

Study on the Profit Model in the E-commerce

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Abstract. E-commerce is an emerging industry. It has brought new opportunities for global economic development. The update of e-commerce technology and the improvement of e-commerce profit models promote the profitability of e-commerce enterprises. Nowadays too much emphasis was placed on theoretical teaching in the e-commerce courses. The courses lack case analysis for learners to better understand the actual situation of e-commerce. This study analyzed the profit model of existing e-commerce companies, and used case analysis methods to find the profit dilemma and effective breakthrough methods for the profitability of two typical B2C e-commerce companies. With disassembling specific e-commerce cases, this study completed the conversion of e-commerce courses from theoretical teaching to case teaching.

Keywords. B2C e-commerce, JD, Vipshop, profit model

Introduction

The teaching of e-commerce in universities tends to be theoretical teaching and defining teaching. The courses lacked example teaching. Stressing theory and neglecting practice, it cannot keep pace with the times. The e-commerce course is a practical course with strong application. Teachers should focus on cultivating learners' theoretical and practical ability. Instead of letting learners passively accept theoretical concepts and fail to apply them. Since most e-commerce courses cannot meet the needs of learners. Base on the above, this study starts with examples, and provides actual case analysis of e-commerce and discusses analysis methods.

1 Overview of B2C e-commerce profit models

1.1 Five Basic Components of B2C E-commerce Profit Model

The five basic components of the B2C e-commerce profit model were an interconnected and indivisible organic whole. As shown in Figure 1.

Among the five basic components of e-commerce, the profit object solves the problem of "who to provide value to". The profit point solves the problem of the value the enterprise provides to users. The profit source solves the problems of the enterprise's

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profit source. Profit leverage solves the problem of what key activities an enterprise provides to attract more target customers. The profit barrier solves the problem of how to keep the market from being invaded by other enterprises and keep themselves profitable for a long time [1].

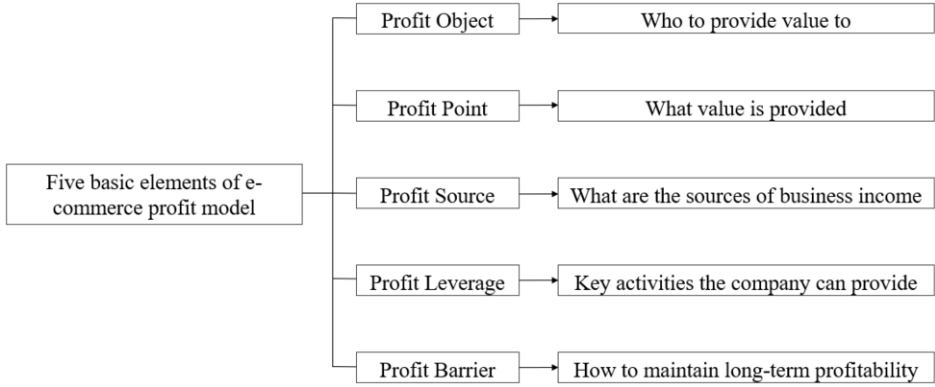


Figure 1 The five basic components of e-commerce profitability

1.2 Case study of e-commerce profit model

The profit model analysis starts with the company's profitability, and then starts the research.

The scale of e-commerce transactions in China in 2017 was RMB 28.66 trillion and increased 24.77%. B2B transaction value was RMB 20.5 trillion. Online retail transaction value was RMB 7.17 trillion. Living service e-commerce transaction value was RMB 998.6 billion.

The net profit of Vipshop in the third quarter of 2018 was RMB 681.6 million (approximately \$103 million). It increased 76.4% from RMB386.5 million in the same period of last year. The growth momentum was very rapid, as shown in Figure 2.

