

# An Analysis of how Chinese B2C Companies Respond to Current Challenges: A Case Study of JD Company

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**Abstract:** This article illustrates findings from a case study of JD Company investigating how they cope with the challenges currently. The author employs the business model canvas of Osterwalder from 9 aspects to address the problems of JD company so that can help the other Chinese B2C companies meet the challenges positively and have a better development.

**Keywords:** B2C Company; Business Model Canvas, Better Development, Challenge

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## Introduction

Nowadays, online shopping has become increasingly popular in people's life. According to CNNIC, the scale of Chinese online shoppers is nearly 4.13 billion and the growth rate is 14.3%, higher than 6.1% of the other online shoppers. At the meantime, the rate of online shopping on mobile has increased from 42.4%-54.8%. The development of Chinese online shopping market still grows fast. In 2015, the total retail sale of the country had reached 3.88 trillion RMBs which includes 2.02 trillion RMBs in B2C trade. (CNNIC, 2015) B2C, as an important business model of e-commerce, takes most of market shares and has become the online shopping market with the fastest growing speed. Faced with the good business opportunity, there is an increasing number of Chinese b2c companies emerge into B2C market and competitions among them are becoming increasingly fierce.

As there is little difference between b2c companies in China and Chinese consumers are exquisitely sensitive to the price of product, more and more b2c companies are competing on price and attack each other blindly. "Price war" may still being as a normal phenomenon in B2C market. In addition, lots of b2c companies started to invest large amount money to build up their own logistics system, which will bring huge challenge to the logistics distribution. From the current situation, there would be a trend that more enterprises will join into this industry. Therefore, questions about how to deal with these problems have been become serious and critical to b2c companies in China.

### B2C China

B2C is the abbreviation of Business-to-Customer, which is one of the models of business e-commerce. According to Oracle, B2C is a word that describes a communication between business and customer. (Oracle, 2000). However, in the "Glossary of Industry-Specific Abbreviations, Acronyms and Terms", it interprets B2C as the process of companies to transfer their products and services over the internet to customers. (Sybase, 2001). While IBM defines B2C as the use of internet to sell products and services. (IBM, 2001). These three similar definitions refer to B2C in

terms of ‘communication’ other than simply stress the sale of products and goods. (Smart Computing Dictionary, 2001). B2C involves the transfer of products and services from firms to customers. Thus, it can be defined as an exchange between producers and customers in return for the payment. (Jewels, 2001).

Chinese e-commerce started late but developed fast. In 1999, Juntao Wang created ‘8848’, the first Chinese B2C website. However, as a result of the burst of global internet bubble, the development of Chinese internet was deeply influenced. As the global internet environment improved, Chinese B2C market grew dramatically. Especially between 2007-2008, online consumers increased rapidly. Online shopping has become a trend of fashion. In 2009, B2C companies started to receive financing from the capital market. Therefore, a lot of B2C companies grew significantly. More and more new B2C firms founded and the market competition is becoming rigorous.

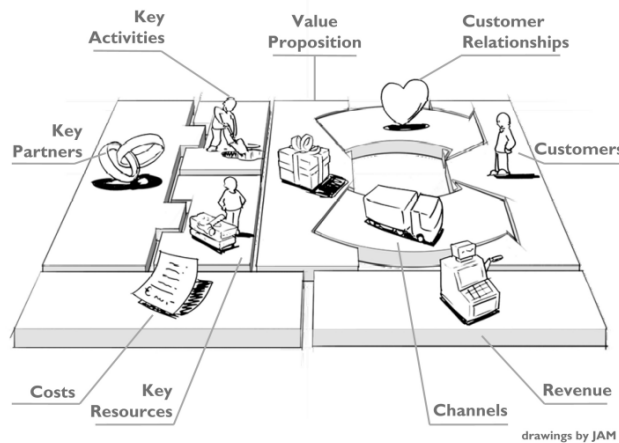
There is a breakthrough in 2010, which MCOX and Dang Dang had been successfully listed in the US. These two successful cases encouraged thousands of B2C companies in China. Therefore, B2C china entered into a new page of development. In addition, there are a lot of multinational B2C companies enter into Chinese market such as Amazon, which makes china became one of the most active place in B2C market (Hexin, 2011). Table 1 shows China’s B2C brand influence in July 2013. It can be easily seen that JD, Tmall and Amazon China play dominant in role in B2C market in china.



