

How Far is JD.com from Making Profits under the Financial Analysis Business Model of Self-support and Heavy Property Business?

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ABSTRACT

With the rapid development of the Internet, China has become the world's largest Internet country. More and more people have accepted online shopping as a new way of lifestyle. China also has the most online customers. By March 2020, the number of daily active Internet users had reached 700 million, an increase of 100 million from 2018, according to CNNIC. As one of the leading companies in the online shopping industry, JD.com attracts billions of people every day, making it one of the world's top 500 companies. As Fortune shows, JD.com ranked 59th on the 2021 Fortune 500 list. However, statistics also show that JD.com is losing money every year. Compared with Alibaba, JD.com has adopted a self-operated, realty-focused business model, forming a profitable process. Now, however, JD.com is facing its old rival Alibaba and its new rival Pinduoduo, which has been popular since 2018. How long can JD continue with this business model? How far is JD from profitability?

This paper will discuss the financial status of JD.com in the self-support and heavy property business model, which makes low profit and analysis the financial outcome. We will analyze the accounting results and financial results. We will use the balance sheet, profit statement, and cash flow statement in terms of accounting results to analyze Jingdong under the Harvard analysis framework. Based on the financial results, we will analyze Jingdong Group from four aspects: debt solvency, profitability, operating ability and development ability. Then, this paper will put forward suggestions and prospects.

Keywords-component; business model; Jingdong; e-commence; financial analysis

1. INTRODUCTION

The business model largely determines the success of an enterprise. A business structure is vital to all companies. This paper will discuss the financial results of Jingdong, as one of the biggest e-commerce companies in China, under the heavy property business model. The purpose of the study is to study why JINGdong, as one of the world's top 500, suffered losses. In the case of JD, what is the link between business model and financial strategy and profitability, and how does JD cope with its competitors Pindudou and Alibaba and achieve profitability? This paper will analyze Jingdong's financial performance, make a horizontal and vertical analysis of the accounting performance of Jingdong and Alibaba. Compared to other papers, this paper firstly combines the business model to

financial strategy and profitability to analyze Jingdong's financial result, and discuss the reasons for JD's unprofitability. At the end of the paper, some suggestions will be put forward for Jingdong. Research problems can be tackled within the page limit. This article first introduces the background and relevant research on the business model. Then the research methods and the research objectives are described. The findings of the study are presented and discussed with relevant literature in the subsequent two sections. Finally, the ensuing section concludes the study by summarizing key points and outlining the academic and practical implications.

2. LITERATURE REVIEW

2.1 Business Model

The term "Business model", which first appeared in academic articles in 1957 [2], has been misused and confused with other terms such as strategy, business concept, revenue model, economic model and business process modelling [5]. It is misunderstood by managers consultants, and media even scholars in different industries [7]. In the paper "Business Model: What It Is and What It Is Not", the term business model is similar to the business concept. The paper defines the "business model" as 1) a business market opportunity; 2) products and services provided; 3) competitive dynamics; 4) strategies to obtain a dominant position; and 5) strategic options for business development [1]. Since the 20th century, the term has become a single field of study [1]. This term has become popular since 2003. These articles show the implications and categories; the elements and the innovation of the concept business model.

2.2 The New Business Model

The nature of the business model is to gain profits, and all the business cannot do without its essence. The process of making a profit varies from business to business. According to [8], there are five new business models, unfettered business model, long-tail business model, multi-platform business, free business and open business model.

2.3 Financial Analysis Method

The financial analysis method uses financial statements and other relevant information to analyze financial results [4]. The content of the financial analysis method includes financing activities, investment activities and operating activities, and analyzes a company's profitability, solvency and expansion ability [6]. It allows investors, debtors and operators to know about the company. It can be analyzed in terms of ratios. Comparative analysis, factor analysis and ratio analysis are commonly used in financial analysis [3].

2.4 The Relation between Business Model and Financial Strategy and Profit

This paper firstly studies the relationship between business model and financial strategies and profits. The business model determines the financial result, which is directly related to profits. Because the business model is vital to a company's operation, the result of the company's operation is financial. Therefore, the business model can decide the financial result. The result of financial statements is profitability. Hence, the business model decides the financial result, which further decides the profitability.