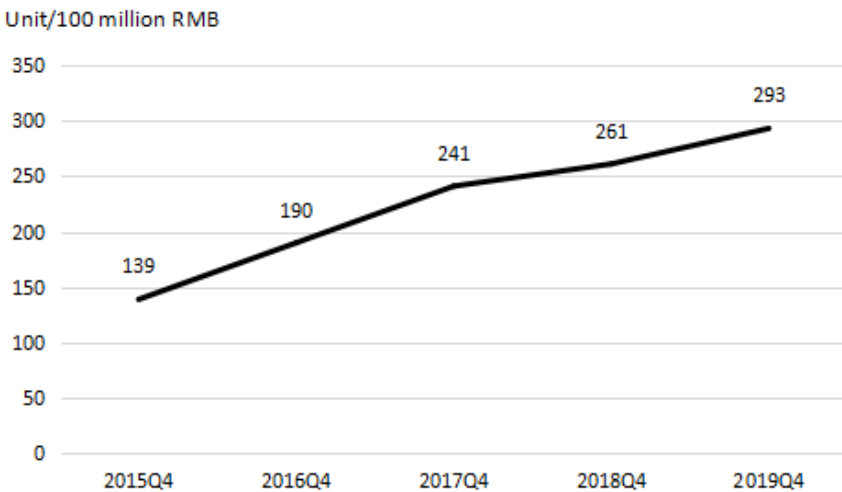


Figure 2 Vipshop Q4 net revenue growth in the last five years

JD's operating profit margin was 1.1% in the second quarter of 2018. Compared with 0.8% in the same period last year, JD's operating profit margin was 2.1% in the first quarter. Compared with 2.2% in the same period last year, the total net profit of JD in 2017 was as high as RMB 5 billion, as shown in Figure 3[2].

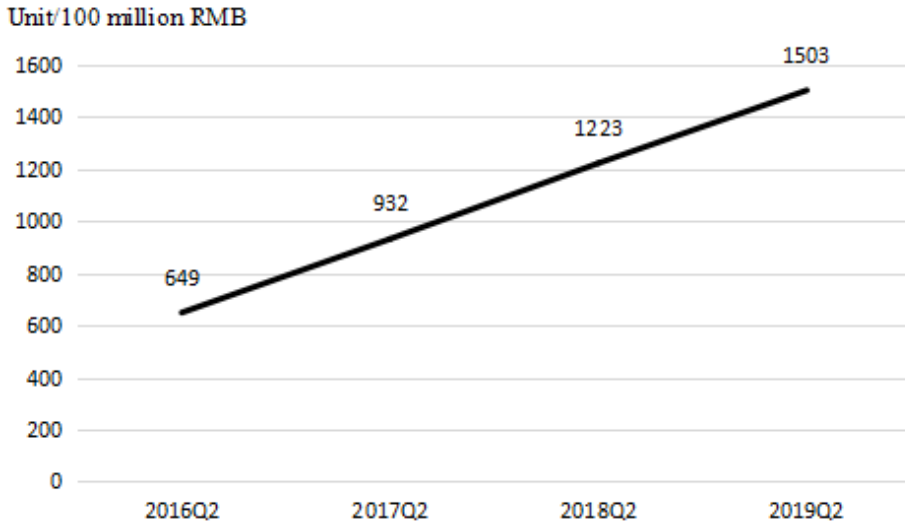


Figure 3 JD's Q2 quarter net income in the last five years

The growth momentum of the two companies is very strong. It sends a very important signal. The business models are recognized by the market. We discuss its profitability and in-depth exploration of the company's excellence, and then summarize the company's good profit model.

2 Analysis of the profit model of Vipshop [3]

2.1 Profit object

- **Youth consumer groups who were keen on fashion.** With the development of society and economy, social consumption was gradually escalating. In the Chinese market, especially the B2C e-commerce market, it was the young consumer groups who were keen on fashion. Youth consumer groups were at the backbone of society and they were also part of the backbone of purchasing power [4]. Compared with gold collars, Youth consumer groups' spending power on luxury goods was still limited. Their wages were on the rise and they were more resistant to the cheaper Taobao explosions. Such a profit object will greatly help Vipshop's profit [4].
- **Genuine female consumers in second and third tier cities.** For women in second and third-tier cities, counters were not common locally. The price of counters was not cheap. Such groups pursue fashion but do not have enough budgets. Vipshop was like tailor-made for them. Genuine brand names were discounted. They cover mid-to-high-end and low-end products. They can choose more space and fast delivery.

