



 FUNG BUSINESS INTELLIGENCE

Asia Distribution and Retail

Teresa Lam, Christy Li

June 2020

About the deal

On 28 May, 2020, JD.com announced that it will buy US\$100 million worth of convertible bonds in household appliances and electronics retailer GOME Retail Holdings Limited. The strategic cooperation between JD.com and GOME Retail is a further deepening of the cooperation between the two companies after GOME's official flagship store launched on JD.com in March 2020¹. If these bonds are converted, JD.com will be allotted approximately 2.80% of its existing issued share capital.

According to the agreement, the two companies will leverage their online and offline advantages over the years to achieve synergies and supply chain integration, as well as product purchases and sales such as joint procurement and joint marketing, as well as resource sharing in logistics services, financial services and other related services².

Previously in April 2020, Pinduoduo also announced that it will subscribe to US\$200 million in convertible bonds issued by GOME Retail for a tenure of three years³. Both parties also inked a strategic partnership such that Pinduoduo will help bring the entire GOME product range onto its e-commerce platform; Pinduoduo will also help GOME further roll out its digitization strategy, while GOME will integrate its logistics, warehousing, delivery and assembly services with Pinduoduo, and serve merchants on Pinduoduo. Please see our previous publication "[Win-win cooperation: Pinduoduo invests US\\$200 million in GOME](#)" for details.

Comments from Fung Business Intelligence

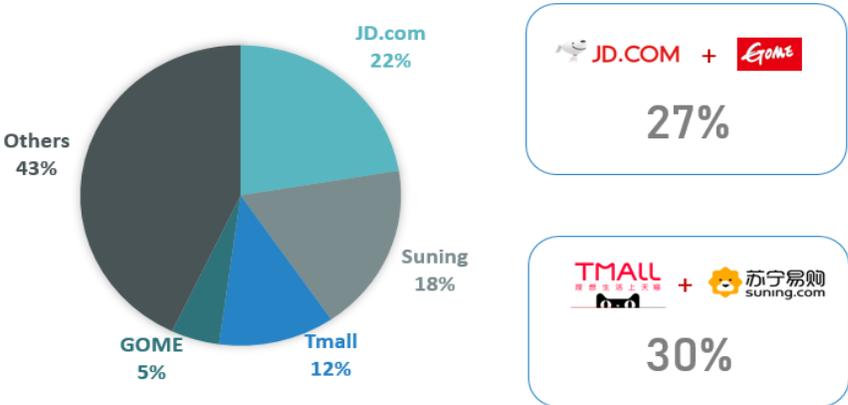
JD.com and GOME have been considered as competitors in the home appliances sector in the past. The partnership signifies that “competitors” are finding common ground to collaborate – to increase market share and to enhance operational efficiency in supply chain, logistics and financial services.

Formation of alliances in the home appliances sector – Alibaba, Suning vs. JD.com, Pinduoduo and GOME

JD.com has been a strong player in the home appliances sector, and continued to extend its reach in the sector in recent years. In 2019, it invested in a number of electronics chains including Five Star, D.Phone, and Lenovo’s Lecoo in 2019. It has also set up multiple self-operated specialty stores for digital gadgets and home appliances, such as JD E-Space, JD Computer and Digital Products Stores and JD Home Appliances Experience Stores, to offer various retail formats and experiential shopping to shoppers⁴. The strategic cooperation between the two leading players in the household appliances sector can further strengthen JD.com’s position in the sector, and extend the reach of JD.com’s ecosystem by integrating its supply chain, logistics, and technology with GOME Retail.

Moreover, the partnership reinforces the fact that leading players within the home appliances sector are collaborating with competitors to enhance their competitive position – Alibaba with Suning, GOME’s top rival, vs. JD.com, Tencent-backed Pinduoduo with GOME. After Suning entered into strategic alliance with Alibaba in 2015, Suning has gained a larger market share in the sector. It has also successfully transformed digitally, making it a more significant player in the home appliances sector than GOME. According to CCID Group, the combined market share of Alibaba’s Tmall platform and Suning stood at 30% in 2019; if JD.com joins hand with GOME, the combined market share of the two companies will be comparable to that of Tmall and Suning (Exhibit 1).

Exhibit 1: Market share of home appliances sector in China, 2019



Source: CCID Group⁵

GOME can further its “Home • Living” strategy and fill the gap in online traffic

For GOME, the strategic cooperation agreement will fill the gap in online traffic and enable the company to leverage JD.com’s platforms, resources and strengths to accelerate GOME’s penetration online and better serve its customers online and offline. GOME can leverage JD.com’s 362 million active annual users, together with its 2,600 offline stores, social e-commerce platform ME Shop and the GOME app to create an all-round, online-to-offline “Home • Living” one-stop solution for its customers. Meanwhile, JD.com will supply GOME with non-home appliances products to expand the SKUs offered by GOME for its expansion towards an all-category marketplace⁶.

JD.com and GOME together form the largest sourcing base in home appliances sector in China

JD.com and GOME will cooperate in terms of sourcing according to the agreement. Both parties will carry out joint procurement and form the largest sourcing base in the home appliances sector in China. Together they can have better negotiation power with brands, suppliers and manufactures, thereby offering customers better prices and deals⁷. This can help attract more customers and increase sales.

The deal strengthens JD.com’s social commerce strategy with GOME’s vast user base in its GOME app and livestreaming platform

The deal enables JD.com to leverage GOME’s vast user base of 160,000 users on its online social communities and livestreaming platform. According to the agreement, GOME will open up its resources for online communities and livestreaming platforms to JD.com and allow JD.com to sell its products via GOME’s offline shops, app and other retail channels. Meanwhile, both companies will share data and technologies to provide better and more precise services for customers⁸. This is a significant move for JD.com to gain further traction in social commerce.

