

# Research on Business Model Transformation of Self-operated B2C E-commerce Platform——Taking Jingdong as An Example

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## Abstract

The competition between business models between B2C companies is increasingly fierce. Through self-built logistics, Jingdong expanded its 3C product line to the entire product line and transformed it into a technology-driven company. These three business model changes are typically representative. Through the case analysis of Jingdong, this paper summarizes the development trend of self-operated B2C e-commerce enterprise business model: technology orientation; enhance core competitiveness, enhance brand value; comprehensive layout, enhance profitability; open online and offline sales channels.

## Keywords

E-Commerce; business model change; Jingdong; case study.

## 1. Introduction

The development of information technology has brought about tremendous social changes and brought prosperity to the online retail market. In 2017, the scale of China's online retail market transaction was 7.17 trillion yuan, a year-on-year increase of 39.17%. The transaction scale of the B2C market has occupied the trading subject position of China's online retail market since it first surpassed the C2C market by 51.9% in 2015.

According to the 2017 Online Retail Data Report, Tmall ranked first with 52.73% market share, and Jingdong followed with 32.5% market share. Vipshop will remain third with 3.25% market share. The companies ranked 4-8 are Suning Tesco, fight a lot, Gome Online, Amazon China, Dangdang. Although the platform-based B2C company Tmall is a big one, the number and market share of self-operated B2C companies headed by Jingdong can not be underestimated. Competition between enterprises is no longer a competition between products and services, but between different business models. If self-operated B2C enterprise business wants to stand out in a competitive business environment, it must accurately grasp the development trend of future business models.

## 2. Theoretical Framework

China's B2C e-commerce enterprises can be divided into two categories according to their roles in the product sales process: platform-based B2C e-commerce companies and self-operated B2C e-commerce companies. Platform-based B2C e-commerce companies such as Tmall provide only one platform and are not directly involved in the product sales process. Self-operated B2C e-commerce companies such as Jingdong are directly involved in every aspect of product sales. Although the business models of platform-based B2C e-commerce companies and self-operated B2C e-commerce companies are not the same, few scholars distinguish the

two. The research object of this paper is the business model of self-operated B2C e-commerce enterprises.

Different scholars have different definitions of business models. Paul Timmer (1998) first defined the business model as a system flow consisting of commodity flows, service flows, and information flows[1]. The definitions of business models by other scholars are organized as follows, see Table 1. Combining the characteristics and development background of self-operated B2C e-commerce enterprises, this paper believes that the self-operated B2C electronic business model refers to the integration of online and offline resources by the Internet technology to optimize the flow of goods flow, information flow and logistics, thus realizing customers' demands and maximizing profit , see Table 1.

**Table 1.** The Definition of Business Model

Source	Definition
Afuah&Tucci (2001)	can guide companies to create value for consumers through the rational use of resources, and create profits for the company.
Hawkins (2001)	Effectively define the cost and benefit model of the company, so that the company can continue to grow and develop on its own business.
Magretta (2002)	Explain the internal operations of the company and the organizational relationships between the various departments
Amit&Zott (2011)	Create value for business and corporate stakeholders and provide an architecture that continuously develops innovation

Source: References [2-5]

To better define the core of the business model, scholars have defined the components of the business model, as shown in Table 2 below. This paper believes that the fundamental purpose of self-operated B2C e-commerce companies to conduct transactions is to be consistent, and to maximize profits. Liu Qiangdong once pointed out that the essence of B2C electronic business model is retail, and the innovation of B2C electronic business model is the innovation of sales channels, and marketing is indispensable for any retail enterprise. Therefore, based on the theoretical model of Li and Li scholars, this article removes the "transactional purpose" elements and joins the "sales channel" and "marketing model" elements, analysis of cases from eight elements: enterprise positioning, stakeholders, sales channels, product services, business systems, profit models, marketing models, key resources and capabilities, see Table 2.

**Table 2.** Business Model Components

Source	Definition
Gray Hamel (2001)	Core strategy, strategic resources, value network and customer interface.
Osterwalder (2004)	Value proposition, target customers, distribution channels, customer relationships, value structure, core competencies, partners, cost agencies, and corporate revenue.

