

Analysis of JD.com's Acquisition of Deppon

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Abstract. Nowadays, logistics industry is a valid role in the economic growth. In the dissertation, JD.com's and Deppon acquisition will be the typical example in the company acquisition. The aim of this dissertation is to analyse whether the acquisition is successful through the comparison of financial data and historical data before and after the acquisition. This will help the acquisition of companies in the future. This dissertation will provide the background of two of the companies. That will make a better understanding of the two companies and the acquisition process. Then, according to the financial data and historical data to analyse the acquisition of JD.com's and Deppon. Some following suggestions will be given which focus on the future acquisitions, the aim of the dissertation is to help the future similar acquisitions, give them some relative suggestions.

Keywords: logistics industry, JD.com's, Deppon, acquisition.

1. Introduction

Firstly, a question is posed: what is meant by logistics? The term logistics includes transport, distribution, storage management, packaging and others. With the rapid development of the social economy and the continuous improvement of the people's consumption level, the total amount of social logistics and the total cost required for social logistics in China have increased by leaps and bounds, and the logistics industry is in a steady upward stage. Nowadays, acquisitions and mergers in the logistics industry are becoming more and more frequent. In March 2022, Deppon Logistics Co., Ltd. issued an announcement on the stock exchange, announcing that Jingdong had acquired 66.4965 per cent of its shares at a price of 8.979 billion yuan. In July 2023, Jingdong Logistics announced that it had completed the purchase of Deppon's controlling stake, and that Deppon had become a subsidiary of Jingdong Logistics [1].

Nowadays, China's economy has transformed into a high-quality development situation. The logistics industry is an essential part of China's economic development [2]. Currently, the logistics industry is facing very strong competitive pressure due to the very large number of logistics companies on the market. Also based on the current development of technology, according to research, the comparison between the number of traditional delivery workers in logistics industry when it was just established and present, there is a very big trend change. In summary, the demand for traditional delivery workers is now less and less because they are replaced by the technology such as the popularity of smart containers [3]. There are several logistics companies in the market that are self-managed model, but also need to pay attention to the importance of outsourcing logistics to the enterprise, they should change the traditional ideology and business model, and set up the concept of third-party logistics [4]. It is also necessary to choose the third-party logistics provider carefully, focusing on the input indicators, ability indicators, and compatibility indicators of the third-party logistics provider [5]. By analysing the law of development of the logistics industry, the keys of development are divided into three parts. The first is the development strategy of the enterprise, the second is the logistics cultivation ability of the relevant enterprise, and the third is the new logistics modernisation technology as well as the specialisation of the logistics service and other various factors [6].

Overall, the logistics sector has grown to become an essential part of modern living. More and more Chinese companies are going public as the logistics sector expands. An increasing number of logistics organizations on the market have chosen to merge and acquire other logistics companies in

order to be able to manage the business better. To analyse acquisitions in the logistics sector, this dissertation uses Jingdong's acquisition of Deppon as a case study. The acquisition's benefits and drawbacks will be discussed. Furthermore, based on the study, this dissertation will provide suggestions for the logistics sector's future growth in the hopes that it will operate successfully.

2. Industry analysis

2.1. Current status of operations

The current state of the logistics industry can be described through three perspectives. The first is the size of the logistics industry, the second is the problem of logistics and transport, and the last is the competition in the logistics industry.

2.1.1. The overall scale of the logistics industry is expanding

With the development of China's economy and the continuous improvement of the people's consumption level, the total amount of social logistics and the total cost of social logistics in China have been increasing year by year, and the overall logistics industry is in an upward stage and the overall operational efficiency is improving [7].

2.1.2. The LTL logistics industry is fragmented with increasing market concentration

With the continuous development of domestic e-commerce, the logistics industry's demand for LTL logistics has increased significantly. LTL refers to the fact that when the goods to be transported are less than one truckload, in order to reduce transport costs, companies will consolidate the whole truckload before transporting. China's LTL freight market has low barriers to entry but high barriers to growth, resulting in a large number of LTL companies, small scale, slow development of most companies, and only a handful of large LTL companies [8].

2.1.3. Market competition is becoming increasingly fierce

With the continuous expansion of the scale of express business, the logistics industry market competition is also becoming increasingly fierce. Courier companies how to improve service quality, ensure service efficiency, reduce costs and capture the market is the current express logistics industry is facing a huge challenge.