JD.com and GOME can combine competitive advantages in logistics services and after-sales services to provide better shopping experience to customers

JD.com's logistics subsidiary JD Logistics is one of the leading supply chain and logistics service providers in China, while GOME's Anxun Logistics also has a well-developed delivery network of over 6,000 offices, nearly 2 million sqm of warehouses, and 15,000 delivery vehicles. When both companies open up their logistics capabilities, delivery costs are expected to reduce. Also, with this strategic partnership, GOME's extensive offline retail stores can serve as venues for JD.com users who may want to touch and feel the products before making purchases online. Moreover, GOME's offline stores can also act as pick-up locations for online orders and storefront warehouses, providing fast delivery to customers living within 3-5 km of the stores. GOME's assembly services GOME Housekeeper will also integrate with JD.com to provide better after-sales service for JD.com's consumers.

Positive news to boost market sentiment; JD.com and GOME can better compete with Alibaba during "618" Shopping Festival

China's retail and consumer market is still recovering from the impact of the COVID-19 pandemic; positive news in the market is much needed. The strategic cooperation between JD.com and GOME is certainly good news for the market, and is set to provide a strong boost to consumption growth and stimulate economic recovery from the pandemic.

On top of that, the collaboration will also enable JD.com and GOME to better compete with Alibaba in the upcoming "618" Shopping Festival, a mid-year shopping festival driven by major e-commerce players, and also the first large-scale shopping festival after the COVID-19 pandemic. It is reported that the two companies will jointly leverage online social communities and livestreaming to sell and promote products, and very importantly, to gain traffic during the "618" Shopping Festival. Indeed, to increase supply chain and brand marketing capabilities, JD Retail, the retail business unit of JD.com, announced a strategic partnership with Kuaishou Technology, China's leading video sharing and livestreaming platform just one day before the announcement of investment into GOME. As part of the agreement, JD Retail will provide self-sourced products to Kuaishou Xiaodian, the sales platform within the Kuaishou app, while Kuaishou will provide an analysis of the livestreaming metrics to improve sales performance together. The two companies reportedly will kick start the cooperation during the "618" Shopping Festival. JD.com's relentless efforts to form strategic business alliances enables it to better compete with rival Alibaba.

Quotes

“The strategic cooperation with GOME not only marks the acceleration of JD’s integration and opening up, but also represents the company’s commitment to promoting an ecosystem approach by relying on its infrastructure, including supply chain, logistics, and technology.”

JD.com

“The cooperation is in line with GOME’s strategy to develop innovative retail models integrating social e-commerce platforms, physical stores and the GOME app.”

GOME

About JD.com

Founded in 2004 and listed on NASDAQ in May 2013, JD.com is China’s largest online retailer, as well as the country’s biggest Internet company by revenue⁹. It has four core business units – JD Retail, JD Digits, JD Logistics and JD Cloud & AI. JD.com’s net revenues for the FY19 were 576.9 billion yuan, up 24.9% yoy. The company saw an 18.6% increase in annual active customer accounts in 2019 to 362 million. Currently, its number of active buyers is third among Chinese Internet players after Alibaba’s Taobao and Tmall of 711 million, and Pinduoduo’s 585.2 million.

About GOME

Founded in 1987 and listed on Hong Kong Stock Exchange in July 2004, GOME Retail Holdings Limited is engaged in the retail business of electrical appliances and consumer electronics in China. Sales revenue of GOME was approximately 59,483 million yuan in FY19, down 7.57% yoy. GOME has been actively transforming from a traditional “home appliances retailer” to a “Home • Living” one-stop home solution, service solution and supply chain solution service provider; it strives to provide customers with quality goods and services covering home appliances, home decorations, home accessories and home services. As of the end of 2019, the company has over 2,600 offline retail stores across 776 cities in China.

References

- ¹ “GOME launches flagship store on JD.com”, 16 March 2020. JD.com
<https://jdcorporateblog.com/third-party-view-competitors-collaborate-gome-launches-flagship-store-on-jd-com/>
- ² “Proposed issue of convertible bonds under general mandate”, 28 May 2020. GOME.
http://www.gome.com.hk/attachment/2020052815021417_en.pdf
- ³ “Pinduoduo subscribes to US\$200 million in GOME convertible bonds in strategic partnership”, 19 April 2020. Pinduoduo.
<http://investor.pinduoduo.com/news-releases/news-release-details/pinduoduo-subscribes-us200-million-gome-convertible-bonds>
- ⁴ “JD.com makes strategic investment in GOME Retail”, 29 May 2020. JD.com
<https://jdcorporateblog.com/jd-com-makes-strategic-investment-in-gome-retail/>
- ⁵ “JD.com forms alliance with GOME Retail”, 29 May 2020. Beijing Business Today.
<http://www.bbtnews.com.cn/2020/0529/355206.shtml>
- ⁶ “JD.com forms alliance with GOME Retail”, 29 May 2020. Linkshop.
<http://www.linkshop.com.cn/web/archives/2020/448454.shtml>
- ⁷ “JD.com forms alliance with GOME Retail”, 29 May 2020. Linkshop.
<http://www.linkshop.com.cn/web/archives/2020/448454.shtml>
- ⁸ “JD.com forms alliance with GOME Retail”, 29 May 2020. Linkshop.
<http://www.linkshop.com.cn/web/archives/2020/448454.shtml>
- ⁹ “About us”, JD.com
<https://corporate.jd.com/aboutUs>

Contacts

Asia Distribution and Retail

Teresa Lam

Vice President

E: teresalam@fung1937.com

Christy Li

Senior Research Manager

E: christyli@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



© Copyright 2020 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.