Source: References [6-7]

With the deepening of business model research, the study of business model change has also become an important direction. GORDIJN et al.[8] believe that the essence of business model change is the process of deconstructing and reconstructing its own value model. Some scholars believe that enterprises should focus on how to maximize customer value when making

business model changes. At present, the research on B2C electronic business model in academic circles mostly stays in the theoretical construction and current situation analysis, and there are few studies on the transformation of B2C electronic business model. Based on this background, this paper selects Jingdong, the largest self-operated e-commerce enterprise in China, as a case study, analyzes its business model changes in different periods, and makes a reasonable prospect for the development trend of China's self-operated B2C e-commerce enterprises. In order to play a guiding and reference role for China's self-operated B2C e-commerce enterprises.

### 3. Case Analysis

This paper believes that Jingdong has experienced three business model changes in the development process: the first is to decide to build its own logistics, the second is to open a third-party platform, expand the 3C product line to the entire product line, and the third is the transition to technology-driven companies.

#### 3.1. The First Business Model Change: Self-Built Logistics

The transformation of Jingdong's business model is mainly reflected in the following aspects: 1) Stakeholders no longer involve third-party logistics, and the importance of third-party payment and third-party advertising begins to manifest. 2) In terms of services, the quality of logistics services has been greatly improved. 3) In terms of business system, in the product distribution link, the control right of the logistics transportation system is transferred, and the third-party logistics is handed over to Jingdong. The logistics distribution system becomes the core part of the Jingdong business system. 4) In terms of profit model, JD's expenditure on logistics system construction and advertising has increased significantly, but the main income still comes from product sales. 5) In terms of marketing model, Jingdong began to advertise on major websites, expand brand awareness, and vigorously promote activities to seize market share. 6) The powerful logistics distribution system has become the key resource and capability of JD after the first business model reform.

#### 3.2. Second Business Model Change: Open Third-Party Platform to Expand 3C Product Line to Full Product Line

Jingdong's second business model transformation involves the following changes: 1) Enterprise positioning: With the expansion of business scope, JD.com gradually opened up third-party platforms and completed the transformation from vertical e-commerce to platform-based integrated e-commerce. 2) In terms of transaction entities, the number of suppliers and downstream customers in the upper reaches of Jingdong has increased significantly, and third-party merchants have become another major customer group of JD. 3) In terms of products, JD.com's product line is gradually enriched, and due to the further expansion of JD.com, its bargaining power with suppliers has been significantly improved, and it is able to provide customers with a complete range of products at reasonable prices. In terms of services, Jingdong is committed to providing non-differentiated standard services to protect customer rights, such as 7 days no reason to return, genuine protection, etc.; in the face of third-party merchants, Jingdong mainly provides advertising marketing services and merchants to settle in services. 4) In terms of business systems, JD.com has added a management system for third-party merchants in its original business system. 5) In terms of profit model, JD's main income is not only from the sales of self-operated products, but also from the fees for the resident fees, annual fees, advertising service fees, etc. charged to third-party merchants. The main cost comes from the construction of the logistics system, the operation and maintenance of the platform, and the procurement of inventory. 6) In terms of marketing model, Jingdong completed the transition from the staking period to the precise marketing period, and begin to use the big data, cloud computing and other technical means to accurately market customers.

7) The whole product line that can bring users one-stop shopping experience and the efficient and self-built logistics system are the key resources and capabilities of Jingdong's second business model change.

### **3.3. The Third Business Model Revolution: the Transformation to Technology-Driven Companies, Carry Out the "Fourth Industrial Revolution"**

The changes in the third business model mainly focused on: 1) Enterprise positioning: From "retailers selling products using the Internet" to "Internet companies that buy products", the transition from "retail giants" to "technical giants". 2) Sales channels: Jingdong began to force unbounded retail, no longer sticking to online retail, but trying to create an online and offline integrated shopping model, and re-layout offline retail, such as Jingdong Supermarket, 7 fresh and other brands. 3) Product service: In addition to product retailing, it launched a financial business, opened up large-scale logistics services, focused on cross-border e-commerce, rural e-commerce and other areas, while providing Jingdong cloud rental services, open artificial intelligence platform Wait. 4) Business system: In the payment link, Jingdong and WeChat cooperate in depth, and support the three parties to pay for online banking and other financial services such as "Jingdong White Bar" and "Jingdong Small Treasury"; In terms of logistics system, Jingdong's logistics business has completed the opening of third-party merchants and began to face the society, and Jingdong's vigorous development of "smart logistics" has significantly improved logistics efficiency and reduced logistics costs. 5) Profit model: JD's main income comes from its product retail, financial business, and support services for third-party merchants. The main costs are generated by technology research and development, logistics construction, platform construction and operation and maintenance, commodity procurement and inventory. 6) Marketing model: In addition to the traditional "building festival" activities, Jingdong began to exert its efforts on "Unbounded Marketing", such as the launch of "Super IP Day" and the introduction of WeChat applets. 7) After Jingdong completes the technology transformation, its key resources and capabilities will become a technical system supported by cloud, big data, AI and other self-built logistics systems.

