



“New Retail” in Action – Issue 9

# China’s e-commerce players go big in brick and mortar – the case of JD Home



Asia Distribution and Retail  
Teresa Lam, Lucia Leung  
September 2017

An increasing number of e-commerce players now seek for new breakthroughs via offline retail channels. Setting up brick-and-mortar stores and deepening integration of online and offline (O2O) businesses become a key trend under the “New Retail” regime. In September last year, e-commerce food brand Three Squirrels opened its first physical store in Wuhu City, Anhui province and has attracted significant media attention. This year, more e-commerce companies especially the leading players strive to expand their offline presence and expand massively through franchising. JD.com’s JD Home (京东之家) and Alibaba’s Tmall Xiaodian (天猫小店)<sup>a</sup> are two latest examples. This article uses JD Home as a case study to illustrate the deliberate attempts of China’s e-commerce players in tapping offline business.

## JD.com to embrace brick-and-mortar strategies

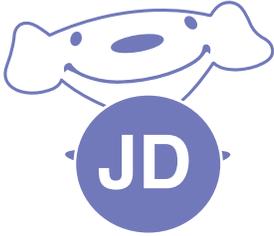
In recent years, JD.com has been actively exploring the notion of O2O integration. It has set up various types of brick-and-mortar stores in different business areas – from JD’s service and distribution centers to smart products specialty stores and convenience stores, and to the latest attempt – JD Home. Exhibit 1 shows the major offline initiatives of JD.com.



JD Home at Wal-mart, Shenzhen

Photo source: Fung Business Intelligence

<sup>a</sup> In August 2017, Alibaba Group announced to launch offline stores “Tmall Xiaodian” through franchising. Tmall Xiaodian is reportedly an intelligent shop backed by Alibaba’s B2B platform 1688.com, which provides full business service and digitalization for small retail stores in areas such as sourcing, logistics, marketing and other value-added services. All Tmall Xiaodian stores will have access to the retail intelligent system of Alibaba’s 1688 platform. Through the new retail model and Alibaba’s powerful big data capabilities, Tmall Xiaodian will enable traditional retail stores to provide products and services to consumers (B2C). Each Tmall Xiaodian store is different from one another in terms of store size and product mix. It is expected that the number of Tmall Xiaodian stores will exceed 10,000 in China during 2017 fiscal year.



## Exhibit 1. Selected major offline initiatives of JD.com

Since 2014, JD.com has started exploring the business opportunities in the physical retail sector, with a hope to provide better sales and services on both online and offline channels. Below are some of JD.com's major offline initiatives:



**JD Service Union (or Jingdong Bang) (京东服务帮)** – JD.com has opened over 1,700 county level service and distribution centers in rural areas across China since 2014<sup>1</sup>. These centers provide after-sales services such as delivery, installation and maintenance for customers.



**JD Space (京东智能娱乐体验馆)** – It is an intelligence experiential store jointly established by JD.com and Beijing Dingxing Trading Company (北京鼎兴商贸有限公司) in Solana Shopping Centre, Beijing in April 2015<sup>2</sup>. The store serves two major purposes – product exhibition and gaming. It displays over 100 types of smart products, including smart health monitoring devices, smart bracelets, smart home devices, smart watches and intelligent entertainment. Customers can scan the product QR code and purchase online. The store also features a video game area for customers to try out new games.



**JD+ Smart Milk Tea House (京东JD+智能奶茶馆)** – In May 2015, JD.com opened a JD+ Smart Milk Tea House in Beijing<sup>3</sup>. The store is operated by the “Smart Department” of JD.com. It displays smart devices and smart products of JD.com and serves as a space to launch new products, road shows, and experiments. In addition, the store also sells coffee and milk tea.



**JD Convenience stores (京东便利店)** – In April 2017, JD.com unveiled its plan to tap the convenience store sector. The company plans to open more than one million JD.com convenience stores nationwide within five years<sup>4</sup>. According to JD.com, half of the planned one million convenience stores will be opened in rural areas, and it targets to open one store in each village.