**Figure 1. China B2C Brand Influence in July 2013**

**Business model canvas**

Business model canvas is proposed by Alexander Osterwalder which aims to help CEOs and managers to establish and check the possibility of their business model, simplifying the complicated concept of business model. Therefore, entrepreneurs can avoid wasting funds and have a clear mind of their whole business. A lot of companies started to use this canvas, not only some small firms but also large multinational companies such as P&G, GE and 3M. Business model canvas give a breakthrough to business model which consists of 9 blocks so that it can explain and help entrepreneurs have a clear mind of their business model (Alexander, 2010). The 9 building blocks include customer segments, value proposition, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, cost structure.



**Figure 2. The 9 building blocks in Business Model Canvas**

### Methodology

In this study, the author uses semi-structured interview to conduct the research. Interview questions will be carefully prepared before the official interview starts. The author contacted the district manager and the director of delivery station of Tianjin, who used to be a distributor in JD. 4 common customers are also introduced to take part in the interview. Interview questions will be based on the key challenges that B2C companies currently face: “price war” and logistic problems. Also, they were also interviewed about questions based on the business model canvas of Osterwalder from 9 aspects: customer segments, value proposition, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, cost structure.

For the district manager and distributor, the interview lasts around 40 minutes each. For the 4 common customers, questions are about the brand recognition and the choices of products. Specific questions can be seen in Appendix 1. In order to make sure the reliability of the interview, the author chose the way of recording interviews. When the interviews finished, the author transcribed and sent them to the respondents so that they can give some feedbacks and make some corrections if there is something unclear. When the author got the confirmation of accuracy, the analysis began.

### Findings and discussion

#### Customer segments

Customer is the core of business model. In order to meet the needs of customer, enterprise divides customers into different groups based on their needs, behaviors and other attributes. For JD company, it started at focusing on the 3C products, accumulating original assets and exploiting the category of products. Now it becomes the integrated online shopping retailer and the number of its consumers is increasing dramatically. JD has its own customer segments. In terms of needs, JD’s main clients are consumers who prefer to buy products of computer, telecoms and other electronic products. In terms of age, main customers are people in the age between 20-35. In terms of vocation, customers are mainly white-collar workers, public officials, college students and some other internet lovers. Those 6 million college students who graduate from the school are another significant market of JD company. According to the interview, though consumers of JD over 35s have higher purchasing power, students who graduate from school are the “potential future consumers”.

#### Value proposition

JD puts customers at the first place, focusing on providing customers with “more, fast, good, cheap” products and services. “More” refers to JD provides wide range of products. “Fast” means the perfect logistics and distribution team reach the goal of delivering products quickly. “Good” refers to

good quality of products and services. When it comes to “cheap”, JD uses low-price strategy. “More, Fast, Good, Cheap” consists of the unique value proposition of JD towards its customers. JD meets the needs of customer and get ongoing revenue streams at the same time. For those platform businesses, JD provides them with technical support, training and financial services, sharing customer resources with them, so that it can help platform business adapt ecommerce environment quickly and make profits together.

#### Channels

The channels building block describes how company delivers a value to its targeted customers. Enterprises deliver value through communication and distribution. There are two channels JD delivers its value proposition to its customer:

a). JD online shopping website and mobile clients. JD can get in touch with its customers directly. Customers can search and buy targeted products by themselves. The process is easy and can be self-serviced.

b). Offline JD service shops. This kind of shop aims at serving customers in the rural place. JD provides one-stop service to these customers including consultant, order, distribution and maintenance.

