

JD Logistics' Acquisition of Deppon Express: A Case Study Based on SWOT Analysis

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Abstract: JD Logistics and Deppon Express, both leading express delivery and logistics service providers in China, chose to cooperate in March 2022. While JD Logistics acquired Deppon Express, the two companies maintained independent operations. Based on JD Logistics' acquisition of Deppon Express, this paper will use SWOT analysis to analyze the operating conditions and market status of the two companies before and after the acquisition, and conclude that the strengths of the two companies after the acquisition are to make up for the shortcomings and increase the market share, the weaknesses are the uncertain profit model, and the opportunities are the changes in the logistics industry pattern and the development of green logistics. The threats include the risk of resource integration and the threat of competitors, and from this, the following suggestions are put forward for the future development of the two companies: accelerate resource integration, establish a new profit model, and accelerate the upgrading of the industrial chain.

Keywords: JD Logistics, Deppon Express, acquisition, SWOT

1. Introduction

JD logistics was established in April 2017, listed on the Hong Kong stock exchange main board in May 2021, is a leading domestic technology driven supply chain solutions and logistics service providers [1]. Deppon Express, founded in 1996, is an integrated express and logistics provider with bulk delivery as its core business. Its business involves express delivery, vehicles, warehousing and supply chains [2]. Deppon Express was officially listed on the A-share market of the Shanghai Stock Exchange on January 16, 2018 [2]. On March 11, 2022, Deppon Express issued an announcement to officially announce the strategic cooperation with JD Logistics. A 66.49 percent stake in Deppon Express will be acquired by JD Logistics. The two companies will work closely together to address cross-border, supply chain, express delivery, warehousing, and proceed to maintain independent operation of brands and teams. This paper will use SWOT analysis to analyze JD Logistics' acquisition of Deppon Express from four aspects, and put forward suggestions for the future development of the two companies. The first part of this paper describes the strengths and weaknesses of the two companies after the acquisition, the strengths are to make up for the shortcomings and increase market share, the weaknesses are the uncertain profit model; The second part describes the opportunities and threats of the two companies after the acquisition, the opportunities are the changes in the logistics industry pattern and the development of green logistics, the threats are the risk of resource integration and the threat of competitors; The third part thus puts

forward the following suggestions for the future development of the two companies: accelerating the integration of resources, establishing a new profit model, and accelerating the upgrading of the industrial chain.

2. Strengths and Weaknesses

2.1. Strengths

Prior to the Deppon acquisition, JD acquired Trans Express Group in 2020 to make up for its shortcomings in consumer and air resources. In 2022, JD Group took control of instant delivery platform Dada, supplementing logistics hubs and logistics facilities. JD Logistics is a supply chain logistics enterprise, and its advantages in the field of intelligent supply chain are very obvious [3]. In addition, Deppon has a strong advantage in the large market. With the completion of the acquisition of Deppon, JD Logistics has acquired more comprehensive logistics service capabilities, and JD's logistics landscape has been completed: its business puzzle will cover upstream logistics operations, express, express and instant delivery. This is a targeted supplement for JD, which greatly makes up for the weak links in trunk transportation and network coverage, meaning that JD makes up for the weak links in the field of our transportation and heavy cargo transportation, further expands the express business, and further consolidates and strengthens its comprehensive logistics service capabilities.