**JD Mother-and-infant Experiential Store (京东母婴体验店)** – In April 2017, JD.com also announced to open 5,000 mother-and-infant experiential stores nationwide, focusing on the tier 3 and tier 4 cities<sup>5</sup>. In the experiential stores, customers will enjoy the same prices and promotions offered online. The experiential store will also serve as a delivery center – it will deliver online orders (limited to mother-and-infant products) to customers who live within 1 km distance from the store.



**Other offline investments** – In July 2017, JD.com made a strategic investment in Qiandama (钱大妈), a fresh-produce community chain store operator<sup>6</sup>. Founded in 2012, Qiandama has over 260 community stores selling over 500 types of fresh produce.

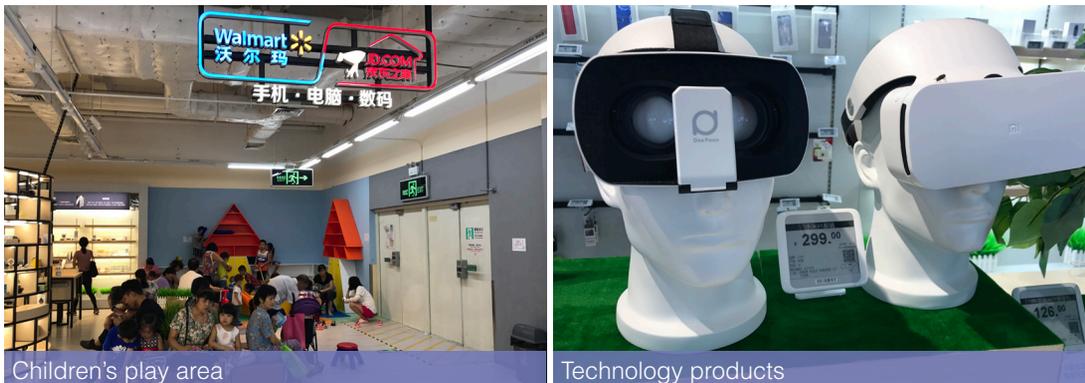
Source: Internet sources, compiled by Fung Business Intelligence

## JD Home

### Provide a “third living space” for customers

As part of its ongoing omni-channel push, JD.com set up its first JD Home store inside a Walmart store in Shenzhen in June 2017<sup>7</sup>. Positioned itself as "consumer's third living space" outside home and office, JD Home sells mainly innovative products with cutting-edge technology and “lifestyle” products designed for smart living – including mobile phones, digital products, computer and other 3C products (computers, consumer electronics and communication), home appliances, books, stationeries and other smart products. Target customers of JD Home are the post-80s and post-90s generations, who have unique and upgraded consumer demand and consumption needs.

Additionally, a children’s playing area has been added to each JD Home store to attract young family with kids.



Children's play area

Technology products

Photo source: Fung Business Intelligence

### Adopt a franchise business model

JD Home adopts a franchise business model. Under such model, the investment of each JD Home store is around 800,000 yuan, with a profit margin at around 8%<sup>8</sup>. Each store is backed by JD.com's big data, highly sophisticated supply chain capabilities, logistics and financial services. With JD.com's brand name as endorsement, franchisees will have more confidence to operate and expand their businesses. Since the opening of the first JD Home in June 2017, the number of JD Home stores has grown rapidly. According to JD.com's website, there are currently 22 JD Home stores across the country<sup>9</sup>.

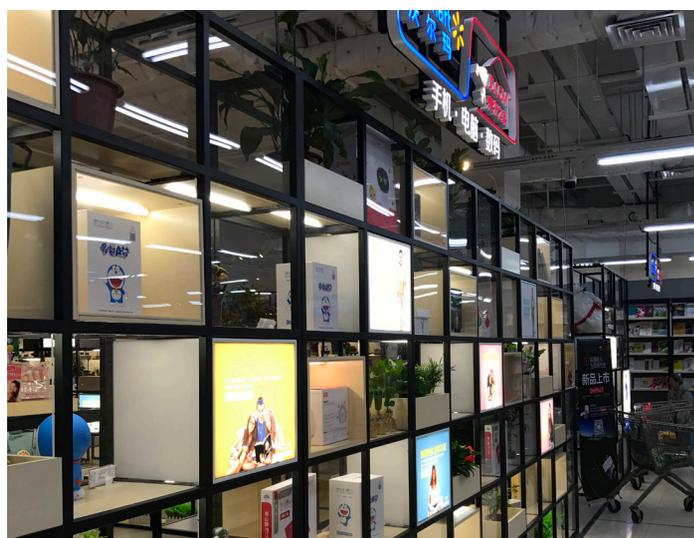
## Leverage technology to enhance shopping experience

