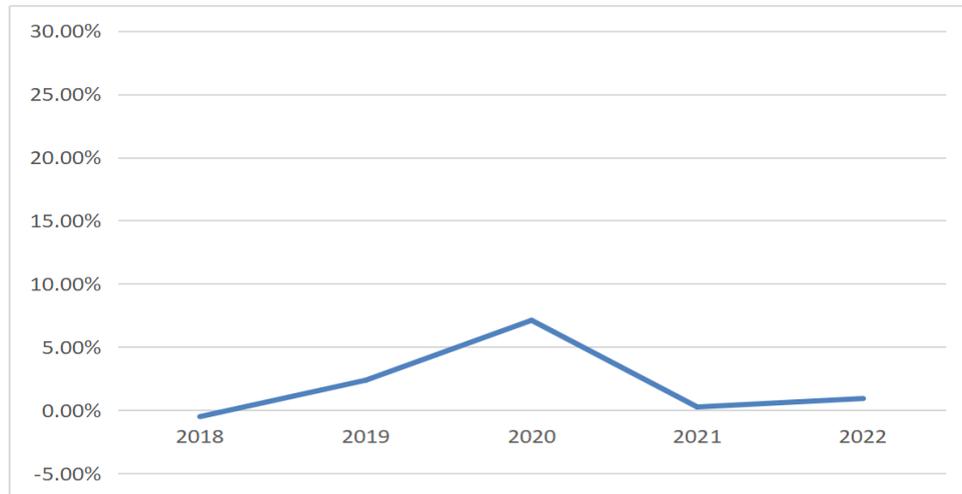
The graph displays the rate of increase in JD's business revenue from 2018 to 2022, similar to Figure 1. JD's business model was kept at roughly 25% from 2018 to 2022, with the operating income growth rate reaching its peak point of 29.28% in 2020, then dropping over the next two years to reach its lowest point of 9.95% in 2022. Jingdong Group offers customers a range of options, and the business's size keeps growing thanks to its investment in a variety of products and the ongoing development of its logistics system. As a result, Jingdong Health and Jingdong Logistics have been divested from the JD Group to go public one after another, which will ultimately cause the JD Group to experience a slower growth rate of operating income by 2022. This is due to the company's business model continuing to invest in the development of heavy assets.



**Finger 1. JD's Operating Revenue Growth Rate**

### 3.2.2 Operating Profit Margin

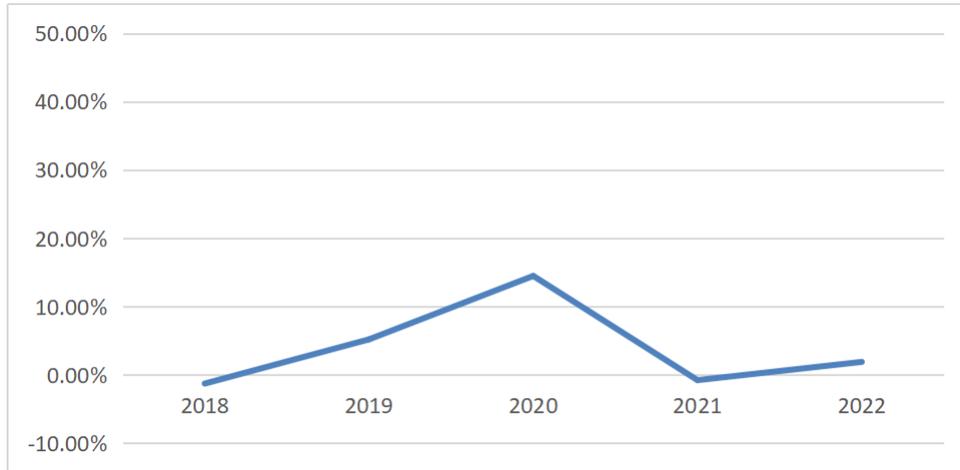
Operating profit margin is the ratio of operating profit to operating revenue, which can reflect the operating efficiency and profitability of the enterprise. The value of this index can also measure the effect of enterprise value creation. The higher the operating profit margin, the higher the operating efficiency of the enterprise, the stronger the profitability, and also reflects the better the effect of the realization of enterprise value creation. For example, Figure 2 shows the operating profit margin of JD from 2018 to 2022. From an overall perspective, in addition to the negative operating profit margin of JD in 2018, which is only -0.51%, the rest of the operating profit margin indicators from 2019 to 2022 are positive, and they reach the highest value, 7.11%, in 2020, followed by a rapid decline in the operating profit margin in the following year to 0.25%, and then a slow rise in 2022 to 0.92%, which is explained by the fact that mainly due to a series of business strategy adjustments by the company around achieving healthy and sustainable growth. There has been a great deal of innovation and tolerance for trial and error in both JD's main and innovative businesses in the past, which to a certain extent has resulted in the depletion of the enterprise's management energy. Based on the judgment of the general environment, the enterprise has carried out a comprehensive sorting out of the business, and has shut down the business that cannot run through the model in the short term, cannot produce synergy with JD's core business, or cannot realize the scale effect, which has also led to the slow growth of the operating margin in 2022.