For logistics enterprises, a smooth, efficient, balanced and stable network is the core resource to obtain customers, continue operation and maintain competitiveness. As of December 31, 2022, JD Logistics has operated more than 1,500 warehouses and more than 2,000 cloud warehouses in China, with a total management area of more than 30 million square meters of warehousing network [4]. JD Logistics' operating revenue in 2022 was 137.4 billion yuan, up 31.2% year over year; of this, 89.1 billion yuan, up 50.8% year over year, or over 70%, came from external clients. At the same time, the revenue of JD Logistics integrated supply chain service in 2022 was 77.4 billion yuan, and the number of external integrated supply chain customers and the average revenue of a single customer maintained good growth. The ultimate customer service experience also drove strong growth. In 2022, the revenue of express, express and other customers reached 60 billion yuan, up 78.3% year on year. Deppon focuses on the bulk transportation market, and its customers are mainly small and medium-sized manufacturing enterprises and wholesale enterprises. As of December 31, 2022, Deppon Supply Chain has 146 warehouses across the country, with a total area of 973,300 square meters, and has provided warehousing and distribution integration services for a number of Fortune 500 companies and well-known enterprises at home and abroad. Deppon Logistics' operating revenue in 2022 will be 31.3 billion yuan, of which 20.78 billion yuan, rising 5.33% annually, or 66.21% of the total, will come from the express delivery industry. The integrated supply chain logistics service market is the core main channel of JD Logistics, and the upgrading of the supply chain will promote the upgrading of the service demand for LCL express, including the increase of the concentration of manufacturing enterprises is expected to drive the concentration of freight demand, and the pursuit of flexible supply chain system by manufacturers to drive the vehicle transportation of LCL and other demands put forward higher requirements for express [5]. In addition, from the existing business point of view, e-commerce large pieces are also incremental. For JD, its channel advantage in the field of 3C household appliances also needs to be supported by bulk logistics services. The logistics of large consumer goods has special requirements in terms of supply, transportation and service. Due to the high value of goods, once the loss is caused in the transportation process, not only the value of goods itself will be lost, but also the brand reputation and image. Therefore, the quality control in the process of storage, transportation and distribution is particularly important, which are the strengths of Deppon. It has a relatively complete network

layout, market channels, service experience and management mode. By the end of the first half of 2021, Deppon Logistics has 7,285 direct outlets, 2,668 partner outlets, 143 distribution centers, 15,524 self-operated vehicles, 2,057 trunk transportation lines and 63,700 delivery personnel in various labor modes, which can effectively supplement JD Logistics network [6]. At present, the acquisition of Deppon mainly helps JD to improve the quality of "integrated supply chain logistics," while JD provides Deppon with the most important single quantity in the era of "inner volume" of express delivery. Therefore, JD and Deppon, which have stable quality, should choose relatively independent integration modes. After JD Logistics acquired the shares of Deppon, by sharing the express network resources, the two parties further integrated the existing resources, extended the logistics operation network, and expanded the market coverage. In this way, the business volume and business income of the enterprise can be increased, the market share can be expanded, and the business development space of both parties can be promoted.

2.2. Weaknesses

Deppon shares as the domestic fast transport industry leader, itself in the fast transport industry also occupies a place. With the advent of the "Internet +" era and the rapid development of e-commerce, the express delivery industry has grown crazy-fast. Deppon Logistics, which has been taking express as its main business, gradually wants to share in the big cake of express delivery industry [7]. Therefore, Deppon Logistics has optimized the original business structure into Deppon Express since 2018, and made every effort to expand the bulk express business. According to Figure 1 and Figure 2, from 2018 to 2020, the company's operating revenue was 23.25 billion yuan, 25.922 billion yuan and 27.503 billion yuan respectively, with performance growth rates of 13.15%, 12.58% and 6.10% respectively, showing a downward trend year by year. Among them, the decline in the express sector is particularly obvious. From 2018 to 2020, the revenue of Deppon's express business was 11.206 billion yuan, 14.667 billion yuan and 10.082 billion yuan, respectively, with year-on-year growth rates of -13.76%, 28.69% and -6.5%, respectively. In 2021 before the acquisition, due to the increasing competition in the industry and the influence of many factors, Deppon's performance decline was further amplified. Deppon shares the annual business income is 31.359 billion yuan, achieved year-on-year growth of 14.02% [8].

