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## JD: Envisioning the Future of Retail (B)

### Development of Boundaryless Retail

As more businesses relied on technological and data-based services in the era of boundaryless retail, JD adopted a new business strategy, Retail as a Service (RaaS), to meet this demand.<sup>a</sup> It became a retail infrastructure service provider by offering its e-commerce capabilities to other businesses. To do so, JD opened up its capabilities in cloud/data/artificial intelligence (AI), finance, and logistics and reconfigured them into business models that could be customized by other businesses. Businesses could assemble a combination of services that suited their needs. JD would then provide comprehensive support to help the companies implement their strategies.<sup>1</sup>

JD's Kepler Mini Program Solution, launched as a pilot in 2017, was an example of the company's RaaS service. Through this program, JD helped retailers set up mobile retailing capabilities on WeChat's Mini Program platform<sup>b</sup> and provided them with additional services such as marketing, logistics, financial services, and big data.<sup>2</sup>

JD also continued its expansion offline by opening franchised convenience stores across China. Owned and operated by independent investors, these stores would help JD enter rural markets, where consumers were less likely to shop through e-commerce. JD provided training, branding, products, and if needed, loans, to store owners.<sup>3</sup> To source products, store owners used JD's app. Owners were required to source 100% of their products from JD in order for their stores to be called JD convenience stores. If owners chose not to do so, they could set up designated JD shelves in their stores for JD's products. JD worked with store owners to ensure that they only stocked authentic products and fined those caught selling counterfeit goods. Delivery was free for orders above 399 RMB (~ \$64). Store owners had full ownership of their stores and were required to pay a deposit to join JD's franchise. They were responsible for all costs, such as rent, operations, and advertising.<sup>4</sup> The first 1,111 convenience stores opened in November 2017, and JD continued opening 1,000 stores a week. In the

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<sup>a</sup> Retail as a Service means providing both retail and retail infrastructure.

<sup>b</sup> WeChat is a Chinese messaging, social media, and mobile payment app. Its mini program consists of apps within WeChat: users can use these apps to order food, make payments, book appointments, hail rides, play games, etc. Companies that launch their apps within WeChat can send messages directly to their apps' users and take advantage of WeChat's over 1 billion users.

long term, JD planned to open over 1 million stores in five years, with one store at every 400 meters, and with 50% of the stores in rural areas.<sup>5</sup>

In January 2018, JD opened its first offline high-tech supermarket, 7FRESH, in Beijing's Yizhuang district. This store focused on selling fresh and high-quality foods: eggs would arrive in the store within 12 hours of being hatched, and fresh seafood from Japan would arrive within 24 hours of being caught. The store's smart technology included "magic mirrors" that automatically displayed information on produce that shoppers picked up, such as its origin and nutritional information. The store also had smart shopping carts that followed customers around the store.<sup>6</sup> Shoppers could also dine in the store's cooked-food stalls, where chefs cooked meat and freshly caught seafood on site. Customers who lived within a three-kilometer radius could have their groceries delivered for free within 30 minutes.<sup>7</sup>

Furthermore, JD, with its ally Tencent, increased its investments in offline retail stores. In February 2018, JD and Tencent each bought minority stakes in Chinese retail conglomerate Better Life. Better Life's businesses included department stores, supermarkets, and convenience stores. Tencent paid 886.9 million RMB (about \$140 million) for a 6% stake, and JD paid 739.1 million RMB (about \$117 million) for a 5% stake. With Tencent's social media traffic, JD's e-commerce and logistics capabilities, and Better Life's offline retail stores, the three companies would enhance consumers' online and offline shopping experience.<sup>8</sup>

## Continuing Innovation in Logistics

In October 2017, JD built the world's first fully automated warehouse in Shanghai's Jiading District. This warehouse, which covered 40,000 square meters, had about 1,000 robots that processed the receipt, storage, packing, and sorting of goods. The robots had 2-D and 3-D visual identity that helped them "see" their surroundings and avoid collisions. They could sort 3,600 items per hour, and the warehouse could process over 200,000 orders a day.<sup>9</sup> This warehouse officially opened for use in January 2018.

In April 2018, JD launched its "Lightning Delivery" service, which would deliver consumer goods within three hours after an order was placed to selected Tier-1 cities. This service was a result of JD's integration of online to offline (O2O) retail: instead of shipping goods from JD's warehouses, JD shipped goods from offline convenience stores, supermarkets, and other retail stores in cities. For instance, JD and Walmart shared inventory in 76 stores in six major cities across China. More than 180 Walmart stores in cities nationwide sold their products on JD.<sup>10</sup> In essence, JD relied on stores like Walmart as warehouses, and having such warehouses around the country had helped JD shorten its delivery time.

JD's rival Alibaba also bolstered its logistics network in 2018. It acquired China's leading online food-delivery platform, Ele.me, in April 2018 for \$9.5 billion.<sup>11</sup> As of 2017, Ele.me held 55% of market share in China's O2O catering market.<sup>12</sup> Ele.me's extensive fulfillment and delivery network would increase fresh-food grocery Hema's delivery range and speed.<sup>13</sup>

## Rise of Pinduoduo (PDD)

Although JD and Alibaba had dominated China's e-commerce market for years, a strong challenger emerged in 2018: Pinduoduo (PDD), an e-commerce startup that specialized in selling discounted goods in bulk.