## **4. Conclusion**

In terms of enterprise positioning, Jingdong transformed from a vertical online retailer to a comprehensive self-operated B2C e-commerce platform and then transformed into a technology-driven technology company. Jingdong's main stakeholders initially involved suppliers, distributors, third-party logistics, etc., and now include suppliers, consumers, third-party merchants, advertisers, service providers and so on. Jingdong's sales channels have expanded from online to offline. In terms of products, Jingdong's product line has expanded several times, from the expansion of electronic products to the expansion of 3C products to the entire product line. After Jingdong built its own logistics system, its customer service level has made a qualitative leap. Jingdong's initial business system includes product procurement system, product purchasing system, payment system, and customer management system. With the completion of the Jingdong logistics system, the opening of third-party platforms, logistics systems and third-party merchant management systems have also entered Jingdong's business system. In terms of profit model, JD's main income was originally derived from product sales. With the opening of third-party platforms, technical support fees, occupancy fees, and advertising fees charged to third-party merchants have also become a major revenue segment of JD. Jingdong's main expenses are logistics construction, technology research and development, product procurement and inventory, and operation and maintenance of the platform. Jingdong's marketing model has been advancing with the times, from the initial relationship marketing to active promotion to expand visibility, to precision marketing, active festivals, and complete the transformation of marketing strategies from traffic thinking to user

thinking. Jingdong's key resources and capabilities are its excellent product quality and self-built logistics system. After its completion of technological transformation, its technological output capability will also become its core competitiveness.

By combing the three business model changes of Jingdong, this paper believes that the future development trend of the self-operated B2C business model is as follows:

#### **4.1. Technology Orientation**

The core of B2C's electronic business model is to use the Internet technology to reform and upgrade the traditional retail industry. Technology is the first driving force for the development of B2C enterprises, and it is also the primary condition for the smooth development of online retail activities. Self-operated B2C enterprises need to realize technological innovations at the software and hardware level, system level and application level in the development process. Software and hardware innovations include the development and improvement of APP, iterative update of servers, etc.; the system level includes the optimization and upgrade of business systems such as information management systems and payment systems; Application-level innovations include industrial layouts in different scenarios, such as offline retailing and cross-border e-commerce.

#### **4.2. Enhance Core Competitiveness and Enhance Brand Value**

With the transformation and upgrading of consumer demand, consumers are increasingly demanding services provided by enterprises. Service throughout the whole process of product sales is an important way for customers to maintain. Self-operated B2C companies should protect product quality, maintain low prices, provide consistent and effective customer consultation, improve the quality and efficiency of logistics services, and protect consumer rights. Improve the product service delivery system, and establish a two-way communication platform through membership, customer relationship management and other means to enhance customer loyalty. Self-operated B2C companies should develop their own core competitiveness and form brand values that are different from other companies. For example, Jingdong expands its advantages in logistics, and Dangdang maintains a leading position in book types and discounts.

#### **4.3. Comprehensive Layout to Enhance Profitability**

Relying on the Internet for product retailing can no longer guarantee the follow-up development of self-operated B2C e-commerce companies. Enterprises should expand their business scope according to their own advantages, carry out industrial layout around "retail" and seek new profit points, such as advertising services, financial services, cross-border e-commerce, and rural e-commerce. At the same time, we will continue to open up the platform and actively strive for cooperation with enterprises of different types, fields and scales, and gradually form an industrial chain with complementary advantages and unique characteristics. On the one hand, self-operated B2C enterprises should strengthen internal management and reduce the operating costs of enterprises. On the one hand, they should fully cooperate with stakeholders such as suppliers and third-party logistics to reduce supply chain costs.

#### **4.4. Open Online and Offline Sales Channels**

With the disappearance of the traffic dividend and the increase in the cost of online drainage, it is no longer possible to make breakthroughs in relying solely on online sales. Self-operated B2C e-commerce companies have begun to refocus their attention on offline retail. Enterprises can break the boundaries between online and offline by closely cooperating with the physical mall, opening offline convenience stores, and opening offline private label stores. On the one hand, the use of online access to big data to explore consumer shopping needs and behaviors, guide the selection of offline store experience products, marketing activities, customer relationship

management and other activities; On the one hand, it takes advantage of the offline store experience, and the online and offline prices are consistent to stimulate customer spending.

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