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The Motives and Performance Analysis of Alibaba's Acquisition of Ele.me

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Abstract: Chinese internet companies are accelerating their internationalization, and corporate mergers and acquisitions (M&A) have become a key strategy for international expansion. This article uses Alibaba as a case study, employing an event study method and supplemented by financial indicators to analyze the motives and performance of its acquisition of Ele.me. The research results show that the cumulative excess return over the ten days before and after the acquisition in 2018 was positive, indicating that Alibaba's shareholders gained substantial returns from the acquisition and achieved positive market performance. In today's increasingly competitive global market, more companies may adopt similar strategies to gain vast market space and enhance their competitiveness. Therefore, the data analysis results provide valuable insights for other internet companies looking to improve their operational performance and productivity through mergers and acquisitions.

Keywords: Alibaba, Corporate Mergers and Acquisitions, Event Study Method, Financial Indicators Method

1. Introduction

With the development of the internet in China, market competition between companies has become increasingly intense, and they face a complex situation of both opportunities and challenges. As a leader in China's internet industry, Alibaba has actively responded to market changes and continuously explored new development paths. Alibaba proposed the "New Retail" strategy, focusing on local life services. Under this strategic vision, Alibaba acquired Ele.me for $9.5 billion, consolidating its dominant position in the food delivery market. This article analyzes the motives and performance of Alibaba's acquisition of Ele.me, providing insights and lessons for the M&A practices of internet companies.

2. Analysis of Acquisition Motives

2.1. Expanding into New Areas

According to data released by iMedia Research, the size of China's food delivery market reached 243 billion yuan in 2018, with Meituan and Ele.me holding the dominant market share, while Meituan was acquired by Tencent. Alibaba's offline retail business was still in its early stages and needed to integrate online and offline resources to find new profit growth points. Zhao Xuanmin and Ji Yueming [1] argue that in the face of intense competition and industry barriers, Alibaba chose to acquire Ele.me

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to directly gain access to over 300 million users, effectively integrating market resources and exploring new markets in the food delivery sector.

2.2. Improving the New Retail Strategy Layout

The concept of New Retail was proposed by Jack Ma, relying on the internet and advanced technologies to innovate the commodity circulation process and achieve the integration of online, offline, and logistics. Alibaba entered the local life service sector by acquiring Koubei, but faced competition from Dianping. Dong Yingxiang and Pan Yaqiong [2] in their study from an internet ecosystem perspective, found that to optimize resource allocation and enhance economies of scale, Alibaba further acquired Ele.me and integrated it with its New Retail business to fill the gap in the food delivery market.

2.3. Synergy Effects of the Acquisition

Hao Yuping [3] , starting from the concept of acquisition synergy effects, argues that corporate mergers and acquisitions can generate overall benefits beyond simple summation. Through mergers and acquisitions, companies can expand their scale, integrate resources, and reduce industry barriers. For example, by acquiring Ele.me, Alibaba not only retained the traffic and reputation brought by its brand but also filled the gaps in the local life services sector, providing Ele.me with funding and resource support. Yang Chennan et al. [4] used case studies and financial indicators to analyze the synergy effects of Alibaba’s acquisition of Ele.me. The study showed that Alibaba’s acquisition of Ele.me indeed resulted in positive synergy effects. Wang Chaonan [5] believes that from a financial perspective, Alibaba’s acquisition of Ele.me was made through an all-cash payment, which could lead to financial risks for Alibaba and impact its subsequent investment strategies.

3. Analysis of Acquisition Performance

In 2018, Alibaba fully acquired Ele.me. While expanding into new areas, Alibaba also aimed to achieve an increase in market value through this acquisition. This article analyzes the changes in the capital market’s response to Alibaba’s acquisition event using the event study method, and further examines its market performance. At the same time, it also analyzes Alibaba’s financial data to determine whether the acquisition was successful.

3.1. Market Performance Measurement Based on the Event Study Method

3.1.1. Definition of Event and Event Window

This paper selects February 26, 2018, the date of Alibaba’s acquisition of Ele.me, as the specific event day. The event window is used to test whether Alibaba’s stock price exhibited abnormal reactions during the specific period. To accurately analyze the stock price changes, the event day is defined as the 10 days before and after February 26, 2018, denoted as [-10, 10]. Excluding trading suspension days and holidays, the event window covers the period from February 9 to March 12, 2018, a total of 21 days.