2.2 Profit point

- **Vipshop would target mass brands.** By selling carefully and selecting brands and deep discounts on brands, Vipshop will grow rapidly with the supplement in the time-limited snap-up model. The sales profit of commodities was the basic profit point of the initial stage of Vipshop. One of the reasons for the high gross profit margin of Vipshop was to make the flash sale the best known. With the Matthew effect, the strength of the bargaining power of Vipshop could charge a certain fee for brands. It wanted to promote and sell on the platform of Vipshop. This was another profit point. The sharing fee of Vipshop's warehouse logistics was also one of the profit points of Vipshop. Vipshop's logistics controlling ability was getting stronger and stronger. While meeting its own logistics needs in the future, Vipshop will also be able to undertake other logistics tasks. Vipshop's current new strategy "Global Selection, Genuine Sale", coupled with support from JD's flagship store and Tencent's social traffic, can make many innovative products [5].
- **Source of profit.** Vipshop's profit source was in the second and third tier cities in China. It had certain economic strength. It had higher requirements for product quality. But it did not have much time for online shopping. In recent years, Vipshop's quarterly earnings growth has tightened. According to the fourth-quarter 2019 financial report data, Vipshop's total net revenue has increased to 29.3 billion yuan (approximately \$ 4.2 billion). The increase of 12.4% realized 29 consecutive quarters of profit. In the previous six years, Vipshop's revenue also continued to grow. The profit of Vipshop was not only in brand sales, but also in terms of advertising revenue and collection of merchant fees. Vipshop would invest a large amount of funds raised in the listing into the construction of logistics. It would improve the service quality of products. And it would increase the gross margin of Vipshop [6].
- **Profit leverage.** The main characteristics of Vipshop's profit leverage were a purchase-first pay-after-purchase model, and a large-scale warehousing model. Most of the products that Vipshop sells were the tail products, the brand that needs to handle. So the brand was also happy to have e-commerce companies to solve the problems of the tail cargo. The brand owners firstly sold the goods to Vipshop for online sales and then pay. Vipshop places great emphasis on logistics by the limited-time sale model and limited product time. Logistics should be faster than other e-commerce providers. These two characteristics made the gross margin of Vipshop increase year by year [7].
- **Profit Barrier.** Vipshop officially went online at the end of 2008. It quickly opened the market in the "authentic sale" mode. It was successfully listed in the United States less than 4 years after its establishment. How would Vipshop find its own value and why its market has not been squeezed by the giants? At that time, Dangdang not only listed in the United States, but also had a turnover of 10 billion yuan. In the end, Dangdang's market share gradually decreased after a price war with JD. The path chosen at the time was wrong. The key to Vipshop's success was that the initial entry point. Its subsequent development path was very correct. Vipshop did not have many product categories. The company focuses on mass fashion brands. The

company had a clear position. It was also very clear on its main audience. There was no obvious competitor with the same business model as Vipshop. This innovation has enabled Vipshop and allowed it to gain a foothold in today's B2C e-commerce market [8].