JD Home is also referred to as “JD 3C Offline Experiential Store”. It creates new physical touch points and more customer interface for JD.com to engage directly with customers. All of the JD Home stores are equipped with cameras that can detect customer traffic, length of stay, and perform analysis to predict customers’ buying habits. When customers enter the store, the cameras will perform face detection and recognition of the customers. The system will use big data analytics to identify the persona of the customers and group them into various categories, such as "workaholic", "science and technology enthusiast", "home expert", etc. It will then show the recommended products for the customers on the screen based on the persona of the customers or their purchasing history.



Face detection camera

Photo source:  
Fung Business Intelligence



Product display area

Photo source: Fung Business Intelligence



“Hot and trendy” products

Customers can make transactions by scanning the QR code of each product. They will be directed to the related product page on JD.com. Customers can also choose to purchase the products onsite. All payments can be made by cash, credit card, or Wechat Pay.

## Unique product selection to suit the lifestyle-oriented customers

The size of a JD Home store is around 200-500 sqm and houses about 1,000 SKUs of products<sup>10</sup>. All merchandise are sourced in-house and are picked and selected based on popularity, sales volume and customers’ buying preferences in each location. The merchandise will regularly be updated based on customers’ feedback. By leveraging big data analytics, all JD Home stores are able to provide insights on category and product mix. All stores are stocked with recommended categories and optimal number of suggested displayed products.

**Box 1:**

**Who's JD Home's biggest competitor?**

Brookstone, a 3C retailer founded in the U.S. in 1965 and acquired by Chinese private conglomerate Sanpower Group in 2014, is seen as JD Home's biggest competitor. Brookstone has many similarities with JD Home, especially in product categories and business concepts. Brookstone's targeted customers are also the new millennials who were born 1980s onwards. Brookstone hopes to provide a brand-new shopping experience for customers, and each store is characterized by interactive, experience-oriented and robust shopping scenarios and. Indeed, Brookstone has come up with a slogan – "Easy Surprise" – which tells customers that they can find surprising innovations that make life easier in Brookstone.

The first Brookstone store in China was opened in Nanjing City in January 2016. Currently, there are approximately 20 flagship stores in Sanpower Group's other retail brands, including 3C retail chain Hisap and mobile phone retail chain Funtalk Telecommunications, located mainly in tier 1 and tier 2 cities such as Shanghai, Beijing, Hangzhou, Nanjing, Suzhou, Chongqing, Qingdao, etc<sup>11</sup>.



*Brookstone in Shanghai  
Photo source: Fung Business Intelligence*

## Comments and conclusions

It is clear that advancing from clicks to bricks and embracing O2O is one of the key strategies of JD.com going forward. It has achieved some initial success in its O2O push with the JD Home model – which combines the product display and experiential elements offered in the offline stores with the extensive customer reach as well as wide variety of products offered online. The franchise model also ensures scalability of JD Home.

We foresee that JD.com, as well as other leading e-commerce players will continue to deepen their offline involvement to further consolidate their vast and all-encompassing business ecosystems. The offline stores not only provide a place for customers to touch and feel the products, but also serve as essential physical touch points to generate traffic online.

Meanwhile, as Chinese shoppers nowadays continue to demand physical stores – to touch and feel, socialize and ask questions, the need for e-commerce players to launch physical customer touch points is imminent. The use of advanced technologies such as big data analytics in both the online and offline channels enables e-commerce players to provide seamless and personalized shopping experiences, thus creating a competitive edge over traditional retailers.

