Analysis of JD Logistics Acquisition of Deppon Express

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Abstract. With the rapid development of the Internet economy, logistics has fully penetrated all aspects of human beings' lives, and many logistics companies occupy the logistics market. To cope with market changes and for other reasons, many companies choose the way of acquisition. Since 2014, China's logistics enterprises have mushroomed, forcing enterprises to restructure and acquire. The policy environment created by the government also encourages enterprises to make acquisitions to achieve the optimal allocation of market resources. This study will take the acquisition of Deppon Express by JD Logistics as an example, describe the entire acquisition event, and analyze whether the acquisition is successful by combining the existing triple risks and corporate performance. Based on the research content, it is found that the acquisition is beneficial and brings broad development prospects to the logistics market, but the acquisition also brings risks, and JD Logistics faces the pressure of accounts receivable in the performance of the company. Therefore, enterprises should evaluate the risks in advance and make reasonable decisions.

Keywords: Enterprise acquisition, acquisition motivation, acquisition risk, corporate performance.

1. Introduction

China's network marketing development momentum is unstoppable, from 1998 began to appear in China's business transaction websites, to 2000 the number of websites has reached more than 1,100, IDC estimates that by 2003 China's online transaction volume reached 3.8 billion US dollars. Network marketing will become an important economic growth point in the new century, which is closely related to the development of logistics [1]. As a service industry of the national economy, the logistics industry is responsible for the efficiency and quality of the operation of the entire national economic system. Actively promote the formation of logistics industry service integration, in order to effectively serve the majority of customers, timely delivery of goods to the required areas. The current logistics system is not yet perfect, and a unified service integration situation has not been established, so it is very necessary to reintegrate the value chain by sharing information and resources [2]. Enterprise acquisition improves the scale and popularity of enterprises, enhances the influence of enterprises and attracts high-end talents, and can also bring small enterprises a broader perspective and long-term innovation and development concept, and use more scientific and effective management methods, especially in the level of operation and finance, to promote more abundant cash flow of enterprises [3]. At present, there are a lot of acquisition cases of domestic logistics enterprises, such as SF Express's acquisition of Kerry Logistics.

Through the acquisition, SF Express further improves its ability of integrated logistics solutions, complements international freight forwarding and further improves the strategic layout of international business. It also realizes better business development of both sides by sharing rich and high-quality customer resources and cross-selling [4]. Another example is the acquisition of Best by Polar Rabbit. Faced with difficulties in the acquisition, in order to realize the overall value of the enterprise "1+1>2", Polar Rabbit is also trying to find ways to integrate the advantages of Best, from the rich offline resources of Best to the relationship between it and Ali, hoping to integrate the resources of both sides, expand synergies and enhance the economic effect of the enterprise through this acquisition [5]. Based on the above two examples, existing studies on acquisition in the logistics industry mainly focus on motivation, acquisition risk, countermeasures and performance separately, but it is also a topic worth discussing to judge the success of acquisition comprehensively. The significance of this study is to update the theory of logistics enterprise acquisition and provide reference for enterprises and other researchers through effective case analysis.

The study will take the acquisition of Deppon Express by JD Logistics as the theme, and comprehensively judge whether it is a successful acquisition from the beginning and end of the acquisition event, the reasons for the acquisition, the risks and countermeasures faced by JD Logistics in the acquisition, and the performance analysis of JD Logistics before and after the acquisition.

2. Basic Information

JD Logistics is one of the six major subsidiaries of JD Group. JD Logistics Group was officially established in 2017 and officially listed on the Hong Kong Stock Exchange in May 2021. Focusing on FGM, apparel, automotive and other industries, JD Logistics Group mainly provides integrated logistics services and customized supply chain services, and its business volume mainly comes from self-owned orders of JD Mall. Among the many players in China's supply chain logistics, JD Logistics is far ahead in scale.

