

Case Analysis of JD's Supply Chain Financial Profit Model

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Abstract

In recent years, the rapid development of Internet, big data, cloud computing and other technologies has provided strong support for banks and other financial institutions in improving the original credit model and improving the credit supply. At the same time, SMEs in China have also gained more opportunities and choices in financing. Supply chain finance has gradually penetrated into other industries. Large domestic e-commerce enterprises such as Alibaba, JD and Suning have begun to rely on a large number of data resources accumulated on e-commerce platforms to layout their own supply chain financial services, hoping to promote a win-win situation in their supply chains. For small and medium-sized enterprises, this helps them alleviate their financing difficulties and provide financial support; For e-commerce itself, it can broaden its profit scope, increase customer stickiness and enhance its competitiveness in the market.

Keywords

JD; Supply Chain Finance; Profit Model.

1. Case Study

1.1. Case Description

JD Group is the first independent B2C supplier in China. JD Group has adopted a heavyweight ownership model different from that of Alibaba. Although this choice has slowed down JD Group's overall profitability, which was once unknown to the outside world, this "warehousing+logistics+delivery" integration model has become the cornerstone of JD Group's ability to operate effectively in the supply chain. This paved the way for subsequent supply chain financing. As of April 2015, JD has built seven major logistics transit centers nationwide, more than 40 cities have about 150 large warehouses, and nearly 4000 self transport points, constantly covering small and medium-sized towns and villages.

1.2. Research Results

The development of JD's supply chain financial business can be divided into three stages: germination, improvement and openness.

Phase I: emphasize "cooperation between enterprises"

At the beginning of its establishment, JD, together with other large enterprises that provide financial services in the supply chain, chose the "enterprise to enterprise cooperation" model. This means that JD uses intermediaries between customers and banks to attract suppliers with low financing costs, and uses these platforms to provide financial guarantees for relevant suppliers and charge a certain fee. By the end of 2012, JD Oriental Group had reached cooperation agreements with a number of state-owned banks in China, Bank of Communications, China Construction Bank, Industrial and Commercial Bank of China and other large banks, with a cumulative revenue of more than 5 billion dollars. According to the financial report released in 2013, the total financing of supply chain and related businesses reached 344

million dollars. The cost of this service was only 800000 yuan, while in 2000-2001, the cost of this service was only 800000 yuan. The total interest rate was 97.67%, an increase of 95.45% over the previous year. However, with the increase in the number of suppliers, problems such as complex approval procedures of commercial banks, slow loan issuance, and low financing level have also emerged, forcing JD to consider establishing a platform to independently provide financial services.

Improvement stage: establish self financing platform

At this stage, JD's financial system is gradually introducing Jingbao's independent supply chain platform for financial products and JD's usury platform. The specific business process of "Jingdong minibus" is very similar to that of "Jingdong small loan", which can be summarized as self financing of the supply chain participants of the cable TV platform. The main difference between the two products is that "JD Monkey Van" is one of the financial services provided for JD's individual entrepreneurs, and "JD Micro Loan" is provided for non individual entrepreneurs. According to the published data, the number of trading enterprises has exceeded 20000 in the year since the last platform. Although this effectively improves JD's profitability, JD's finance is still limited to its own platform, and its profitability is still limited to its own platform.

Opening stage: opening up movable property financing

In 2017, Beijing Orient launched a new company called Mobile Finance, which is completely different from the first two independent companies. In the past, traditional financial institutions rarely used movable property financing, mainly because it was difficult to determine the value of a security right at a fair price. Therefore, the initial financing of movable property can only be applied to certain types of assets. At the same time, due to the lack of market awareness, enterprises in the market tend to adopt the same multiple mortgage standards in different financial institutions. In case of default, financial institutions will bear significant risks. Since the independence of the financial institutions in Beijing, East Timor and East Timor, their bank supervisors have accumulated practical experience that other financial institutions have not had in the fair assessment of commodity prices. By improving data processing technology, financial institutions in Beijing and Timor Leste can monitor duplicate mortgages in real time, thus avoiding duplicate mortgages. In addition, the capital Beijing and the Danube River can be transferred and stored within the group, depending on their own warehousing and logistics systems and the eastern part of the country. This not only combines the financial and logistics activities in Beijing, but also effectively avoids the possible risks in the warehousing process.

