

Discussing the Success of J&T Express in Saudi Arabia

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Abstract: Under the trend of economic globalization, cross-border operation is becoming more and more common, this paper discusses the successful experience of Chinese logistics company, J&T Express, in Saudi Arabia. Using the logic of synthesis, the paper specifically analyzes the political, economic background, market potential, and analyzes the future development in a more concise manner, showing the dividends brought by “The Belt and Road” initiative. It also analyzes in detail the business strategy, localization strategy of J&T Express, extracting the successful experience. Using the theoretical model—Michael Porter diamond Model, specifically analyzes some advantages of J&T Express cross-border operation. Combined with the research of previous scholars, I figure out that the ability of J&T Express to solve the “last kilometer delivery” is strong and the cross-cultural management ability is an outstanding advantage. I hope that the content of this paper can bring some inspiration to other enterprises conducting multinational operations.

Keywords: Cross-border Operation; “The Belt and Road”; Localization Strategy; Michael Porter Diamond Model; Last Mile Distribution; Cross-cultural Management

Introduction

Under the background of “The Belt and Road”, China seems to be full of hope for all foreign investment projects in the countries along the way. The success of J&T Express in Saudi Arabia cannot be separated from the dividends brought by the “The Belt and Road” initiative, but in addition to the policy dividend, the strength of the J&T Express itself should not be underestimated. The localization of operations in the Middle East market achieved a strong rise, and with the broadcast of the show “Flowers and Teenagers” (Season 5), the purely Chinese-made DWS sorting system in Riyadh transit center amazed everyone, the J&T Express has become famous overnight. The system, improving the efficiency of logistics and transportation in Saudi Arabia, benefits people of Saudi Arabia.

1. Political and Economic Background

“The Belt and Road” initiative put forward by China in 2013 has received enthusiastic support and positive response from Saudi Arabia. The two countries signed a cooperation document on the joint construction of “The Belt and Road” in 2016. Saudi Arabia is located between Asia and Africa, near important strategic shipping lanes, and at the intersection of the western section of “The Belt and Road”, which is uniquely important for the implementation of the initiative. With geographic location advantages, many Chinese enterprises have invested in Saudi Arabia.

China and Saudi Arabia are complementary in the resource endowment and industrial structure, the two sides become a natural partner in the construction of “The Belt and Road”. Since “The Belt and Road” initiative was put forward, China and Saudi Arabia have strengthened strategic docking, deepened political mutual trust, and accelerated the development of economic, trade and investment cooperation. Scholar Mo Chen pointed out that the fall in international oil prices began in the second half of 2014 had a serious impact on Saudi Arabia’s economy, and coupled with the impact of other factors such as changes in politics, economy and foreign relations, the country began to adjust its economic development policy. China-Saudi Arabia industrial cooperation can help Saudi Arabia develop its downstream oil industry, production capacity cooperation can promote the development of Saudi Arabia’s industrial and logistics industry, helping Saudi Arabia build a global logistics center.^[1] Chengzhang Bao pointed out that China-Saudi Arabia infrastructure construction cooperation has great potential. Saudi Arabia’s international construction contracting market is huge, the vast majority of large-scale construction projects are contracted by foreign enterprises. At the meanwhile, Chinese enterprises are in the global leading level in the field of overseas engineering contracting, their ability

is generally recognized by the world. After Saudi Arabia joined the Asian Infrastructure Investment Bank (AIIB) in 2015, the amount of investment in infrastructure construction between the two countries has risen step by step.^[2]

Chinese leaders's visit to Saudi Arabia in December 2022 and the holding of the "Three Rings Summit" were important impetus for China and Saudi Arabia to strengthen strategic alignment. During the visit, the two governments signed the "China and Saudi Arabia Sign Implementation Program for Docking the Joint Construction of the 'The Belt and Road' Initiative with Vision 2030", which comprehensively implemented the two leaders' proposal to deepen the cooperation between "The Belt and Road" Initiative and Vision 2030, jointly pushing forward the cooperation between the two countries in the areas of infrastructure, production capacity, energy, trade and investment, finance and humanities, as well as in the construction of the special development zone for the Jizan basic industry and downstream industrial city.^[3] This document signifies that the joint construction of "The Belt and Road" Initiative has entered the stage of comprehensive implementation, which will better promote practical cooperation between the two countries and enhance the well-being of the people of the two countries.