Deppon Express is a logistics company founded in 1996 and officially listed on the Shanghai Stock Exchange in 2018. Deppon's core business is bulky cargo, and it has become a leader in domestic bulky express transportation, and provides services such as cold chain transportation, general cargo transportation, warehousing and supply chain. In the development of Deppon Logistics for more than 20 years, it has experienced two transformations, and has continuously formed a broad logistics network in the whole of China.

In March 2022, Deppon issued an announcement to be acquired by JD Logistics. It took only four months from the beginning to the end of the acquisition transaction, and JD Logistics finally acquired 66.5% of Deppon's shares at 8.976 billion yuan. With the influence of Deppon and JD Logistics in the logistics market, "Jingdabang" can be said to be a win-win project.

3. Acquisition Motivation Analysis

JD Logistics chose to acquire Deppon Express reasons are giving as following. industry competition is fierce, external pressure increased. With the rapid development of network economy, logistics enterprises such as ZTO, Post have gradually saturated the logistics market. Consumers' standards for express delivery are increasing day by day, which also drives logistics companies to urgently improve their competitiveness. JD Logistics needs to deal with strong rivals and win more opportunities, and choosing acquisition can help JD Logistics consolidate its market share and scale on the basis of reducing competitors. The need for new technologies and human resources. Technology is the core productivity of an enterprise to obtain new technology and realize the optimal allocation of resources. It can enhance the right of discourse of enterprises in the market, which is an important means to improve the strength of enterprises. At present, large logistics companies have to make use of the global information network to get the most reasonable allocation of resources. In the case of shortage of senior logistics talents, logistics enterprises can optimize human resources and customer resources and complement each other through merger and integration. On the other hand, if more talents join the company, it can maintain the competitive advantage of talents and effectively integrate the human resources and customer resources of logistics enterprises. On the one hand, it can provide the original customers with higher quality services, on the other hand, it can reduce the cost of customer development and realize the optimization effect of the integration of customer resources and market resources [6]. Beisdes, it can expand business scope and improve business safety. JD Logistics itself has a stable customer base and a huge logistics scale, but it also faces the disadvantages of shortening the expansion ceiling, high operating costs, and low distribution in second - or third-tier cities. The distribution rate of Deppon Express in China's county is as high as 98%, and the acquisition can expand the logistics coverage area for JD Logistics and bring new business. In addition, the machinery and equipment, manpower and reputation brought by Deppon can effectively reduce the operating risks of JD Logistics.

The reason for the acquisition of Deppon Logistics are demonstrated as following. Deppon Logistics itself is no longer obvious, and lacks flexibility to a certain extent. At the time of listing, Deppon Logistics rose to become a leader in logistics with less carload shipping, favorable prices, wide distribution of logistics warehouses and large shipments. In September 2019, the reporter met Miu Yan, secretary of the board of directors who had been in office for just six months, at the headquarters of Deppon Shares. At that time, he also explained to reporters the decline in the first half of the situation and the future profit outlook. Miu Yan said at the time that the reason behind the drop in profits in the first half of 2019 was costs. He explained that in the past, express delivery companies will cut production capacity in the off-season, and there will be insufficient capacity in the peak season[7]. It shows the problems in Deppon's management. Secondly, Deppon Express has been committed to the field of large parcel delivery, and mainly uses road transportation, which makes Deppon may face transportation inefficiency, long time or weather disasters and other unexpected situations. In general, the advantages of Deppon Express are not enough to attract consumers compared with its competitors, and the overall market competitiveness is declining.

4. Risks and Countermeasures in the Process of Acquisition

4.1. Risk

Financing risk refers to the capital risk caused by shortage of funds or unreasonable capital structure in M&A activities. Financial integration refers to certain uncertainties in the finance, management and personnel involved in the merger, and the company's business control planning and integration occur after the merger [8]. Sufficient funds are the key to the successful completion of the entire acquisition, and financing mainly considers the profitability level and asset liability structure of JD Logistics. In the fourth quarter of 2021, JD Logistics' total operating income is 104.7 billion yuan, and the asset-liability ratio is 47.4%, which is relatively stable compared with the previous quarter, and JD Logistics may face a certain degree of small financing risk. Secondly, Deppon is self-operated, JD Logistics belongs to JD Group and Deppon is not the same, so there may be differences in development strategy and business expectations after the acquisition.