The target users of "movable property financing" include commercial enterprises outside the JD platform. This has opened a new chapter in value chain financial services, breaking the traditional platform based thinking and its view of all enterprises without distinguishing between production lines and production lines. This has greatly improved the profitability of Beijing and Dongfang as well as the entire group.

2. Components of the Profit Model of JD's Supply Chain Financial Development

From the perspective of participating institutions, a mature e-commerce supply chain usually includes suppliers, e-commerce platforms, logistics companies, fund providers and sporadic customers. After years of efforts and accumulation in supply chain management, JD has accumulated a lot of valuable experience and made great progress. Its profit model shows different characteristics at different stages of development. By analyzing the components of the profit model in different stages of the development of JD's supply chain finance, we can understand the profit model of JD's supply chain finance.

2.1. Profit Objects of Different Development Levels of JD Supply Chain Finance

There are buyers and users of products or services provided by enterprises. They are the profit object and the source of enterprise profits. The object of value output can only be defined when the profit object is determined. JD's supply chain financial business has the characteristics of both traditional financial industry and e-commerce. In the process of development, the profit object of its profit model is constantly expanding.

At the creation stage, because JD Group has just started, its internal resource advantage is weak, and it is unable to independently carry out financial services. At this time, JD mainly provides financing guarantee services for qualified suppliers. JD Mall plays the role of credit intermediary between banks and suppliers. JD is responsible for credit approval. The bank only needs to make loans, and JD charges a certain fee from it. At this time, the profit object of the profit model is the supplier cooperating with JD Mall. In the improvement stage, the supply chain financial service has developed into one of the core businesses of JD Financial. The business scale has gradually expanded and the product structure has become increasingly perfect. There are many open platform sellers in JD Mall and there is also a large amount of financing demand. For suppliers of JD Open Platform, a series of innovative financial services such as "Jingxiaodai" and "Jingbaobei" have been launched, attracting more users. At this time, the profit object of the profit model is the supplier in the JD system. In the upgrading stage, JD is committed to building an integrated financial ecosystem. At this time, the target users of JD's supply chain finance include both the merchants on the JD platform and the merchants not on the JD platform. JD no longer sticks to the traditional platform thinking, but focuses on all enterprises, no longer distinguishes between online and offline, and the profit target is all online and offline users.

2.2. Profit Points in Different Development Stages of JD's Supply Chain Finance

Profit points are services and products that help enterprises earn profits. It needs to meet the needs of different customer groups on the basis of a certain degree of customization and differentiation; Secondly, it should be able to bring value to customers; Finally, we should be able to support enterprises to enhance their core competitiveness and achieve enterprise value added. The supply chain financial products provided by JD are actively changing, innovating and upgrading. The scale of products is growing, and the profit points of its profit model are increasingly rich.

In the creation stage, because JD Group has just started, its internal resource advantage is weak, and it is unable to independently carry out financial services. At this time, JD mainly provides financing guarantee services for qualified suppliers. At this time, the profit points are many and miscellaneous supply chain financial financing products. In the improvement stage, JD's supply chain financial business has been continuously improved. Different from the previous operation mode, it has launched a variety of innovative financial services relying on its own funds. In these new businesses, JD combines loans and credit funds into one, and uses its own funds to carry out financing business. At this stage, the main profit points of JD Finance are "Jingbaobei", "Jingxiaodai" and other self operated supply chain financial products. In the upgrading stage, product differentiation ensures the competitiveness of JD's supply chain finance. JD has established an integrated supply chain financial ecosystem that includes credit, third-party payment, wealth management and other business sectors. The profit points of its profit model specifically include Jingbaobei 2.0, "Jingxiaodai", movable property financing, Jingdong Baitiao, Jingdong Jintiao, Gongli Finance and other expansion services.

2.3. The Profit Sources of JD's Supply Chain Finance at Different Development Stages

Profit is not only the source of corporate profits, but also the source of revenue. For enterprises, high-quality profit sources have the following characteristics: first, there are huge customer groups, which can develop a larger market scale. Secondly, the enterprise has the ability to timely launch targeted services or products based on the dynamic changes of market demand; Finally, it has certain advantages over competitors. In the past eight years since JD developed its supply chain financial business, the profit source of its profit model has also been changing. In the creation stage, the supply chain financial services designed by JD are not mature yet, and relatively conservative. Although the number of products is large, the types are messy. JD mainly makes up for its deficiencies in capital, resources and technology by establishing cooperation with banks, builds an intermediary service platform between banks and customers, and attracts suppliers with financing intentions at low interest rates.