2.1.4. Research of Jingdong and Deppon logistics

Overall, it seems that Jingdong Logistics and Deppon have increased business penetration in warehousing, supply chain as well as science and technology, while the new management is in place for finer control and stricter cost control than before, and has entered a period of cost reduction and efficiency enhancement to cash in. Deppon's comprehensive layout of diversified business in 2022 and the strong alliance with Jingdong Logistics has improved the overall efficiency and laid a solid foundation for the company's long-term development.

2.2. Company profiles

2.2.1. JD.com's

Jingdong is the largest self-operated e-commerce company in China. Jingdong Mall is the larger 3C online shopping professional platform in China's B2C market and is one of the popular and influential e-commerce websites in China's e-commerce field. It is China's largest online shopping mall for computers, digital communications and home appliances. When it comes to online shopping, there are platforms that most people will think of at first.

2.2.2. Deppon

Deppon started with express business and quickly captured the market, becoming a leading enterprise in the domestic LTL industry. The company's business scope covers all provincial administrative regions in China, and it has large-scale cargo transit bases in more than 20 economic

centre cities across the country. Deppon is the first IPO logistics enterprise in China and is known as the "King of LTL".

2.3. Motivation for the acquisition

Deppon started its business with express transport and quickly captured the market, becoming the leading enterprise in the domestic LTL industry. However, with the rise of large e-commerce, LTL has gradually become a hot new logistics track. Deppon also fell into growth difficulties under many pressures.

Jingdong Logistics hopes to be able to supplement the short board of Jingdong Logistics, and putting aside the decline in Deppon's performance, Deppon Express's existing business model and business foundation are able to make up for the short board of the development of Jingdong Logistics, improve the efficiency of product delivery, strengthen the cooperative relationship with suppliers, and improve the competitiveness of the market of e-commerce. Jingdong has been committed to building an efficient self-owned logistics system, and the acquisition of Deppon is to improve the quality of courier services and open up the market for self-owned logistics business. This acquisition is also a move for Jingdong to continue to expand its business in logistics, which helps Jingdong to occupy a more advantageous position in the E-commerce retail market.

The acquisition, the strong combination of Jingdong and Deppon can provide more logistics resources, not only to improve the efficiency of logistics, but also to introduce more preferential policies and services to provide consumers with a better shopping experience. At the same time, the use of the existing network of Deppon, Jingdong self-owned logistics services will achieve national coverage, massive express orders will welcome practical solutions.

In addition to improving the quality and advantages of its own logistics services, Jingdong will further deepen its co-operation with its supply chain and manufacturers. This acquisition of Deppon is also achieved on the basis of more possible future cooperation in the future, which is of great significance for Jingdong to optimise its supply chain, reduce costs and improve its competitiveness in the market. Through this acquisition of Deppon, Jingdong is expanding its own business while also securing more business potential in the future.

In summary, through the acquisition of Deppon, Jingdong has achieved the purpose of optimising its own logistics, and laid a good foundation for future expansion of the regional market and improving market competitiveness. In addition, it is also an important step for Jingdong to build a globalised supply chain service, signifying that Jingdong is moving towards a broader development space [9]-[12].

2.4. Process of the acquisition

Deppon Express issued a reminder and resumption of trading announcement on the evening of 11 March 2022 regarding the controlling shareholder's planning for a change of control. Suqian Jingdong Zhuofeng Enterprise Management Co., Ltd, which is actually controlled by Jingdong Logistics, indirectly held 66.49% of Deppon's shares by acquiring the vast majority of the equity of Deppon Investment Holding Co., Ltd, the controlling shareholder of Deppon, through a cash acquisition in Ningbo Meishan Bonded Port Zone. The two sides will carry out in-depth cooperation in the fields of express delivery, express transport, cross-border and supply chain, etc. On 27 July, Jingdong Logistics announced that it had completed the acquisition of the equity interests of Deppon Holdings and became the indirect controlling shareholder of Deppon.

As the first logistics company in China, Deppon, known as the "king of LTL", is now on the road to being acquired. Nearly 90 The transaction price of nearly 9 billion yuan, the largest merger and acquisition amount in the express industry. This acquisition is another integration of industry resources after the acquisition of Best Express by Jiefu Express, which will have a far-reaching impact on the logistics industry!

3. Data analysis

3.1.Data comparison before and after the acquisition

3.1.1. Financial data

When analysing the merger and acquisition of two companies, the financial data of both is extremely important. Especially Revenue is significant for the company, so this dissertation will be analysing the change in revenue before and after the acquisition.