The risk refers to the risk of corporate profit decline or reputation damage caused by vagueness of legal rules, negligence of legal review and evasion of legal supervision in the acquisition. JD Logistics may face a lot of complicated legal regulations in the process of acquisition. In the process of merging the information, resources and various data of the two parties, it will not only face cross-regional data flow restrictions, but also need to solve the legal differences in different regions. In the review, the acquisition cost will rise due to difficulties that cannot be predicted in advance.

The acquisition process requires executives to integrate the two cultures' values, ways of working, and employee expectations, and then devise a cultural integration plan that incorporates best practices to address employee unease and resistance. Acquisitions are often accompanied by structural adjustment and management changes, which have a significant impact on the psychological stability and career development prospects of employees, and the sense of uncertainty and instability is also an important reason for brain drain [9].

4.2. Countermeasures

To solve the issues mentioned above, reasonable choice of financing channels are necessary. Before raising funds, JD Logistics should establish a correct concept of financing, compare various financing methods, determine a reasonable financing range and the maximum amount of funds for this acquisition by combining the company's balance sheet and cash flow statement, optimize the structure of the internal department responsible for managing working capital. Considering that the enterprise may increase the asset-liability ratio or deal with other financial risks during the financing process, it is necessary to design a financing mechanism that can minimize the cost and expenditure, improve the utilization rate of funds and risk prediction.

Regulatory reviews typically focus on whether a deal harms market competition, whether there are antitrust issues, and whether the post-transaction company abuses its dominant market position. Therefore, JD Logistics wants to ensure that the transaction complies with the law. The formulation of the acquisition plan should be actively communicated with the regulatory authorities. Enterprises should demonstrate through detailed market analysis and legal judgment that it will not have a negative impact on market competition. To help regulatory approval, improve the success rate of the entire transaction.

The acquisition process requires a clear understanding of and respect for the values, ways of working and expectations of employees of both cultures at the top of the acquiring company. Subsequently, a cultural integration program is designed to incorporate best practices, including establishing shared values, and easing restlessness and resistance through transparent communication and employee engagement. Pragmatic training and internal communication strategies should be developed to support the process of cultural integration and ensure that the outcome of the merger is not compromised by cultural collisions. Through well-planned cultural integration, enterprises can enhance internal synergy, ensure the smooth operation of the acquired organization, and then achieve long-term strategic goals. Building a fair and attractive incentive system can enhance employee loyalty and work enthusiasm, thus reducing the possibility of talent mobility. This mechanism is not just a simple pile of financial incentives, but needs a deeper understanding of the needs and motivations of employees, and on this basis to design a diversified incentive program. This includes, but is not limited to, competitive compensation structures, equity incentives, career development plans, and personalized training and development programs. In terms of non-material incentives, a recognition culture should be built to ensure that employees' efforts and achievements are recognized and appreciated by the company [9].