3.1.2. Calculation of Expected Returns

This study uses Alibaba’s (NYSE: BABA) stock price and the Hang Seng Index (HSI) as samples, with data on the returns of both during the event window obtained from Sina Finance. After obtaining the data, considering the comprehensiveness of the market model, both stock prices and the market index are combined to evaluate the impact of the acquisition event on the stock price.

The expected return is estimated using the following formula (1), where R_{it} represents the stock return of Alibaba, R_{mt} is the return of the Hang Seng Index, t denotes the corresponding time, α_i and β_i are the parameters of the model, and ϵ_{it} represents the regression residual or disturbance term.

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \tag{1}$$

Using the stock return of Alibaba and the return of the Hang Seng Index during the estimation period, Excel was used to analyze the distribution of these two data sets, and thus establish the market model for the estimation period:

$R_{it} = 0.1896R_{mt}+0.0011$

Based on the obtained linear regression equation, the expected returns for Alibaba during the event window [-10, 10] were calculated, as shown in Table 1.

Table 1: Alibaba's Event Window Data

Date	Window Period	Actual Return	Hang Seng Index Return	Expected Return	Date	Window Period	Actual Return	Hang Seng Index Return	Expected Return
2.9	-10	1.71%	0.42%	0.43%	2.27	1	-3.05%	-0.73%	-0.47%
2.12	-9	0.44%	-3.10%	0.19%	2.28	2	-1.13%	-1.36%	-0.10%
2.13	-8	1.02%	-0.16%	0.30%	3.1	3	-2.23%	0.65%	-0.31%
2.14	-7	4.19%	1.29%	0.90%	3.2	4	-1.32%	-1.48%	-0.14%
.2.15	-6	0.37%	2.27%	0.18%	3.5	5	1.02%	-2.28%	0.30%
2.16	-5	-2.01%	1.97%	-0.27%	3.6	6	3.18%	2.09%	0.71%
2.20	-4	1.91%	-0.78%	0.47%	3.7	7	0.90%	-1.03%	0.28%
2.21	-3	0.87%	1.81%	0.27%	3.8	8	-0.99%	1.52%	-0.08%
2.22	-2	-0.04%	-1.48%	0.10%	3.9	9	1.80%	1.11%	0.45%
2.23	-1	2.41%	0.97%	0.57%	3.12	10	1.15%	1.93%	0.33%
2.26	0	0.47%	0.74%	0.20%					

Data Source: Sina Finance and Hang Seng Index, stock price calculations during the event window.

3.1.3. Calculation of Abnormal Returns and Cumulative Abnormal Returns

The calculation of abnormal returns is the actual return of Alibaba minus the expected return. The abnormal return on day t during the event window (AR_{it}) is calculated using the following formula (2):

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \tag{2}$$

Based on the above formula, the cumulative abnormal return during Alibaba's acquisition of Ele.me within the event window is calculated, and the results are shown in Table 2.

Table 2: Cumulative Abnormal Returns during the Event Window

Date	Window Period	Abnormal Return	Cumulative Abnormal Return	Date	Window Period	Abnormal Return	Cumulative Abnormal Return
2.9	-10	1.28%	1.28%	2.27	1	-2.58%	5.40%
2.12	-9	0.25%	1.53%	2.28	2	-1.03%	4.38%
2.13	-8	0.72%	2.24%	3.1	3	-1.92%	2.46%
2.14	-7	3.29%	5.53%	3.2	4	-1.18%	1.28%

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Table 2: (continued).

2.15	-6	0.19%	5.72%	3.5	5	0.72%	2.00%
2.16	-5	-1.74%	3.98%	3.6	6	2.47%	4.46%
2.20	-4	1.44%	5.42%	3.7	7	0.62%	5.08%
2.21	-3	0.60%	6.01%	3.8	8	-0.91%	4.17%
2.22	-2	-0.14%	5.87%	3.9	9	1.35%	5.52%
2.23	-1	1.84%	7.71%	3.12	10	0.82%	6.34%
2.26	0	0.27%	7.98%				

Data Source: Calculated from formulas.