Use big data technology to provide guarantee for proprietary suppliers with strong risk controllability, help suppliers obtain financing from banks and charge a certain service fee. At this time, the profit source is mainly the basic service fee. In the improvement stage, with the increasing number of suppliers, the "bank enterprise cooperation" model can no longer meet the financing needs of suppliers. JD began to use the platform to carry out self operated supply chain financial services, develop characteristic financial products, and achieve independent credit reporting and independent lending. At this time, the profit source of JD's supply chain financial profit model is mainly to obtain interest income from credit products and related service fees. In the upgrading stage, in the supply chain financial ecosystem created by JD, the core businesses are credit, third-party and financial management businesses, which are constantly expanding to multiple scenarios on the basis of the above three core businesses.

The main income of credit business is loan interest; The main revenue of third-party payment business is service fees and settlement fees in the mall, service fees formed by installment payment and overdue payment of consumer loan users, and service fees charged by JD Pay from merchants based on transaction size. JD will only pay the collected payment to the merchant after the customer receives the goods, and the time difference during this period will bring JD some interest income. The crowdfunding business launched by JD Financial will also bring JD commission income. The main income of financial management business comes from sales commissions of securities companies or fund companies. At this time, the profit source of JD's supply chain financial profit model is mainly the interest income from credit products, financing service fees and various expansion service fees.

2.4. JD Supply Chain Finance Profit Leverage at Different Development Stages

Profit leverage reflects the resources invested by enterprises in daily production in order to seize the market and obtain economic benefits. The most important reason to use profit leverage is to enhance the competitiveness of enterprises and maintain profits to ensure that profits can bring benefits and value added to enterprises. Since its establishment, JD has invested a lot of resources to develop its own technology platform with application services as the core, which has promoted the optimal operation of all businesses of the Group, reduced costs and improved efficiency. On the other hand, JD is committed to technology-based "using technology to realize the digitalization of the whole society", opening its own platform and becoming a technology service company based on the value chain. Technology investment has always been an important profit lever of JD's supply chain financial profit model. Continuous innovation of products has determined that the profit model is becoming more and more diversified, and the specialization and standardization of products are constantly improving. Based on this, the differentiation of products and services has been realized, further consolidating the profit level.

In the creation stage, JD Group started to involve in supply chain finance. At this time, JD mainly provides guarantee services for the financing of qualified suppliers. In addition, the supply chain finance launched through cooperation with banks mainly includes warehousing order financing, order financing, entrusted loan financing, accounts receivable financing and other products. It can help suppliers obtain financing in a short time. Diversified products invested in R&D are the characteristics of profit leverage of the profit model at this stage. In the improvement stage, the effect of JD's early technology is highlighted, the big data processing capacity is developing rapidly, the risk control system has been initially built, JD has developed characteristic financial products, and the investment in research and development of specialized products is the feature of profit leverage of the profit model in this stage.

In the upgrading stage, JD Financial brand is upgraded to JD Digital Science, which mainly serves the core enterprises of the supply chain as well as upstream and downstream small and medium-sized enterprises, creates a digital context and online financial ecosystem, and proposes digital financial solutions for enterprises and merchants. This scheme mainly involves factoring services and credit financing services for upstream enterprises of the supply chain; Provide payment management services for core enterprises in the supply chain; Provide procurement finance and logistics services for downstream enterprises and end consumers; For intermediate logistics and warehousing, provide freight factoring and pledged movable property and other financial services. Investing in research and development of differentiated products is the feature of profit leverage of the profit model at this stage.

2.5. Jingdong Supply Chain Finance Profit Barrier at Different Development Stages

JD supply chain financial enterprises are mainly investing resources to make users of the platform rely on their own platform, so as to reduce the loss of platform customers. Since JD developed its supply chain financial business, the profit barrier of its profit model has been continuously strengthened. In the establishment stage, as the largest self operated e-commerce platform in China, JD Mall has already had a large active customer group and a well operated market after long-term business accumulation. Users of JD Mall have formed the habit of choosing JD for online shopping, mainly relying on customer stickiness to expand the scale of supply chain finance. At this stage, the profit barrier of JD's supply chain finance profit model is relatively weak.