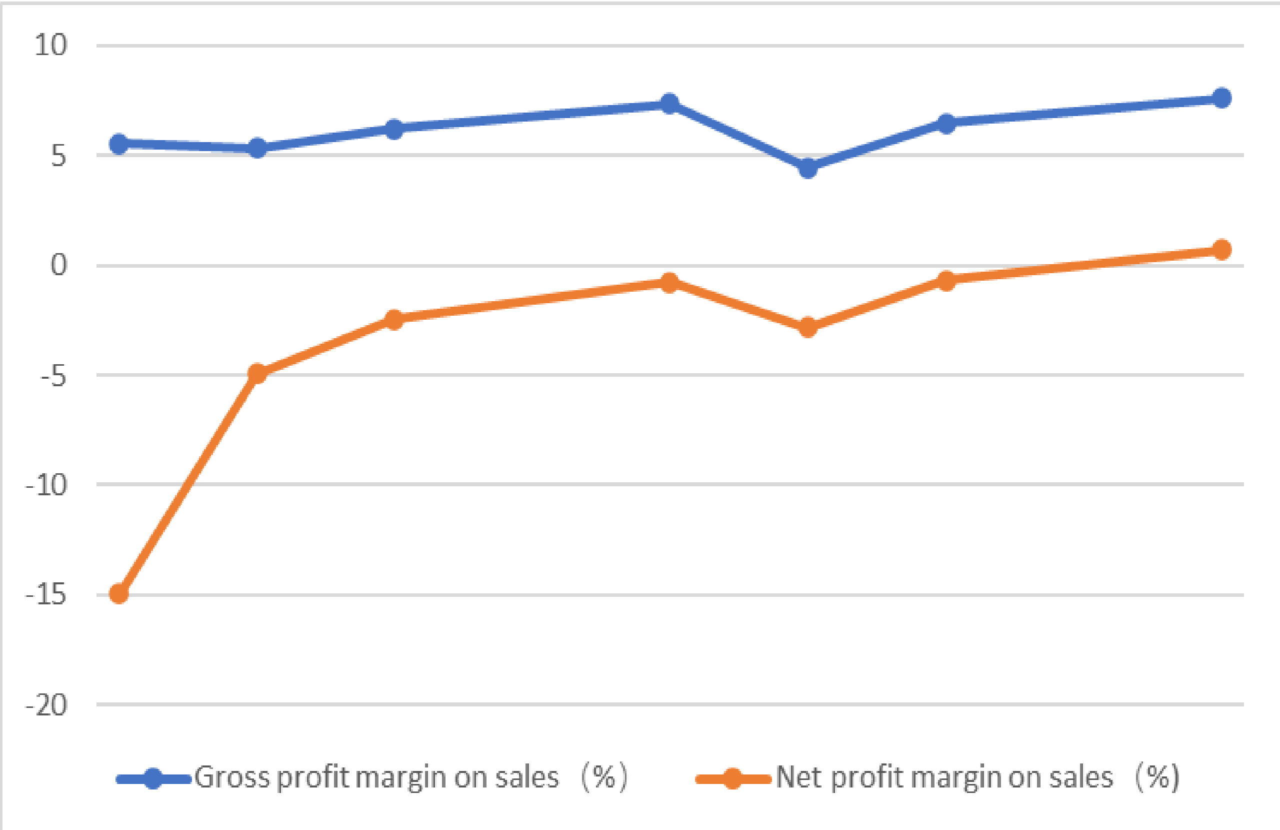

Fig. 1 JD Logistics sales gross margin and sales net margin from December 31, 2021 to December 31, 2023.

5. Performance Analysis

5.1. Profitability Analysis

Profitability can directly reflect the amount of income, profit level and business status of an enterprise in a period of time. Seen from Table 1 and Fig. 1, the fourth quarter of 2021 to the first quarter of 2022, JD Logistics' gross profit margin on sales increased, and net profit margin on sales decreased by nearly 15%. After the two indicators showed fluctuations, the overall trend was rising after the acquisition of Deppon Express. It shows that JD Logistics has a good profit level and has certain development potential.

Table 1. JD Logistics sales gross margin and sales net margin from December 31, 2021 to December 31, 2023.

Month	Gross profit margin on sales (%)	Net profit margin on sales (%)
2021/12/31	5.52	-14.96
2022/3/31	5.34	-4.94
2022/6/30	6.2	-2.45
2022/12/31	7.35	-0.79
2023/3/31	4.45	-2.82
2023/6/30	6.47	-0.68
2023/12/31	7.61	0.7

5.2. Solvency Analysis

Solvency can reflect the current financial capacity of an enterprise, especially the ability to realize current assets and repay liabilities. As can be seen from the Table 2, after the acquisition in March 2022, the current ratio of JD Logistics increased and dropped to 1.44 times from June 30, 2022 to December 31, 2023, which may be affected by inventory overhang or idle funds. The asset-liability ratio dropped to 44.96% at the end of June 2022, thanks to JD Logistics' acquisition of Deppon using the right financing channels and controlling the debt scale. On the whole, although there is no significant change in the solvency of JD Logistics, the increase in the current ratio and the decrease in the asset-liability ratio in the second quarter of 2022 show good solvency.