Going ahead, we expect to see leading e-commerce players to come up with more new O2O initiatives and innovative business models, which would be beneficial to their long-term growth.

## References

1 "JD Service Union", JD.com, 31 October 2016.

<https://www.jd.com/news.aspx?id=31158>

2 Description on JD Space, Beijing Dingxing Trading Co.

[http://shop.topct.cn/index.php/article-zhinengtiyanguan\\_jdspacetiyanzhinengyulehulianwangshidaio2oxinmoshi-i-50.html](http://shop.topct.cn/index.php/article-zhinengtiyanguan_jdspacetiyanzhinengyulehulianwangshidaio2oxinmoshi-i-50.html)

3 "JD+ Milk Tea House", JD.com, 8 May 2015.

<https://www.jd.com/news.aspx?id=24217>

4 "JD Convenience Store", JD.com, 11 April 2017.

<http://mjbbs.jd.com/thread-78982-1-1.html>

5 "JD.com to launch 5,000 JD Mother-and-infant Experiential Stores in 3 years' time", China New.com, 11 April 2017.

<http://www.chinanews.com/it/2017/04-11/8195996.shtml>

6 "JD.com behind Qiandama produce chain investment", Inside Retail Asia, 6 July 2017.

<https://insideretail.asia/2017/07/06/jd-com-behind-qiandama-produce-chain-investment/>

7 "Walmart and JD.com Expand Strategic Cooperation: Companies to further integrate platforms, supply chains, and customer resources, and launch the first annual JD-Walmart August 8th shopping festival", JD.com, 25 July 2017.

<http://ir.jd.com/phoenix.zhtml?c=253315&p=irol-newsArticle&ID=2288419>

8 "14,800 SKUs at JD Home", Retail-observer, 15 August 2017.

<https://mp.weixin.qq.com/s/FDoUkCmroGCy-z-xjmlHfg>

9 "Xiaomi and JD.Home's New Retail strategies", Linkshop, 19 September 2017.

<http://www.linkshop.com.cn/web/archives/2017/387364.shtml>

10 "14,800 SKUs at JD Home", Retail-observer, 15 August 2017.

<https://mp.weixin.qq.com/s/FDoUkCmroGCy-z-xjmlHfg>

11 "3C Product Chain of Sanpower Group", Sanpower Group.

[http://en.sanpowergroup.com/content/details\\_39\\_521.html](http://en.sanpowergroup.com/content/details_39_521.html)

# “New Retail” in action series:



Issue 1:  
Alibaba proposes to privatize Intime Retail Group – Key highlights and takeaways

Issue 2:  
Alibaba, Bailian Group Announced New Retail Strategic Partnership - Key highlights and takeaways



Issue 3:  
Alibaba buys stake in Lianhua Supermarket

Issue 4:  
Bingo Box - The revolutionary unmanned convenience store



Issue 5:  
Rainbow Department Store - Pioneer of “New Retail” and an O2O retail enterprise through active transformation

Issue 6:  
Going “fresh” and “experiential” Part 1: Overview



Issue 7:  
Going “fresh” and “experiential” Part 2: Hema Xiansheng - leading the O2O revolution in fresh produce

Issue 8:  
Going “fresh” and “experiential” Part 3: RISO of Bailian Group – pioneering the future store concept



Issue 9:  
China’s e-commerce players go big in brick and mortar – the case of JD Home

## Contacts

### Asia Distribution and Retail

Teresa Lam  
Vice President  
E: [teresalam@fung1937.com](mailto:teresalam@fung1937.com)

Lucia Leung  
Research Manager  
E: [lucialeung@fung1937.com](mailto:lucialeung@fung1937.com)

Fung Business Intelligence  
10/F LiFung Tower  
888 Cheung Sha Wan Road  
Kowloon, Hong Kong  
T: (852) 2300 2470  
F: (852) 2635 1598  
E: [fbicgroup@fung1937.com](mailto:fbicgroup@fung1937.com)



© Copyright 2017 The Fung Business Intelligence. All rights reserved. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Though the Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of the Fung Business Intelligence is prohibited.