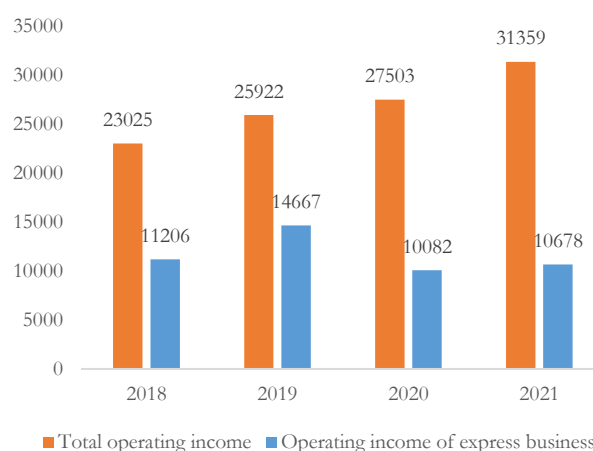


Figure 1: Analysis of Deppon Express's 2018-2021 revenue.

Data source: China Logistics and Procurement: Y Xi (2022) JD Logistics acquisition Deppon accelerated industry reshuffle. No.644.07(2022):34-35.

Photo credit: Original

Among them, the express business operating income of 19.733 billion yuan, rose by 18.43%; The operating revenue of express delivery business was 10.678 billion yuan, up 6.28 percent year-on-year. Deppon's operating cost in 2021 was 28.028 billion yuan, with a year-on-year growth of 15.36%. During the reporting period, the company realized net profit attributable to shareholders of listed companies was 143 million yuan, down 74.81% year-on-year; Net profit attributable to shareholders of listed companies after deducting non-recurring profits and losses was -208 million yuan, down 198.57% year-on-year. In the economic downturn environment, although the operating income of Deppon shares has a small increase, but compared with operating costs, the increase is small. At the same time, the net profit of Deppon shares fell seriously, and its development trend was closer to that of a mature enterprise in the stage of decline, with great pressure on performance. Deppon Logistics pointed out in the announcement that the decrease in performance was mainly affected by the external environment and the adjustment of internal business strategy. In terms of external environment, the overall prosperity of the macro environment declined and the intensified competition in the field of bulk transportation slowed down the growth of revenue, and the high oil price throughout the year had a negative impact on profits. Internal strategy, cost, cost stage pressure. With the increasingly fierce competition in the market, the express delivery industry has gradually grabbed the market in the field of express delivery through large express and large parcels. The high burden of operation and management costs has made Deppon gradually fall behind in the market competition in recent years. Coupled with the further impact of the epidemic, Deppon has fallen into difficulties [7]. Also in 2021, JD Logistics still did not make a profit, and its annual loss reached 15,660,732,000 yuan, which increased by 11,623,443,000 yuan compared with the previous year, with a year-on-year growth of 287.90%. For JD Logistics and Deppon Shares, after the acquisition is completed, what kind of profit model to use, how to quickly enhance profitability, and achieve the maximum profit target are important issues faced by shareholders and the group.

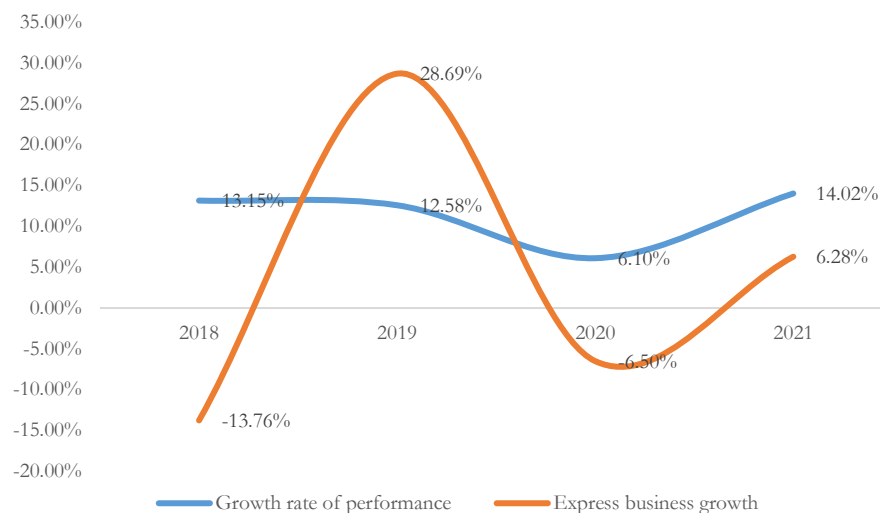


Figure 2: Analysis of Deppon Express's 2018-2021 growth rate.