**Finger 2. JD's Operating Profit Margin**

### 3.2.3 Total Net Asset Margin

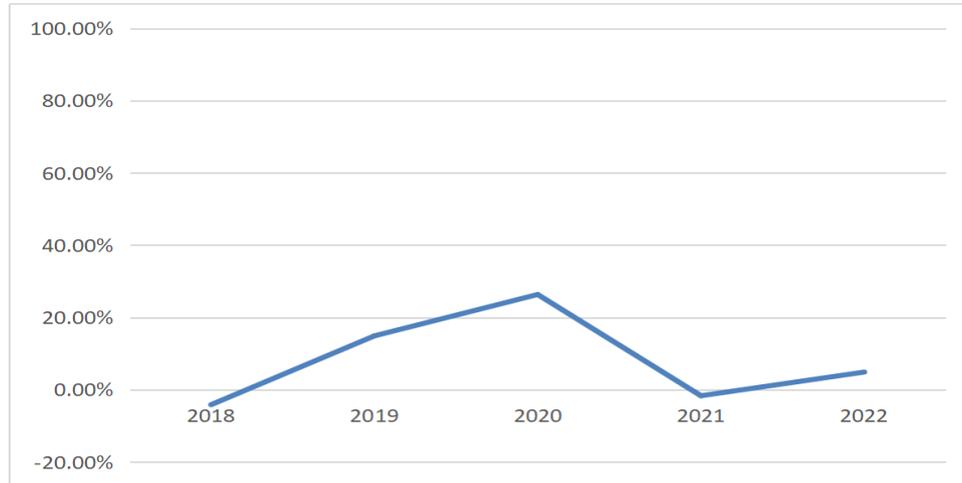
The net interest rate of total assets is the ratio of net profit to the average total assets of the enterprise, which can reflect the level of profit created by the enterprise using its assets. The higher the value of this indicator, the higher the utilization rate of the enterprise's assets, the better the effect of asset operation, the stronger the profitability, which further reflects the level of enterprise management, and the higher the level of enterprise management is the better the effect of realizing value creation. As Figure 3 shows the profitability of the total assets of JD from 2018 to 2022, from an overall perspective, only the net profit margin of total assets in 2018 and 2021 is negative, respectively -1.27% and -0.77%, except for this, the values of the three years are all positive, and in 2020 the net profit margin of the total assets is the highest, 14.49%, and in 2022, the net profit margin of the total assets after experiencing 2022 also shows a slow recovery after the negative value in 2021. This is mainly due to the price concessions in the past JD behavior makes the whole industry to form a phenomenon, that is, "no promotion, no sales", but this behavior from the merchant, the user and the supply chain efficiency and integrated planning are not the optimal solution, but also unsustainable, so the enterprise by adjusting the marketing strategy to guide users to change the progressive Change shopping habits, pulling the previous lower daily sales, to achieve efficiency gains.



**Finger 3. JD's Total Net Asset Margin**

### 3.2.4 Return on Net Assets

Return on net assets is the ratio of net profit after tax to net assets of an enterprise, which can measure the efficiency of the use of shareholders' funds and reflect the utilization rate of own capital. The higher the value of this indicator, the more income generated by shareholders' investment and the higher the overall efficiency of the enterprise's capital utilization. Figure 4 below shows the return on net assets of JD from 2018 to 2022. As shown in the Figure, from an overall perspective, except for the negative return on net assets in 2018 and 2021, the return on net assets in the remaining three years were positive, and reached a maximum value of 26.34% in 2020, followed by a sharp decline to -1.70% in 2021, then rebounded to 4.86% in 2022, although the value of the rebound is not very high, but it can be seen that the enterprise is trying to Reversal. The emergence of this phenomenon is also showing that BOE is improving its efficiency in utilizing the capital of the business and its ability to add earnings to the business. During this period, due to the increase in the cost of the previous period, the pressure of competition has become greater, the enterprise's ruthlessness, core competitiveness weakened, resulting in a negative return on net assets, but due to the enterprise's active use of new marketing model, control costs, improve the price system, deepen brand building, so that the return on net assets of the JD to a certain degree of rebound.