Table 1. Income statement of JD.com's. (in ,000 CNY)

Reporting date	2022/6/29	2022/9/29	2022/12/30	2023/3/30
Total revenue	267,600,000	243,535,000	295,446,000	242,956,000
Cost of revenue	231,706,000	207,339,000	253,909,000	206,938,000
Gross profit	35,894,000	36,196,000	41,537,000	36,018,000

Deppon Logistics Co., LTD was acquired by JD.com's on 26 July in 2022. It can be seen in the Table. 1, the gross profit of JD shows a stable developing trend. Especially in the fourth quarter of 2022, there was a large increasing in total revenue with an increasing in cost of revenue.

Table 2. Income statement of Deppon Logistics Co., LTD. (in ,000 CNY)

Reporting date	2022/6/29	2022/9/29	2022/12/30	2023/3/30
Total revenue	7,781,321	8,015,224	8,574,871	7,417,443
Cost of revenue	6,964,866	6,848,663	7,993,667	6,862,841
Gross profit	816,456	1,166,562	581,204	554,602

In Table. 2, it is observed that Deppon Logistics Co., LTD's total revenue is on an upward trend in the last three quarters of 2022. But in the first quarter of 2023, the total revenue decreased compared to the previous quarter. In particular, in the third quarter of 2022, gross profit reached CNY 1,166,562,000 as a result of the acquisition by JD.com's.

3.1.2. Historical data

Historical data trend figure shows the historical stock prices and volumes of a company. therefore, this dissertation wants to investigate whether the prices of JD.com's and Deppon Logistics Co., LTD stock changed before and after the acquisition. The partnership between the two companies was announced on 11 March 2022, and according to data from February to March 2022, many shareholders were in favour of the merger [13].

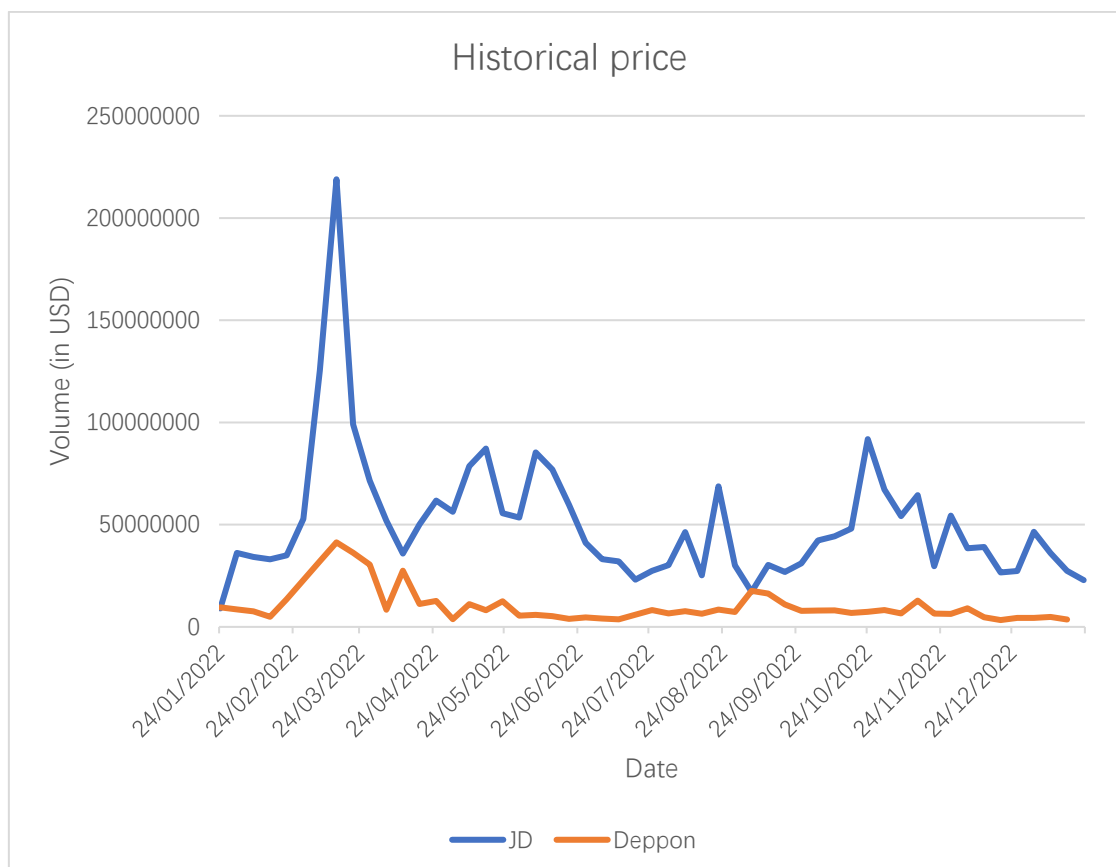


Figure 1. Historical price of JD.com's and Deppon Logistics Co., LTD.