2. Development Potential of Target Markets

The industrial structure of the Middle East determines that a large number of its commodities are dependent on imports. The three-year epidemic has ushered in a rare opportunity for e-commerce development in the Middle East. United Arab Emirates (hereinafter UAE) and Saudi Arabia are the largest and fastest-growing e-commerce markets in the Middle East, while the local postal service is ineffective. The potential of Middle East e-commerce has attracted many Chinese companies to enter the market in recent years. The less-than-perfect logistics services in the Middle East have given Chinese logistics companies more space to capitalize on their strengths.

According to the empirical research of Bifei Tian and Yanqi Qiu, the following factors affect the location choice of Chinese enterprises when operating across borders: the cost of factors of production in the host country (Chinese enterprises will tend to invest in countries and regions with a low level of wages), the volume of bilateral trade between the host country and China, the cultural similarity between the two countries, the openness of the host country's economy as well as the type of economic development.^[4] Based on such a research conclusion, we can analyze the situation of Saudi Arabia itself: first, as an "oil kingdom", its industrial structure is single, the arrival of Chinese logistics enterprises provides employment opportunities and enriches the industrial structure. Second, the bilateral trade volume between China and Saudi Arabia has continued to increase in recent years, so the momentum is positive. Third, although there are differences in the cultures of the two countries, "The Belt and Road" initiative has made the relationship between the two countries more favorable. Fourth, Saudi Arabia is welcome Chinese enterprises, which is conducive to the cross-border operation of Chinese enterprises. It is obvious that it is advantageous for J&T Express to develop in Saudi Arabia.

Under this political and economic background, with a long-term development vision, the battle-hardened J&T Express had already locked Middle East region as a target. As early as April 2021, in order to expand the Middle East market, J&T Express rapidly started the preparation of network construction. Before the ambitious J&T Express officially announced its Middle East business in January 2022, it took just a few months to set up a nationwide distribution network and localized warehousing system in the UAE and Saudi Arabia which covering all provinces and regions, completing the construction of the Middle East logistics network from "0 to 1".

3. Future Development

The 22 countries in the Middle East are important participants in "The Belt and Road", the initiative provides a bigger stage and broader prospects for the relationship between China and the Middle East. Xinchun Niu pointed out that the political relations between China and the Middle East have ushered in opportunities and chances, the two sides have a high willingness to cooperate with each other. At the same time, China's economic cooperation with the Middle East is in a difficult period, the implementation of specific projects is very difficult. Saudi Arabia and the Middle East are in the midst of an economic crisis.^[5] Saudi Arabia and the UAE are only the first batch of countries covered by J&T Express in the Middle East, the further development in the future will spread to more countries, leading transnational operation to be deepened gradually.

4. Business Strategy—Localization

The rapid expansion of J&T Express is inseparable from its own precise strategic choices and operational capabilities. As a Chinese logistics company born in Southeast Asia, J&T Express has always been localized to fit the local market, with a high degree of understanding of local needs and tailored to local conditions.

Taking the Southeast Asian and Chinese markets as examples, the rise of J&T Express in Indonesia is mainly due to the team's research on the local market, leveraging e-commerce partners, and adapting to the market development. In March 2020, J&T Express entered the Chinese market, when the market of Chinese logistics is close to saturation, but J&T Express only used 4 months to achieve the daily single volume of more than 5 million, 10 months to complete the daily single volume of 20 million. These breakthroughs were also by virtue of the localization strategy. Li Jie, the founder of J&T Express, comes from the Chinese company OPPO, is very familiar with the business environment in China, coinciding with the rapid development of PDD (a shopping software), J&T Express was able to take advantage of the trend of the downward e-commerce market and realized rapid development. One of the key points was that the low-cost competitive advantage and the downward trend of the e-commerce market coincided with each other, so that J&T Express walked a big step. The money-losing market strategy cannot be separated from J&T Express's accurate insight of market development trend. Moreover, after experiencing the complex distribution environment of Southeast Asia's island countries, the team has also developed a highly efficient fast delivery mode, which is able to quickly eliminate outlets with poor distribution capacity and realize the rapid replication of the model. Thus, in Saudi Arabia, J&T Express still follows the localization strategy and steadily occupies the Middle East market.