#### Customer relationships

The relationship between JD and its clients can be called as the “self-service”. JD provides its clients self-service with product searching system, order inquiring system, logistics tracking system while its customer just needs to complete the whole purchasing process by themselves. With the development of technology, the self-service provided by JD will be better. In addition, JD makes a promise of permanent free fee on the “insurance fee”. It pays insurance for its customers, taking all the risk of transporting process. If customer receive bad products, JD will return and give a new one for them. What’s more, JD started the “after-sale 100” service. JD will deal with the problems that proposed by its clients within 100 minutes which has a good reputation around the customers. JD is working on providing highly customized self-service which will improve the customer experience significantly. Also, this may help JD company has more stable relationships with its customers.

#### Revenue streams

JD has three revenue streams: a). the direct sales revenue from JD’s own merchandises, which is also the main income of JD. b). sales revenue from open platforms. JD gains revenue by providing virtual shops, technical support and training support to the businesses. c). sales revenue from the service of store logistics. The platform of JD logistics is now open. They can provide services like storing products and distribution with charging fees which can be a significant income for JD.

#### Key resources

The success of JD’s business model relies on two key resources. One is the IT system and the other is logistics system that covers all around the country. JD pays high attention to its IT system and the IT system was all exploited by its R&D team. All the orders of JD can be completed online so that it is easy to use internet to examine the operation situation. Powerful IT system influences customer shopping experience such as the safety of online payment and friendliness of official website. When it comes to the logistics, JD owns the largest logistics equipment in ecommerce industry. By 2015, JD has owned 7 logistics center which cover the whole country, having 143 big storehouses in 43 cities. In addition, it possesses 3539 delivery terminals covering 1961 towns in the whole country and it still expands. JD provides the good service through its own logistics. At the same time, it also allows sellers to share its logistics by paying for JD.

#### Key activities

For JD, there are 3 key activities that make their business model operate effectively. Firstly, it is the exploitation and maintenance of the IT system. The business model of JD determines company need to explore and maintain its IT service continuously so that can keep the increasing number of clients and orders. The second one is order processing which consists of order information, products selection and orders distribution. Dealing with orders immediately will influence customer experience directly. At the meantime, dealing with orders effectively needs the support of IT system and logistics system. Thirdly, it is the marketing promotion. Clients are the core of business model. The primary problem that enterprise needs to solve is about how to attract and maintain the customer. By controlling mass customer resources and improving sales of products, JD can have a greater say with suppliers and can attract more business sellers.

#### Key partnerships

There are two kinds of partnerships of JD. One is suppliers. As JD mostly sells own merchandises, suppliers rely more on JD. The other is strategic contractual joint venture. It is the strategic cooperative relationship that established with other enterprises in order to remedy shortcomings and make progress together. For example, JD has established strategic collaboration relationship with Shanghai Medical and Pharmaceutical Group. The technical and logistics skills of JD and the medical capabilities can help each other to explore b2c medical market.

#### Cost structure

Cost structure refers to the costs that incurred by operating a business. Costs incur when enterprise create, deliver and maintain value. There are four parts of costs that incurred when the business model operates in JD: a) purchasing cost. Direct revenue from product sales is the main income of JD. Similarly, the purchasing cost of products is the main cost of JD, which accounts for 85%of the total costs. b). the cost of dealing with orders. This costs includes the building costs of logistics system. JD still aims at expanding logistics centers and delivery terminals. In 2004,the cost of dealing with orders is more than 8 billion dollars which accounts for 6.68%.c).marketing cost. Clients are the core of business model in JD. Enterprise needs to take continuous measures to attract and maintain customers. d). the cost of developing new technologies. The exploit and maintenance of IT system is a process needed to be invested constantly.

#### Core competence of JD company

The competitive advantage of JD can be summarized into three aspects:

People-oriented strategy, low-price strategy, fast logistics system and good after-sale services. The development of JD cannot be separated from “people-oriented” and the audacious innovation. It created the first products system blog which provides an open communication platform for customers to make comments of products. It enhances the shopping experiences of customers and also make a channel for JD itself to listen to the voice from customers, helping improve the service quality. By 2009, JD tries a series of characteristic door-to-door service including indoor installing service and house appliance cleaning services.