**Finger 4. JD's Return on Net Assets**

#### **4. Analysis of the Impact of JD's Business Model on Corporate Value Creation Ability**

Customer first is a major feature of JD's profitability model, and customer first refers to paying attention to the customer experience and constantly improving the customer experience from the customer's point of view. Customer first is one of the important components of JD's values, and the pursuit of excellent customer experience is also the key to JD's profit model. One of the most important driving forces behind JD's shift from wholesale to retail, from offline to online, building an integrated logistics system with warehousing, developing technology platforms and financial systems, and selling products ranging from optical and magnetic products to IT digital products to 3C products, and finally expanding to a full range of categories, is to provide customers with a more perfect user experience. The ability to create value for customers and provide a good customer experience is the key to the success or failure of a company. Customer experience is mainly reflected through three aspects: product, price and service.

##### *4.1 Products*

When it comes to improving the customer experience, there are two main aspects of products to consider; product variety and product quality. When a company first enters a market, it has to consider what its main products are and whether it needs to offer more categories of products. When JD cut into the field of e-commerce, it took IT digital products as its main products. IT digital products are very suitable for the development of e-commerce categories, which have the characteristics of clear target users, standardization, higher added value, and easy to warehousing and transportation. Afterwards, with the improvement of customer demand, JD gradually expand the product categories, product line to the old with the new, from IT digital products expanded to 3C products, department store products, books, etc., and finally all categories of sales. In addition, product quality also affects customer experience, only product quality to meet customer requirements, in order to gradually improve customer loyalty. JD from its inception, has always been concerned about product quality, in the sea to

open the market counter operating multimedia products, insist on invoicing, sell genuine licensed goods, after the development of JD, the business scale continues to expand, genuine, good quality has become an important labeling of the JD, and therefore attracted more customers.

#### *4.2 Price*

Price is crucial to the customer experience, the enterprise should determine the appropriate price according to the industry, the value of the product and the enterprise's own goals and other factors. In the same quality, JD often provides the most competitive price, "low price" has been the label of JD for a long time, JD through the control of cost efficiency, to provide high quality and inexpensive products, and get a high rate of growth.

#### *4.3 Service*

Service includes the sale, pre-sale, after-sale three stages, the enterprise in each link need to provide customers with satisfactory service. JD has a detailed introduction of the products sold and the corresponding pre-sale customer service, customers can also get information through the comments of other buyers. In the sale, JD launched "211 limited time to reach", "very fast to reach" and other products, the items will be quickly delivered to the hands of customers, customers can check the parcel logistics information at any time. In terms of after-sales service, JD set up after-sales service center, provide excellent after-sales protection mechanism, according to the customer, the goods tailored to the optimal return and exchange services. JD's service covers three stages, greatly strengthening customer satisfaction and improving customer loyalty.

Through the above analysis of the elements of JD's business model and its impact on value creation ability, it can be found that JD's business model has a certain positive effect on the enterprise's value creation, which not only promotes the continuous expansion and development of the enterprise itself, but also creates value for consumers, suppliers and the enterprise itself. Among them, JD business model for the value creation of the most influential factors for the quality and variety of products, price determination and with good service. These are to meet the different needs of customers, in their own expansion at the same time also brought benefits for consumers; enterprises and suppliers of good cooperation not only makes the enterprise has high-quality products into the channel, but also for the enterprise to ensure the loyal consumers, and ultimately for the enterprise to realize the value creation provides the basis.

## **5. Conclusion**

Through the in-depth analysis of JD's business model, as well as the evaluation of its value creation ability from both financial and non-financial perspectives, it can be found that the reason why JD Mall is able to continue to develop and maintain a leading position in the field of B2C e-commerce even when it is in the red is mainly due to the fact that its business model has a huge advantage in the field of B2C in the current stage of China. Summarizing the whole article, it can be concluded that JD precisely positioned itself in the fierce market competition and created a unique business model.

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