3. METHODS

3.1 The Study

This study explores the relationship between business model and financial strategies and profits. The lack of study in this area, particularly in e-commerce, necessitates an exploratory theoretical construction case study approach. Case studies are frequently used in the business area to holistically investigate complex and unexplained phenomena, focusing on "understanding the dynamics presented within a single setting" [4]. Compared with the traditional theoretical development, the case study draws on the empirical reality, which is conducive to developing the theory's verifiability [4]. We use the case study method constructed by qualitative theory to research in the latter sense to explore a new perspective for the research field (namely, social capital) and understand the impact of leadership development on organizations. This research will take Jingdong, one of the world's top 500 and one of the biggest e-commerce companies in China, as a case. Jingdong has been in the market of America since 2014. Since then, the company has grown rapidly and now has more than 700 million active customers worldwide.

3.2 Data Collection

Due to the particularity of the financial industry, our data mainly come from financial statements in the market. Our data analysis consists of three steps: 1) establishing the case study context, 2) internal analysis of case data, and 3) cross-case analysis of data.

4. CASE STUDY

4.1 Research Content

With the rapid development of the Internet, people can shop at home, and enjoy direct delivery without going out. China is the lead of the country with e-commerce. A study shows that as of 2015, there were more than 500 million active online mobile customers, a number that will almost double by 2021. The way of shopping is changed dramatically in China, which makes life more convenient. The festival "double eleven" makes 106.53 billion in 2021. E-commerce has become a part of people's daily life in China. This article chooses Jingdong as a case for several reasons. First, Jingdong is one of the biggest e-commerce companies in China. Secondly, Jingdong has its business model, which is different from Alibaba and Pinduoduo. Thirdly, Jingdong's endurance has been lost up to now. Fourth, as one of the leading e-commerce companies, Jingdong has huge potential for future profits.

4.2Jingdong's Organization

4.2.1Jingdong Mall

Jingdong Mall is the core part of its operating department, which founder Richard Liu updated in 2018. It becomes more effective and competitive.

4.2.2Jingdong Finance

Jingdong Finance is an Internet financial platform, which includes services for C customers, Jingdong Blank Note and financial services for third parties, Jingdong Pay and Jingdong Wallet. The management service also includes JD's small Treasury and company Treasury platforms. It also includes a data application service. In August 2018, JD Finance no longer included JD's financial statements, but JD still retained 40% of JD Finance's future profitability.

4.2.3O2O Service

O2O service is the subsidiary of Jingdong, which combined with Dada in 2016. The mission of the new company is twofold: logistics services and fresh market services.

4.2.4 Financial System

The financial system dominated by Jingdong logistics and Technology R&D department is one of the three main systems in Jingdong. Due to Jingdong endurance loss, the financial system is more important than the financial department.

4.2.5Oversea Affair

For building the international e-commerce platform, Jingdong's overseas affair is an important strategic deployment. This includes building websites, payment systems and storage warehouses across the country.

4.2.6Jingdong Logistics

Jingdong Logistics was founded in 2007. Its business model is inseparable from its own logistics system.

4.3Jingdong's Business Model

Jingdong logistics and Jingdong mall are the core part of JD.com. Founder Qiangdong Liu decided on Jingdong's self-support business model when he built the company. Under this model, Jingdong pick produces by itself, use the self logistics system, and pay attention to user experience. Alibaba, by contrast, is the largest e-commerce platform, offering only third-party services and using diversified logistics. Jingdong has invested heavily in its logistics system.

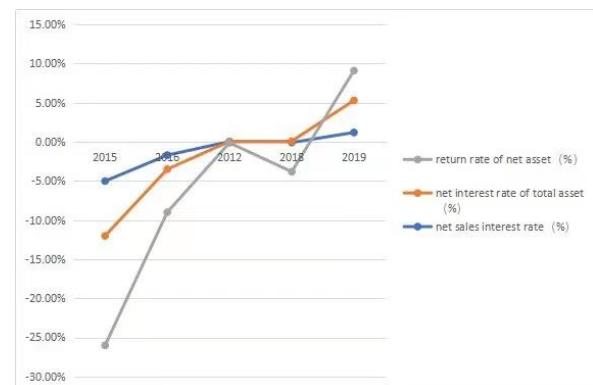
The core of Jingdong's concept is user experience. Therefore, it determines that the enterprise's business model is self-sufficient and the concept of Jingdong Mall is not a fake. Hence, it enhances the customer's loyalty, while the disadvantage of JD self-management is low profit. This is because it selects its products and uses its own logistics system, costing a lot of manpower and resources, which is also the selling point of Jingdong. On the other hand, it also limits the development of Jingdong because of its self-support business model, and the products are limited to electricity, such as mobile phones and laptops. Everyday fast retailing products, such as clothing, are less popular on JD.com.