Table 2. JD Logistics' current ratio and asset-liability ratio from December 31, 2021 to December 31, 2023 (Data source: JD Logistics Quarterly financial Statements from 2021 to 2023).

Month	Current ratio (times)	Asset-liability ratio (%)
2021/12/31	1.85	47.41
2022/6/30	1.96	44.96
2022/12/31	1.68	50.13
2023/6/30	1.72	49.13
2023/12/31	1.44	50.95

Table 3. JD Logistics from December 31, 2021 to December 31, 2023 inventory turnover, accounts receivable turnover, total assets turnover (Data source: JD Logistics quarterly financial statements from 2021 to 2023)

Month	Inventory turnover (times)	Accounts receivable turnover(times)	Total assets turnover (times)
2021/12/31	183.8	11.94	1.59
2022/6/30	78.5	4.48	0.72
2022/12/31	191.34	10.14	1.5
2023/6/30	122.86	5.08	0.73
2023/12/31	242.1	11.24	1.52

5.3. Operational Capacity Analysis

Operation capacity can reflect the level of operation and management of the enterprise and the ability to use various assets to earn profits. The results are given in Table 3. The inventory turnover rate of JD Logistics decreased significantly from the fourth quarter of 2021 to the second quarter of 2022 after the acquisition event, indicating that the inventory turnover speed of JD Logistics may be slow, but then there was a significant rebound, reflecting that JD Logistics can quickly adjust and match its self-run model with warehousing logistics. The turnover rate of accounts receivable dropped to 4.48 times on June 30, 2022, reflecting the decrease of JD Logistics' capital flow capacity in recent years, the decline of the enterprise's operating capacity, and then an increase, which indicates that JD Logistics has a good credit policy, and the enterprise's accounts receivable can be recovered from the hands of customers in a timely manner, and the liquidity of funds is high. There is no significant change in the total asset turnover. Although the index has a slight decline after the acquisition event, the change is not large, indicating that the acquisition has no great impact on the total asset turnover of the enterprise [10].

6. Conclusion

In general, the acquisition of Deppon Express by JD Logistics is successful and effective. After the acquisition, JD Logistics has accelerated the pace of socialization, and both enterprises have been able to better adapt to the current network economy and consumption environment, opening up a new road for the long-term development of both enterprises. Although the acquisition will inevitably bring risks, JD Logistics can effectively solve the crisis by making a preparation mechanism in advance. In addition, after the acquisition, Deppon has played a positive role in the profitability and operating capacity of JD Logistics. Although it has brought pressure on accounts receivable, it also encourages the acquirer to adjust the structure of accounts payable, accounts receivable and inventory. In the long run, the combination of the two powerful companies will accelerate the process of the express delivery industry and open up a broader market with intelligent and information-based management. The possible reason for the success lies in the full understanding of the two companies, the adoption of reasonable acquisition means and the promotion of effective resource integration. Secondly, this study is based on a specific case analysis, but it reflects that when it is necessary to judge the success of an acquisition case, a comprehensive analysis can be made by combining the reasons for the initial acquisition of both parties, the rationality of the countermeasures to resolve the crisis and the overall performance. In addition, the study adopts relatively new data and theories, new perspectives and qualitative and quantitative analysis methods, which can provide other researchers with new ideas for corporate acquisition case studies. Finally, there are also shortcomings in this study. In the analysis of JD Logistics performance, the indicator data of some quarters in the quarterly financial statements from 2021 to 2023 are indeed missing, so it may not be possible to accurately compare the indicator data closest to the event, which has some impact on this study. Future research will also improve data selection to avoid analysis errors caused by incomplete data. The study of this paper hopes to update the relevant theories of acquisition cases in logistics industry and bring other researchers new perspectives and ideas to analyze enterprise acquisition cases. At the same time, it also hopes to help solve problems in real life and bring practical benefits.

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