2.3 Analysis of JD's profit model

- **Profit object.** JD's target market has shifted from the original benchmark electronics consumer to the online mass consumer [9]. Because JD's transition from the previous vertical B2C business model to today's comprehensive B2C.
- **Profit point.** JD's profit point was to make shopping easier and happy. JD had a wide range of products. It combined basically everything you want to buy. In addition, JD also paid special attention to user experience. In order to effectively protect the interests of consumers. It has continuously introduced new service measures.
- **Source of profit, self-operated sales income.** From vertical B2C to comprehensive B2C, JD's self-operated sales revenue has been the main source of revenue. Businesses need to pay JD as an advertising fee based on a certain percentage of sales. Businesses entering the JD Mall need to pay the platform usage fee. To use the JD Logistics distribution system, they also need to pay a certain fee. Fees for the use of warehousing and logistics systems. When JD Mall meets its own logistics needs, it leases out the logistics system to other companies to earn profits. JD collects the advertising costs of businesses to promote on the platform.
- **Profit Leverage.** JD often holds various festivals and various holiday promotions. Online activities were quite adequate.
- **Profit Barrier.** Adhere to the core concept of "first person before the enterprise", it is the information system. Through this information system, the four flows in e-commerce transactions were perfectly combined to improve the efficiency of the supply chain. They were information flow, capital flow, business flow, logistics and distribution. JD Logistics' next day delivery is one of the advantages of JD Logistics. JD was gradually becoming a logistics provider. Logistics services would be another profit point for JD.

3 Comparative analysis of profit models of different B2C e-commerce companies

Based on the above discussions on the profit models of Vipshop and JD Mall, and combined with the five elements of profit model, a comparative analysis of the profit models came. Because of their different market positions, they had different profit targets. Their target customers were different. The market environment, business strategy, income structure and cost of different enterprises were greatly different. So there would be different profit models. The analysis here starts from theory and deeply explores the different situations of specific enterprises. It belongs to the combination of theory and practice. It is important in the future. Combining the theory with the

practice to improve application ability, it needs to develop in e-commerce courses in the future.

Vipshop and JD also had a big difference in profit point. Vipshop focused on "flash purchase". JD focused on the platform. The profit margins brought by the two platforms were different. The JD platform was large enough, and there were many places in its value chain. It could be profitable. But it was also prone to encounter diseconomies of scale. Vipshop did not have many profit points. But it won in finesse. Vipshop was not the first company to do "flash purchases". But it is currently the only company that does "flash purchases" well [9].

At present, the development models of Chinese e-commerce companies are mostly the same. Different enterprises often have many similarities. The profit sources of Vipshop and JD have many similarities. Most B2C e-commerce companies now have the same profit sources. But the proportion of each profit source will be different. Enterprise's position is important to ensure that the business will not be swallowed up. In addition, corporate positioning must be clear, and innovation is also important.

4 Practical Teaching

Based on the case analysis of two companies, we summarized the general process of case analysis. Firstly, we analyzed the industry space, stage and competitive landscape of e-commerce. Secondly, we pay attention to the business model of the company. Finally, we compared the same enterprises.

This study only explains the profit model. The profit model is important, which determines whether the company can develop rapidly. We provide only one case analysis method. And the main purpose is to make everyone aware of the example teaching of e-commerce courses.

After graduation, most of the learners in colleges choose to find jobs. When receiving invitations from several companies at the same time, choosing one of these companies is beneficial to their own development. At this time, learners can use the case analysis methods learned in the course. They can analysis the company's business model, profit model, future development. It will help learners find a good job during the interview. And learners can have a comprehensive understanding of the company through case analysis of the company. It is more conducive to learners' choice.

In terms of academic research, universities have more in-depth research on enterprises. It is more conducive to enterprise development. Only by allowing enterprises to influx more high-end talents, will enterprises thrive and the social economy will be continuously promoted.

5 Conclusion

Colleges and universities should attach importance to case teaching in e-commerce courses. They can enhance learners' interest. It helps learners better understand the current development of e-commerce.

The goal of B2C e-commerce companies is to make a profit. The fundamental difference between enterprises lies in which profit model they adopt. In addition, companies need to understand and analyze the e-commerce market and various profit models. So it can get rid of the profit dilemma they face. At the same time, enterprises

should integrate the original profit model and carry out continuous innovation to build a long-term sustainable profitable business model.

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