The products prices of JD change all the time, nearly almost within 30 minus. However, the price of JD products is lower 10%-30%than the other selling websites. Customers are price-oriented so they may choose the cheaper one when two products are in the same price. As the differentiation of products decreases, almost all b2c companies use low-price strategy to compete with others. Therefore, price war is common in the competition of winning customers. JD will continue to provide customers with lower price in competition with the other b2c companies. In addition, JD can take advantage of its completed information system which its core bond of the whole business operation. Pricing products is also completed by this system. Firstly, each product will be given



a “price priority”. When the information system gets the order, it will check all the prices that its competitors give and then make a contrast. Information system will give a relatively lower price than the other websites based on the cost of products, weather and sales. Also, that is the reason why the price on JD website changes all the time.

Now there are three kinds of logistics system in the world which are B2B logistics system, C2C logistic systems and B2C logistics system. Like the most b2c companies, JD takes b2c logistics systems model, forming a radio pattern from “one to more”. Products deliver from core store to customers through its distributors. Logistics cannot be built simply relying on money. It needs a long time. Therefore, if B2C companies want to get big success, they must invest logistics early and put lots of time on it. Once a b2c company decides to build up its own logistic system, it at least will take 5 years. This process is complex because it needs lots of training and operation practices to ensure the service quality. In addition, b2c companies need to build up their own logistics system. In China, most express companies are in alliance. Therefore, it is not cheap if outsource the logistics systems to them and the service quality cannot be promised as well. Therefore, JD built up its own logistics system.

In its system, distributors play significant role in the process of distribution. JD has a rigorous audit system for the distributor. In order to have a better understanding of JD’s logistics system, the author interviewed the director of distribution center in Tianjin. He said that though he is a director, he still faces fierce competition and rigorous inspection. Before he became the director, he was a distributor of Tianjin distribution center. JD has a rigorous requirement for them. Once they get two customer complaints, they will be got fired. There are three training levels for directors in the company. Only those distributors who have worked for more than a year can have opportunity to be a director. Once a person is selected, he/she still has three months concentrating training and then to be an assistant of director. After the four months inspect, he can finally get the job. What can encourage directors is JD provides good opportunities for them who have worked for more than three years. They can go back to their home province and open a new distribution company in cooperation with JD. Therefore, they can still be the professionals of JD and enjoy the welfares. This system and encouraged measure can not only enhance the competitive advantage of JD but also can have a good relationship with its employees which make them work more efficiently.

In the interview, all of the customer respondents said they have the refund experiences in JD. In that process, online customer service agent was patient and refund the products with no excuse. Respondents would like to buy products again. JD not only pays attention to the customer shopping experience of shopping but also protect the rights of its customers. Customers play significant role in the development of this company. Good after-sale service cannot only promise the rights of customers but also help company itself keep the customer resources.

#### Summary

Faced with the fierce competition in b2c industry, companies cannot survive if they ignore any building blocks of business model canvas. Nine sectors play significant role in the whole process. What’s more, on the basis of making sure all the aspects are considered general, it is important for company to have core competences. Company can respond to the challenges effectively by paying attention to the current situation and seizing the first hand information of the market. Like the current competition of “price war” and logistics investing, company should put its focus on using low price strategy and logistic system improvement. Fortunately, most Chinese b2c companies have realized the importance of logistics system, customer resources and price and a lot of them started to take actions.

## Conclusion

For Chinese b2c companies, business model is critical and it builds up the entire business operation system. What is new about b2c in China from the interviews is that most Chinese b2c companies have realized the importance of logistics system, customer resources and price. With the rapid development of ecommerce industry and the increasing number of b2c companies, differentiation of products is decreasing dramatically. For a better development, at first, Chinese b2c companies need to consider each sector carefully according to the 9 aspects of business model canvas by Osterwalder, trying to figure out and make sure the nine building blocks are clear and specific to the business.

Considering the challenge of price war and logistics development booming, b2c companies need to take low-price strategy, people-oriented strategy, fast logistics system and good after-sale service to develop core competence. Though business model canvas is a useful tool, companies still need to pay attention to specific sectors such as customer segment and value proposition on the premise of good operation of each segment. JD is a good example for the other b2c companies to learn.

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