

The Great Mall of China

JD.com has seized on a seismic shift in the way Chinese customers shop online to become the beloved, reliable alternative to Alibaba.

BY MICHAEL SCHUMAN

Richard Liu, the founder and chief executive of Chinese online retailer JD.com, arrived at the daily 8:30 a.m. executive meeting late last year an unhappy customer. He had ordered ice cream on JD.com, and to his dismay, it arrived slightly melted. He would have none of such slapdash service. There would be no further expansion of that new grocery-delivery business, he announced to the assembled executives, until the problem was fixed. The ice-cream conundrum consumed the rest of meeting. In the end, JD solved it by stuffing more ice packs into the shipping containers.

Liu, 42, closely monitors JD's execution. He places about two orders each day to continually track the promptness of delivery, the sturdiness of the packaging and the quality of the product. "You should experience the service of your own company all the time," he says. "If you don't, the company's values will be regarded by employees as just empty slogans hanging on the wall."

His fixation on performance is well placed. JD's main rival is Alibaba, which is famous (some might say infamous) for Taobao, a marketplace of sellers rife with schlock and knock-offs. JD.com is the opposite, known for reliably and quickly delivering genuine goods—from TVs to wine to microwave ovens—in a tightly con-

Hot wheels: Richard Liu's JD.com prides itself on maintaining its own fast delivery service.



STEVEN CHOW FOR FORBES

BUILDING LIKE BEZOS

JD.COM CLOSELY RESEMBLES JEFF BEZOS' AMAZON.COM. IT HAS HIGH SALES AND NO PROFITS, A SHARP CONTRAST WITH ITS RIVAL ALIBABA.

	JD.COM	ALIBABA GROUP HOLDING	AMAZON.COM
FOUNDED	2004	1999	1994
FOUNDER	RICHARD LIU	JACK MA	JEFF BEZOS
REVENUE ¹	\$28 BIL	\$15.7 BIL	\$107 BIL
NET INCOME ¹	-\$1.4 BIL	\$11.1 BIL	\$596 MIL
MARKET CAP	\$38.1 BIL	\$221.1 BIL	\$353.2 BIL
NUMBER OF EMPLOYEES ²	115,811	46,689	255,000 (EST.)
BUSINESS-TO-CONSUMER E-COMMERCE MKT SHARE (CHINA) ³	23%	58%	0.9%

FIGURES ARE FOR 2015 FOR JD.COM AND THE YEAR ENDED MAR. 31 FOR ALIBABA. ²AS OF SEPT. 30. ³SOURCE: IRESEARCH; FIGURES AS OF 2015.

trolled (and costly) supply chain.

Neither company's shares have done well lately. Since Alibaba's 2014 IPO, both stocks have underperformed the S&P 500's 8.5% gain: Alibaba has lost 3% as JD.com has dropped 7%. Looking ahead, JD, whose revenue is expected to grow roughly 30% this year to \$37 billion, is well positioned to reverse that slide. It has been quicker than its rival to seize on a seismic shift in Chinese consumer tastes. "Users have gotten a lot more sophisticated," says Chi Tsang, head of Asia Internet research at HSBC in Hong Kong. "They've gotten richer, and they expect higher-quality products, better delivery and better customer service."

Liu started out with a market stall in a Beijing electronics bazaar in 1998. There, his reluctance to haggle and insistence on carrying authentic products hurt him until he switched to largely supplying other stalls, few of which carried as much inventory as his. The deadly SARS outbreak in 2003 became a turning point. People were avoiding public areas, which led Liu to realize how many people wanted to shop from the comfort of home. A year later he began marketing his electronics over the Internet.

Delivery quickly proved problematic. Customers complained about late orders or items arriving in battered condition. In 2007 Liu decided JD needed its own logistics network to work, which, he says, "paved the way for the subsequent years of rapid growth."

Nearly all the goods JD sells directly to customers come from a network of 254 warehouses. (Other wares are sold by 110,000

approved outside vendors, with more than a third of that merchandise delivered by JD.) Next, its roughly 62,000 red-uniformed delivery people speed off on three-wheeled electric motorbikes and other vehicles. Their work is prompt: Place an order before 11 a.m. in a major city, and JD promises it'll arrive the same day. To keep

service and the talent level high, JD says its compensation for delivery people is as much as twice the going wage and it will quickly fire poor performers—two serious complaints from customers are enough for a pink slip. "We are educating every employee to treat our customers with respect," Liu says.

JD is, in essence, a Chinese mash-up of Amazon.com and UPS. And Liu has borrowed enthusiastically from the Bezos playbook. He spends freely. Expenses have grown eightfold since 2011 to \$29 billion last year. And he has expanded dramatically (out of urban areas into rural ones), experimented with new technology (drones may be used to reach remote areas) and built new business units (including a financing division). Just as it does at Amazon, all that spending adds up. JD lost \$1.4 billion last year, a 630% increase from 2011. Alibaba, by contrast, has traditionally relied on outside parties to sell and ship goods sold on its platforms—making Alibaba impressively profitable. It netted more than \$11 billion last year, more than tripling profit since 2013.

"We are edging closer and closer to profitability," Liu says. Analysts forecast JD will narrow its losses to about \$500 million this year and \$250 million next year before finally turning a profit in 2018. "Today customers use e-commerce first for quality, second for service and third for price. Chinese consumers are demanding more and more quality products," Liu says. "The timing is right. We are coming into a better set of conditions for our growth." *

Jane Ho contributed to this story.



TRENDING

WHAT THE 50 MILLION FORBES.COM USERS ARE TALKING ABOUT. FOR A DEEPER DIVE GO TO FORBES.COM/STRATEGIES

PERSON
SUPER MARIO

His first-ever mobile game, out this month, aims to be an industry rarity: a huge hit that carries a sizable (\$9.99) price tag.

COMPANY
SAMSUNG

Will the beleaguered Korean giant's \$8 billion acquisition of Harman help it get big in the smart-car market—and shrink its litany of recent troubles?

IDEA
REALTOR-IN-CHIEF

Mortgage rates up, possibly looser lending standards, an uncertain future for Fan and Fred: How will Donald Trump's policies affect housing?

FINAL THOUGHT

* "Without conscious and deliberate effort, inertia always wins." —TONY HSIEH