Data source: China Logistics and Procurement. Y Xi. (2022). JD Logistics acquisition Deppon accelerated industry reshuffle. No.644.07(2022):34-35.

Photo credit: Original

3. Opportunities and Threats

3.1. Opportunities

The acquisition of logistics enterprises is the need of the development of logistics function from single to diversified. It is an important means to adjust the industrial structure and optimize the allocation of industrial resources by using the market mechanism. According to Figure 3, although, the price war from 2017 to 2019 has promoted the integration of logistics enterprises, so that the market concentration is further increased [9]. However, in 2020, new logistics enterprises such as Jitu and Fengwang entered the market, which led to the further intensification of the price war in the logistics industry and the decline of market concentration once again. In the fierce price war, the phenomenon of vicious low-price competition and uneven service quality of enterprises in the logistics industry is in urgent need of change. Following the acquisition of Kerry Logistics by S.F in 2020 and the acquisition of Best Group's domestic business by Jitu in 2021, JD Logistics' acquisition of Deppon Express has accelerated the process of logistics industry integration, increased the speed of non-standard small and medium-sized enterprises to exit the logistics market, and promoted the standardization of logistics industry operation and management.

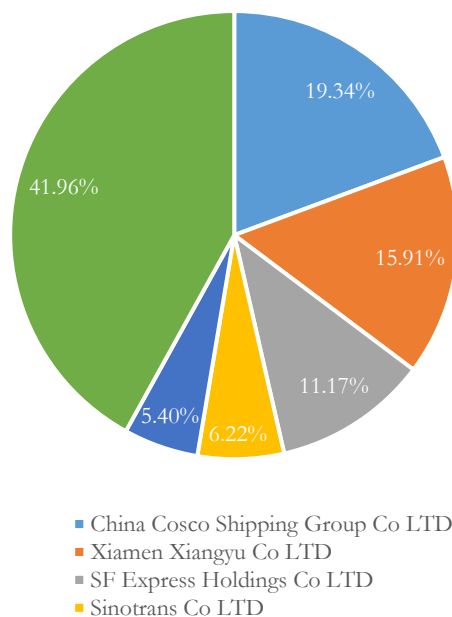


Figure 3: Market share of major listed companies in China's logistics industry.
Data source: The Forward-looking Economist, 2022. "Industry Depth" Insight 2022: Competitive landscape and Market Share of China's logistics industry (with market concentration, enterprise competitiveness evaluation, etc.).

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As a company committed to creating maximum value for the society, a sense of social responsibility has long been deeply branded in the genes of JD Logistics. Combined with the concept of sustainable development and based on its own development practice, JD Logistics puts forward the concept and action direction of environmental, social and economic sustainable

development. To meet the goal of halving carbon emissions by 2030, JD Logistics will take measures in multiple areas. Gradually replace the traditional fuel van with new energy logistics vehicles, in-depth layout of the "green road; Through the layout of distributed photovoltaic power generation system on the roof, vigorously promote the application of solar energy and other renewable energy sources in logistics premises. In reducing use of packaging material, they are committed to the use of environmentally friendly materials or renewable materials throughout the scenes and sessions; While doing our own green environmental protection work well, through technological means, they enable their partners to improve the ex-factory rate of the original packaging. While helping JD Logistics to fill the logistics territory, Deppon Shares can make use of the research results of green logistics technology of JD Logistics, through intensive resources, green packaging, green warehousing, green transportation, green distribution and other measures, establish the green consciousness of the whole people, speed up the process of green logistics practice, promote green logistics development of logistics industry.