Launched in 2015 and based in Shanghai, PDD targeted a market that Alibaba and JD had yet to penetrate fully: low-income shoppers in China's lower-tier cities and towns. About 65% of PDD's

orders came from China's Tier 3 and 4 cities, while only 7.56% of its orders came from Tier 1 cities.<sup>14</sup> PDD offered heavily discounted products such as \$1 toilet paper packs, \$5 bed sheets, and \$80 smartphones.<sup>15</sup> As a "Facebook-Groupon mashup," this company offered deep discounts through a bulk-buying business model supported by its app on Tencent's WeChat. When its shoppers shared its products on WeChat, they qualified for discounts.<sup>16</sup> If they invited their WeChat friends to form a group purchase, they could get discounts up to 90% (See **Exhibit 1** on PDD's approach to e-commerce). To encourage shoppers to share on social media, PDD offered coupons and rewards such as cash back. Furthermore, the company let consumers buy directly from manufacturers, which lowered prices by about 20% when compared to market price.<sup>17</sup>

PDD also benefitted from smaller merchants and manufacturers that sold their products on its platform. These sellers often had factories in China's lower-tier cities and towns and could ship products directly from the factories to PDD's customers. Since this process eliminated layers of distributors, the prices were cheaper.<sup>18</sup> In addition to its lower prices, PDD had made e-commerce shopping easy for those who had just started to shop online. Its app was simple to use and had attracted users who had found Taobao's app too complicated.<sup>19</sup>

In 2017, PDD sold about \$1.6 billion worth of goods monthly, a number that almost quadrupled in 2018. As of January 2018, PDD had 114 million active users and would likely match or surpass JD's 145 million active users in the near future.<sup>20</sup>

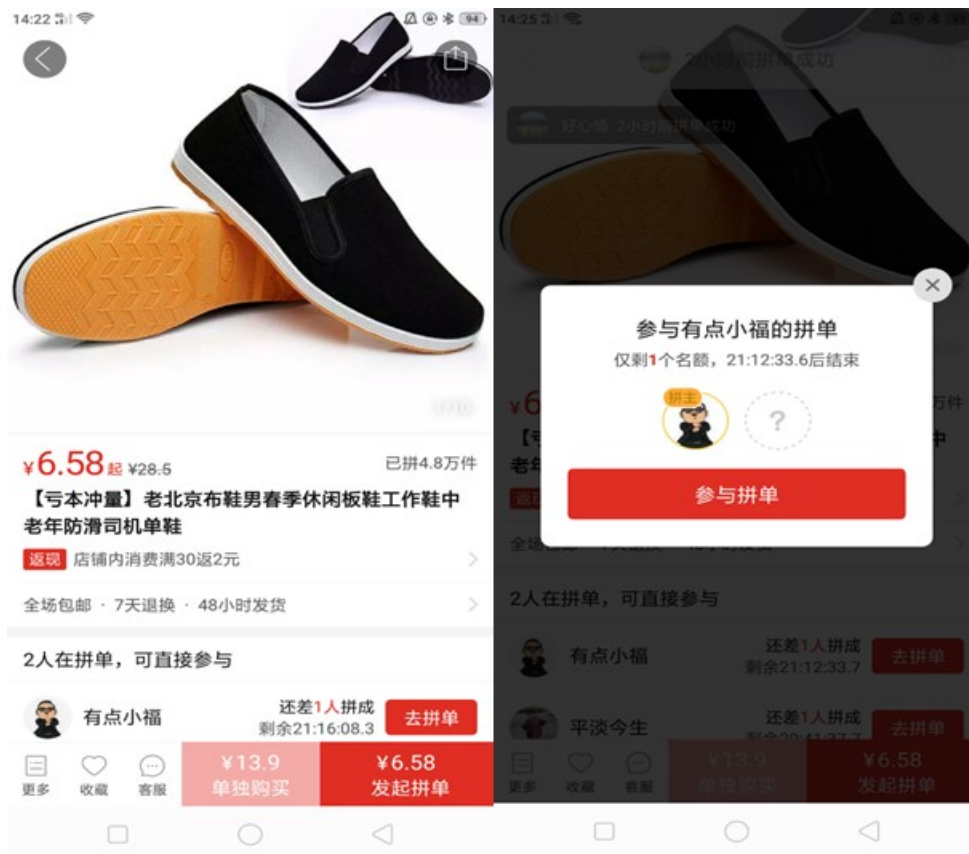
PDD made its public debut in July 2018 with its U.S. initial public offering (IPO) at \$19 per share. It raised \$1.63 billion through its IPO and earned a \$32.4 billion market valuation.<sup>21</sup>

## The Future of JD

On August 31, 2018, Richard Liu, JD's founder and CEO, was arrested in Minneapolis, Minnesota, after a 21-year-old college student at the University of Minnesota accused him of sexually assaulting her at her apartment on the previous night. Liu denied the accusation. He was released from jail after a day and returned to China. In December 2018, prosecutors decided not to press criminal charges because of a lack of substantial evidence. JD's stock had struggled since this scandal as questions mounted over Liu's ability to lead the company in the future.<sup>22</sup>

With Liu's scandal, uncertainty around boundaryless retail, and rising competition from PDD, JD's future appeared uncertain. What would be some challenges of its Retail as a Service strategy? What should JD do about PDD?

### Exhibit 1 Pinduoduo's Approach to E-Commerce



Source: Taken by casewriter from Pinduoduo's app <https://www.pinduoduo.com/>.

Note: The first screenshot shows the price for a pair of shoes on PDD. If a buyer makes a purchase by himself or herself, the price is RMB 13.9. But if the buyer buys through a group purchase, s/he will pay RMB 6.58. Shipping is free, and buyers have seven days to return the product. The buyer can launch a group purchase or join another buyer's group purchase. The second screenshot shows that there is one slot left from a group purchase launched by another buyer.

## Endnotes

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