In the improvement stage, JD Financial can provide credit according to the user's previous transactions on the platform, and JD's retail business system and factoring business system. The ERP system provides reference for the verification of the financing limit, forms the corresponding risk control model, and JD Financial can also use the logistics data to ensure the authenticity of the pledge and collateral used in the supplier's financing process, so as to better control and manage business risks. At the upgrading stage, JD Financial is constantly expanding its industrial integration landscape by using machine learning, human-computer intelligent interaction, computer vision, the Internet of Things and other key basic technologies.

3. Case Enlightenment

3.1. The Financial Profit Model of the Developing Supply Chain is Usually Platform Oriented and Open to the Outside World

Due to the delay in production and the shortage of domestic resources, capital could not produce financial products independently from the very beginning, and could only cooperate with banks or other financial institutions. At that time, Beijingdong was just an intermediary institution, establishing a platform between banks and suppliers to provide mortgage

guarantee and other support services. At that time, Beijingdong charged a certain proportion of service fees, realizing the second profit model of the platform.

However, with the development of Internet economy, the demand of suppliers is becoming more and more diversified. Although the process of providing banking services is relatively complex, inefficient and poorly managed, it is difficult for banks to establish more diversified businesses. In addition, the profit model before the second platform was limited and could not adapt to the growing scale of the Group. At that time, Beijing began to look for independent financial services in the value chain.

In the modernization stage, Beijing's financial system gradually separated from banks, developed e-commerce financial products, completed two key components of independent loans, obtained all interest and related income services, and finally formed a profit base. The profit margin rose significantly. With the development of big information technology, as well as the strong self owned resource reserves of capital, oriental and oriental financial customers, Beijing's capital no longer meets the existing system and begins to shift to lines and hidden users outside the system.

3.2. Diversify the Profit Model of Supply Chain Finance, Taking into Account Internal and External Factors

At present, the profit sources of JD's supply chain financial services have diversified. This depends not only on the internal needs of JD's enterprise development, but also on external factors.

In the early stage of the development of Internet financial services, leading companies tried to survive in the competition to create competitive barriers. JD and other large energy companies have established a financial service platform centered on the financial service supply chain. In addition, the internal struggle of the industry has become the main external catalyst for the development of Beijing's financial supply chain. According to the neoclassical economic theory, the level of economies of scale depends on external factors, and changes in user demand will become another key factor in economies of scale. With the increase of Internet financial transactions and the growing demand for financial and financial services from different customer categories, new requirements have been put forward for the diversity of corporate financial service models. During this period, supply chain financing companies strive to improve customer products and services to improve customer satisfaction and attractiveness, and achieve sustainable growth in the company's profits. With the intensification of industry competition and the emergence of diversified competitive advantages, meeting user needs has become a key competitive factor. It can be concluded that the profit model of the value chain financial sector is currently driven by demand.

4. Conclusion

JD supply chain financing is a supply chain financing mode based on reliable platform transaction data, which can ensure the accuracy of the financing process and minimize credit risk. Considering the changes of internal and external factors, this opens up new prospects for solving the financing problems of SMEs. In the value chain, the opportunities of financial companies are more and more open and diversified. The research on Beijing value chain financial transactions shows that the future value chain financing will be personal and organizational, and combined with various high-tech tools.

This research project was started under the background of JD supply chain, and introduced some demonstration activities of JD supply chain in detail. Through the analysis of relevant information, it directly explains the specific components of JD's supply chain financial profitability, and details the evolution and characteristics of JD's supply chain financial

profitability. By revealing the growth path of financial profitability in the supply chain of Internet enterprises, it fills the gap in the research of financial profitability in the supply chain and provides guidance for the development of other financial enterprises in the supply chain at the initial stage. However, this study only selected the representative financial sectors in JD's supply chain, and further case studies are needed. In addition, because some financial enterprise data in the supply chain involve trade secrets, research results are limited and empirical data collected after processing cannot be obtained.

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