3.2. Threats

Even if JD logistics and gravels express are proprietary type enterprise, relative has advantage in resource integration, but between different enterprises to deal with the difficulty the merger of the far won't stop there, one of them is the risk of human resources integration. After enterprise merger, there will inevitably be personnel transfer, downsizing and other conditions, on the one hand, it will cause the psychological pressure of the employees of the acquired enterprise, reduce the enthusiasm and efficiency of work; On the other hand, incomplete back-tuning may make the key talents unable to make full use of them, and even lead to the loss of talents. After JD logistics for gravels stake, and gravels of significant changes have taken place in senior management personnel, 75% of its directors, supervisors and senior management personnel are after acquisition of departure and the change in office. However, a large number of changes in the company's senior management personnel will inevitably affect the company's operating conditions. If the integration and application of talents cannot be completed quickly, the acquisition will be counterproductive and the expected profit target of $1+1>2$ cannot be achieved. Second, is the risk of the integration of corporate culture. If the two corporate cultures fail to integrate and form a new corporate culture, it will lead to rebellious psychology among employees to a certain extent and cause trouble to the management of the enterprise. Therefore, there is a risk of resource integration in business mergers.

With the further improvement of industry concentration, service quality has gradually become the focus of industry competition. The development of the industry has gradually entered the stage of stock competition from incremental competition. The original "making the cake bigger" is gradually evolving into "grabbing more cake". The main rival JD logistics and gravels shares are known as "three Tong and One Da" Zhongtong express, Shentong express delivery, Yuantong express, YunDa express, Baishi group, Jitu express and self-operated, the main high-end logistics of Shunfeng Express [10]. From the perspective of revenue scale, JD Logistics reached 58.6 billion yuan in the first half year of 2022, Deppon's half year revenue reached 14.9 billion yuan, a total of 74.5 billion yuan, compared with SF Holding's 13.064 billion yuan in the same period, there is a big gap between the gross and net profit margin and Shunfeng Express, "Three Tong and One Da" have already made profits.

4. Conclusion

Whether the enterprise can achieve the expected profit target after the acquisition still needs long-term observation and analysis. Based on SWOT analysis, in order to further improve the effect of acquisition, the following development suggestions are put forward:

Two companies in the promotion mechanism, corporate culture, performance appraisal and other enterprise management concept, there exist certain differences need to be more management structure adjustment scheme. With the help of this integration, JD Logistics can reshuffle the management, improve the execution, and adjust the strategic direction of the enterprise to adapt to the group strategy. Through regional integration and organizational structure adjustment, they will try their best to break the bloat of organizational structure, make the organization lighter, improve the per capita efficiency of the region, and let more people participate in the front-line battle to optimize corporate governance and employee governance. Accelerate the integration of various resources, give full play to the synergistic effect, prevent the occurrence of insider control problems, and achieve efficient integration.

With the help of acquisition, the two companies should strengthen internal control and management, do a good job in due diligence analysis and asset and debt evaluation before acquisition, and avoid financial tension caused by high M&A premium; Reduce the risk of goodwill impairment, and then damage the interests of investors. Complement each other and adjust capital, better allocation of assessment management costs, to achieve economies of scale. After the acquisition, JD Logistics needs to give full play to its advantages in resources and technology, increase its market monopoly power, develop new businesses, expand new market channels, expand market share and maintain competitive advantages. Strengthen cooperation with upstream manufacturing enterprises, constantly improve the scheduling mechanism for providing transport capacity, give full play to the advantages of digital operation, cloud warehouse operation, headquarters/platform settlement, supply chain finance and other aspects, develop new standardized and digital service projects, and find new business growth points for enterprises and groups.

In a word, how to achieve the effect of "1+1>2" after the acquisition is a new test for both parties, especially JD Logistics.

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