J&T Express launched its Middle East Expansion Program in April 2021, which is a key project introduced by the Ministry of Investment of Saudi Arabia. It was the first Asian company in the Middle East to obtain a logistics license from Saudi Arabia. After obtaining the license, J&T Express, with its globalization capability, immediately deployed mature backbones to the Middle East. Within half a year, it built up a team of thousands of people in Saudi Arabia, covered the logistics network of the whole country and became one of the top three logistic companies in Saudi Arabia, contributing to the reduction of local logistics prices by about 40%. Tim, the person in charge of the Brazilian market for J&T Express, said, "We will first assess whether a market is valuable or not, and if it is valuable, we will make up our mind to do it. Every time we go to a country, we will select some relatively excellent talents in the group system. Chinese people will take the lead to blossom in each region. The regional CEO comes to the local office to build a team from scratch, develop outlets and expand the team. In the construction of the local network, equipment investment, we think from the long-term perspective, not only to see the current development of the market, but also to look at its future prospects." The "Fast Rabbit Mode", which started overseas, comes with the genes of globalization and foresight.

5. The Advantages of Cross-border Operation of J&T Express

5.1 Michael Porter Diamond Model

This paper uses the "Michael Porter Diamond Model" to verify the advantages of cross-border operation of J&T Express. In 1990, Michael Porter, on the basis of summarizing the traditional international trade theory, put forward the "diamond model" to explain the competitive advantage of a country's industry in the international market. Michael Porter believed that a country's domestic economic environment had a great influence on the development of its own competitive potential, of which the most influential and direct factors are six: ① factors of production, ② demand factors; ③ related and auxiliary industries, ④ enterprise's strategy, organizational structure and competitive status, ⑤ opportunities, ⑥ governmental behavior. The first four factors are the determinants of the international competitiveness of industries, and opportunities and government behavior will have a significant impact on the international competitiveness of industries.

5.1.1 Factors of Production

Michael Porter divided factors of production into two categories: basic factors and advanced factors. Basic factors are a country's innate resource endowment, while advanced factors are created through long-term investment and later development. Both basic and advanced factors are of great importance to international competitiveness. Born in Southeast Asia and rapidly expanding in China, J&T Express occu-

pies the inherent advantages of basic factors: cheap and abundant labor force, convenient transportation network. In terms of advanced factors: China has a modern communication network, colleges and universities have opened logistics-related professional disciplines to cultivate high-tech talents, the logistics industry is booming. With the advantages of such production factors, J&T Express has strong international competitiveness. The development of Saudi Arabia in recent years also has the above trend.

5.1.2 Demand Factors

Production methods, organizational structure and marketing management established by China's logistics enterprises are conducive to international competition, "market-oriented" is their characteristic. Specifically, it can be analyzed from the following three aspects:

(1) Demand characteristics. First of all, China's logistics market is global and domestic, enterprises can easily have a competitive advantage. Secondly, China's logistics demand is ahead of its time, for which the domestic manufacturers have accordingly been at the forefront of the world. The development of a set of production processes and marketing strategies for the future development of the international market provide advantages. Finally, the Chinese market is more critical of logistics services. In this demand environment, the growth of China's logistics enterprises will inevitably force themselves to meet the high standards of product quality, service and other aspects of the requirements. The above three points are equally applicable in Saudi Arabia, where logistics is less developed.

(2) Demand scale and demand-pulling mode. The large scale of logistics demand in China is conducive to improving the international competitiveness of the industry. At the same time, the large differences in consumer preferences can easily stimulate the innovation vitality of logistics enterprises.

(3) Internationalization of demand. A country's demand pattern will spread abroad with the international mobility of its own people, and vice versa. Since China's reform and opening up in 1978, the level of opening up to the outside world has become higher and higher, and the logistics industry has become easier and easier to adapt to international competition.

5.1.3 Related and Auxiliary Industries

The advantages of the upstream industries of China's logistics industry and its related industries will play a role of mutual promotion and expansion of advantages for the logistics industry. There are mainly the following reasons:

(1) Giving play to the group advantage. International competition is often the competition between the production system and marketing system of each country, which is the result of the comprehensive effect of its related industries and auxiliary industries. Internationally competitive suppliers by providing upstream products and intermediate products, can lead to improve the competitiveness of downstream industries. Related industries often rely on the same technology and supply, easy to carry out each other's information exchanges and all kinds of cooperation, will also bring about the effect of technology spillover, resulting in an obvious driving effect.

(2) "Complementary products" generate demand pull. "Complementary products" are products with collateral consumption effects. The development of an internationally competitive industry will stimulate the development of its "complementary industries". In the logistics industry, there are transportation industry and infrastructure.

5.1.4 Enterprise Strategy, Organizational Structure and Competitive Status

The influence of China's logistics market on the flow of talent, corporate strategy and corporate organization determines its competitiveness. In addition, the structure of China's logistics market has a great influence on the cultivation of international competitiveness of logistics enterprises.