Due to Jingdong's self-support business model, its assets are relatively heavy. Compared with Alibaba, its inventory turnover rate is around 15 days, while JD needs 40 days, which means it takes about 40 days for JD's cash flow to be maintained in the system. This makes jingdong's capital turnover slower.

4.4Jingdong's Financial Analysis

4.4.1High Cost of Business, Low Gross Profit Rate, Bad Cost Control

TABLE1. JD's return rate, net interest rate and net sales interest rate



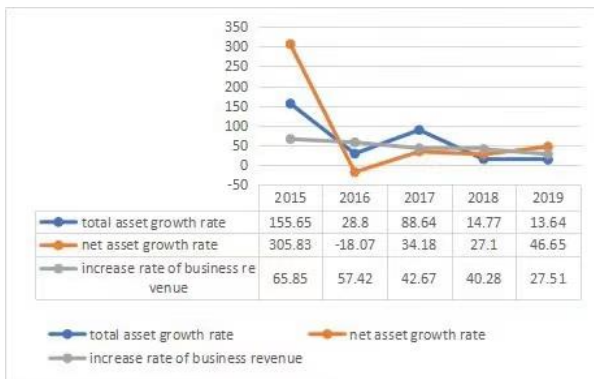
To analyze Jingdong's profitability, we select the sales gross profit margin and sales net interest rate to show the financial result. As we can see from the chart, the gross profit margin is close to 13% annually, reaching 15% in 2017, but still comes near to 15%. Compared with Alibaba's 30% gross profit margin, JD's gross profit margin is relatively low. Alibaba's business model is a third party and its main product is clothing, so its gross profit margin is relatively high. Jd.com, on the other hand, is self-sufficient, mainly in electronics, and has low-profit margins. While JD.com launched its clothing discount brand Vipshop in 2018, Alibaba offered an alternative and many companies left. Jingdong's self-run model seems to be not good at clothing, because there are many choices of clothing, among which the self-run model cannot choose the type. JD.com's main products are electronic products with high costs and low gross margins.

The net profit margin on sales also looks not good. Due to high investment in logistics and other business areas, the net profit margin on sales this year is below zero, which means that JD faces losses this year. According to statistics, Jingdong has established 7 Fresh, after Taobao has established Hema Fresh. At the same time, Hema Fresh occupies the market quickly in the first and second-line cities in China. However, 7 Fresh sustains loss all the time, and has to take off the market.

Another point is that Jingdong's cost control is poor. The blind expansion makes Jingdong face losses all the time, showing that Jingdong has bad cost control. According to statistics, JD.com spent more than \$121 million on technology development and logistics, driving the company to a loss in 2018. This is the problem of cost control in JINGdong. The company has been facing losses due to its expansion, which also reflects its poor cost control. The statistic shows that Jingdong spent more than 121 million on technology development and logistics, driving the company to lose in 2018. This is the problem of cost control in Jingdong.

4.4.2 Short-term Solvency Decrease, Expansion Rate Slower

TABLE2. JD's total asset growth rate, net asset growth rate, increase rate of business revenue



To analyze Jingdong's growth capacity, we choose net asset growth rate, total asset growth rate, increased rate of business revenue and increased rate of business profit.

The higher the growth rate of total assets, an enterprise has a faster expansion rate. The higher the net asset growth rate is, the company has a good prospect, strong vitality and good performance in the future. We also select the growth rate of business revenue to comprehensively analyze JD's growth ability.