Firstly, focus on the period around 24 July 2022 in Figure. 1 for Deppon. Before 24 July, the price of Deppon is generally showing an unstable and downward trend. But after 24 July, the price is showing a more stable trend. Next, look at JD around 24 July 2022. The price of JD has been an unstable one, with ups and downs. For the acquisition of Deppon for the price of JD shares has not changed much.

3.2. Discussion

All in all, the acquisition of Deppon by Jingdong is a case of successful acquisition. The two companies present a complementary state, with Jingdong acquiring Deppon in order to make up for the lack of labour, and Deppon being acquired by Jingdong in order to continue to survive, which simply means to make a profit. According to the data analysis of JD's acquisition of Deppon, it was an improvement in revenue for both companies, which was especially noticeable in the first quarter after the acquisition. In terms of total revenue, the acquisition was a success. However, in terms of historical data, it did not bring a big change for both companies. But the fluctuation of the historical data can show that the shareholders were optimistic of the acquisition.

When the aura of "king of LTL" dimmed with the rapid development of the market, Deppon needs a larger adjustment to improve business volume and financial data, and the acquisition of Deppon by Jingdong will achieve a win-win situation for both sides. Yu Rui, CEO of Jingdong Logistics, said that after the acquisition of Deppon brand will be retained, and as an A-share listed company to maintain independent operations. After the completion of the acquisition, Deppon's advantages in the field of large courier and express transportation will improve the business layout of Jingdong Logistics and increase the degree of socialisation of Jingdong Logistics. And Jingdong Logistics in technology, supply chain solutions, business insights and other aspects of the advantages will help Deppon effectively penetrate into the integrated supply chain logistics services, enhance the comprehensive operational efficiency. Therefore, this merger and acquisition for both parties have

certain strategic significance, further enhance the concentration of the industry, is conducive to the high-quality development of the logistics industry.

3.3.Suggestion

According to the acquisition of Deppon by Jingdong is a successful case of acquisition, this dissertation would like to give some suggestions of the similar acquisition in the future. For JD.com's acquired Deppon, it is similar to a strong merger and acquisition, Deppon is under the Jingdong's banner, which increases the efficiency of express transport. For the next acquisition of the company, the company has to pay attention to the following issues: firstly, the corporate performance of the target company, which is very important because the cost of acquiring a company is very high, which means that the cost of production has increased, so in order to minimise the cost of production, it should choose a company with high productivity. However, if the target company happens to complement the needs of their own company, for example, JD.com's happens to need more labour to run the company, even if Deppon Logistics was in a long-term deficit at the time, the acquisition of Deppon Logistics could still help Jingdong operate better; Secondly, the acquisition process has to take into account what the target company needs the most, and it just so happens that your own company can provide these things, so that the acquisition will be easier, and also it will reduce a lot of wasted time and financial losses when negotiating acquisition terms; Lastly, it is the shareholders that have to be taken into consideration because acquiring a company requires a lot of capital and the shareholders are the source of raising the capital, so the acquisition has to be convincing to the shareholders.

4. Conclusion

This dissertation analyses and summarises previous research on the logistics industry, mergers and acquisitions, and the acquisition of Deppon by Jingdong. The next step is to analyse the data obtained from the database, including financial data and historical data, and make charts and graphs for research and analysis. And concluded that the acquisition of Deppon by Jingdong is a successful acquisition case, which is similar to a strong co-operation. Finally, by analysing the research, this thesis gives some acquisition suggestions for future companies with similar acquisitions, and hopefully these can be useful for them. However, there are many limitations in this research. Firstly, it did not analyse the financial data comprehensively, only the part of income statement was analysed, which is definitely far from enough. Therefore, if there is another opportunity to do this study in the future, it would be better to build a model to analyse the study.

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