5.1.5 Opportunity

Opportunity can break the existing competitive environment, competitive order, and create a "competitive fault". The emergence of such a fault line may make the original competitive industry lose its competitive advantage, or make the original weakly competitive industry rise to the top. "The Belt and Road" initiative is a great opportunity.

5.1.6 Government Behavior

The government directly affects the international competitiveness of the industry through its policies. Chinese government's "The Belt and Road" initiative has directly impacted many Chinese industries, and the logistics industry is one of them. The government's strong support has enabled logistics companies like J&T Express to thrive overseas.

5.2 Strong Delivery Capacity in the Last Kilometer

As the only direct contact with the end-user stage, the “last kilometer” in e-commerce logistics, has lots of problems, such as high delivery cost and low service quality, which is an important factor affecting the development of e-commerce.^[6] The last-mile delivery capability of J&T Express has been well reflected in Philippines. Philippines, known as “the country of thousands of islands”, is composed of more than 7,000 scattered islands, which creates inherent barriers to logistics delivery. Local people’s values and work concepts are more inclined to enjoy comfort, so it is not easy to set up a solid and reliable localization team in the local area. In addition, the local modern road network system needs to be improved, it is impossible to accurately locate a specific address according to the zip code information, which poses a challenge to the realization of the “last kilometer” delivery. In the face of the relatively rough and elementary address information in Philippines, J&T Express has continuously adjusted and optimized its algorithm system to adapt to the local address situation in there. Other logistics companies basically only deliver according to zip code, which can’t really complete “door-to-door delivery”. J&T Express is the first logistics company in Philippines to use three levels of addresses: from the province to the city and then to the specific community, granularity is refined step by step, so as to realize accurate delivery. Similarly, the delivery network in Saudi Arabia is also built according to the local situation. With the help of advanced network communication, artificial intelligence and other technologies, J&T Express has realized the full coverage of the delivery network in Saudi Arabia, which also combines the advantages of China’s contracted infrastructure in there. Only when the roads are clear, the efficiency of the logistics can be improved, and the problem of the “last kilometer” delivery can be alleviated.

5.3 Understanding Cultural Differences

The Middle East culture is very different from the Chinese culture, people’s living habits and values are also different. The success of J&T Express in Saudi Arabia cannot be achieved without understanding and integrating the local culture. In this regard, J&T Express has done a good job in Philippine market, too. It can be a reference for Saudi Arabia from the existing successful experience. At the beginning of the Philippine market, J&T Express paid special attention to educating the team about the company’s culture in the face of cultural and value barriers. A relevant person in charge of the Philippines indicates, “During the preparatory period of the Philippine market, we basically sat down with local leaders every day to share management experience and publicized the company’s rules and regulations, so that everyone could gradually understand why the company had to develop this system through learning by ear. Only with a deep understanding can it be implemented effectively and efficiently.” The official language of the Philippines is English. In order to integrate into the local community as quickly as possible, the regional general managers and functional department directors of J&T Express did not rely on their assistants to help them translate when they were preparing for the Philippine team, but instead communicated directly with the locals themselves. Even though they sometimes need to use cell phone translation or body language to express their meaning clearly, this way, the language barrier has been gradually eliminated, laying a solid foundation for the team to communicate more harmoniously and effectively. By the end of 2021, the proportion of Chinese employees in the total number of employees in the Philippines is only 0.1%, which on the one hand creates a huge amount of local employment, and on the other hand also shows that J&T Express is a team that is truly rooted in the local community and deeply cultivates the local community. It can be seen that the deep implementation of the localization strategy has enabled J&T Express to understand the local culture and integrate into the local culture. Cross-cultural management cannot be achieved overnight, it is a long process. Successful cross-cultural management must go through the process of facing “cultural differences”, avoiding “cultural conflicts”, cultivating “cultural sensitivity”, promoting “cultural integration”, promote “cultural innovation”, and develop “cultural identity” in these six stages.^[7] In the future, J&T Express can move towards these individual goals to better realize cross-cultural management.

6. Conclusion

As a rapidly developing Chinese logistics enterprise in the last decade, J&T Express has made a big splash on the world stage, not only by riding on the east wind of “The Belt and Road”, but also by reflecting its own ability. Only companies strengthen themselves, it is difficult to be defeated by the predicament. Cross-border operation road is long and rough, out of the country’s enterprises should improve themselves, clarify the situation. Conclude in one sentence, “The way stretches endless ahead, I will seek from head to foot”.

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