As can be seen from the statistical data, the growth rates of net assets and total assets of Jingdong have declined in recent years, indicating that Jingdong's short-term solvency has declined and its expansion rate has slowed down. However, according to financial statistics, Jingdong's gross revenue reached 462 billion, whereas its rival Alibaba's total revenue was just 250 billion, almost twice that of Alibaba. Whereas, it can not leave with the

products Jingdong sales of electronic goods, and Alibaba is mainly clothing.

4.5 Jingdong's Accounting Analysis

4.5.1 Balance Sheet

We will analyze Jingdong's accounting performance by analyzing the balance sheet, income statement and cash flow.

As can be seen from the chart, current assets increased from 58.47 billion in 2015 to 139.09 billion in 2019. However, the current assets over 50% decrease year by year, indicating that the company's debt-paying ability is declining. However, due to its self-support business model, it has heavy inventory and can expand the company if its current assets fall below 50 per cent. Due to the self-support business model, the inventory turnover ratio has been kept at about 11, indicating stable business. Fixed assets also increased significantly from \$6.233 billion to \$25.6 billion in 2021. This is because its logistics needs a lot of land as a warehouse.

From the balance sheet, we can also see the debt and the equity. Jingdong's debt doubled in these years from 17.86 billion to 36.5 billion YUAN. The equity rose from 30.5 billion to 150.0 billion. At the same time, it also faced high account payable and receivable. As can be seen from the balance sheet, Jingdong has developed rapidly in these six years, but at the same time, it also encountered high debts and high accounts payable, which needs to be paid attention to.

4.5.2 Income Statement

We can see that Jingdong has been losing money until 2019 due to the high investment and rapid expansion of JD's logistics system in these years. It should be noted that the non-profit revenue in 2019 was 9 billion yuan, which is almost all of JD's total revenue. Jingdong has been facing losses in recent years. Due to the great pressure from the media, jingdong expanded slowly and gained gross income in 2019.

4.5.3 Cash Flow

The figure of cash flow of Jingdong seems good in these years, which makes Jingdong expands rapidly. Although the gross profit is a loss these years, Jingdong did not bankrupt and get bigger and bigger. This is because of the business style of e-commerce. Jingdong is a platform with huge cash flow. Because JD's business style determines that its business model is self-sufficiency, it also benefits from its huge cash flow.

5. DISCUSSION & RESULT

5.1 Discussion

5.1.1 Cost Control without Changing Business Model

As can be seen from the case of JD, the business model determines financial strategy and profitability. From the statistics, we can see that Jingdong needs to reduce costs in order to gain profits. Although Jingdong has a high gross income, the speed of expansion and high investment make Jingdong continue to lose money. JD can limit and plan costs and expand slowly to make profits.

5.1.2 Don't Expand Blindly

7 Fresh is an example of blind expansion, making Jingdong endurance lose heavily. Therefore, this article's advice to JD is not to blindly expand. JD has huge profit potential because the industry is still growing in China. JD is getting bigger and bigger, with high customer loyalty and a good reputation.

Therefore, this paper puts forward two suggestions for Jingdong: control cost and do not expand blindly. The business model made by Jingdong is Jingdong. Without changing the self-support and heavy inventory business model, Jingdong can change some of the financial strategies which make it profitable.

5.2 Limitations

This study has some limitations. Due to Jingdong's figure instead of Jingdong mall, more than 97% of Jingdong's profit comes from Jingdong mall. Graphical selection of financial results and accounting results may have certain limitations. In the future study, we will do further research to provide more references for JD's loss research and find other details.

6. CONCLUSION

This paper takes Jingdong as an example to study the relationship between business model, financial strategy and profitability. From the example of Jingdong, we can see that Jingdong has huge profit potential. It uses long-term plans, self-supporting and heavy inventory businesses, and seems "silly" ways to make money. However,

this allows Jingdong to also increase its customer loyalty. From the business model, Jingdong's financial strategy is rapid expansion. Based on the analysis of the financial accounting results of Jingdong, this paper puts forward two suggestions on cost control and not blind expansion. Jingdong has huge profit potential, and I believe it will be profitable in the near future.

ACKNOWLEDGMENT

The preferred spelling of the word "acknowledgement" in America is without an "e" after the "g". Avoid the stilted expression, "One of us (R. B. G.) thanks . . ." Instead, try "R. B. G. thanks". Put sponsor acknowledgements in the unnumbered footnote on the first page.

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