From the event window of Alibaba's acquisition of Ele.me, during the window period [-10, -1], the abnormal returns showed slight fluctuations, with two days having negative abnormal returns. However, during the window period [1, 10], there was an upward trend. Prior to the announcement, the cumulative abnormal return was positive, meaning that Alibaba's stock price performed well on most trading days. Overall, the cumulative abnormal return continued to rise, indicating that the capital market's response to Alibaba's acquisition showed market approval. This suggests that investors have confidence in Alibaba's future development and believe that the acquisition strategy is beneficial for the company's value growth.

3.2. Financial Indicator Analysis

Financial indicators are one of the key measures of the success of an acquisition strategy. By analyzing financial indicators, the impact of an acquisition on company operations can be accurately assessed, revealing potential risks and opportunities.

3.2.1. Debt Repayment Ability Analysis

As shown in Table 3, from 2016 to 2019, the current ratio exhibited a downward trend, particularly in 2019, when it dropped to 1.3%, a decrease of 31.22% compared to the previous year. This indicates a weakening in the liquidity of the company's assets. The decline was mainly due to the cash acquisition strategy used by the company to fully acquire Ele.me, resulting in a significant reduction in cash and cash equivalents, thus impairing its short-term debt repayment ability and negatively impacting cash flow. Since the acquisition in 2016, Alibaba's debt-to-asset ratio has shown volatile growth, mainly due to a series of financing and investment activities, which led to a corresponding reduction in current asset reserves.

Table 3: Debt Repayment Ability Indicators

Indicator	2016	2017	2018	2019	2020
Current Ratio (%)	2.58	1.94	1.89	1.30	1.91
Debt-to-Asset Ratio (%)	31.43	36.05	38.72	36.23	33.00

Data Source: Based on Alibaba's 2016-2020 annual report data, Tables 4-6 follow the same method.

3.2.2. Profitability Analysis

The gross profit margin reflects the relationship between sales revenue and sales cost. As shown in Table 4, since 2016, Alibaba's gross profit margin has been on a declining trend, especially in 2018, when it dropped from 57.23% to 45.09%. This acquisition activity triggered significant transaction costs and management pressures, with the huge investment costs directly affecting sales expenses and reducing the company's gross profit margin. Additionally, to integrate resources and enhance market

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competitiveness, Alibaba cooperated with third parties, investing 3 billion RMB in building its reputation (Koubei) and spending 1.5 billion USD on logistics infrastructure. These measures further reduced its gross profit margin. From 2016 to 2017, Alibaba's return on total assets declined due to aggressive expansion strategies, which led to rapid asset growth, but profits did not increase correspondingly. In 2018, after the acquisition of Ele.me, a strategic adjustment optimized Alibaba's capital structure, leading to an increase in return on total assets to 10.04%. This shows that the acquisition improved capital utilization efficiency, thus enhancing the company's profitability.

Table 4: Profitability Indicators

Indicator	2016	2017	2018	2019	2020
Return on Total Assets (%)	23.00	9.47	10.04	9.54	12.32
Gross Profit Margin (%)	66.03	62.42	57.23	45.09	44.60

3.2.3. Operational Efficiency Analysis

After the acquisition, Alibaba's asset utilization efficiency significantly improved. As shown in Table 5, Alibaba's total asset turnover ratio steadily increased throughout the acquisition process. In 2016, the ratio was 32.7%; in 2017, it rose to 56.5%, an increase of 72.6%. By 2018, after the merger was completed, this ratio reached 58.1%, indicating the efficient synergistic effects of the acquisition. In contrast, Alibaba's accounts receivable turnover ratio showed a continuous decline, reflecting a slower ability to monetize receivables, which implies a slowdown in collection speed and increased risk of bad debts.

Table 5: Operational Efficiency Indicators

Indicator	2016	2017	2018	2019	2020
Total Asset Turnover (%)	32.73	56.48	58.12	50.58	35.26
Accounts Receivable Turnover (%)	88.88	56.56	42.88	35.80	30.38

3.2.4. Growth Ability Analysis

The acquisition has created a synergistic effect on Alibaba's development. Since the 2016 acquisition, Alibaba's operating income and profit growth rates first rose and then declined. Compared to 2016, in 2018, operating income grew by 77.57%, and operating profit grew by 63.39%. However, these indicators later declined, which is related to the significant investments Alibaba made in building and perfecting its new retail system, leading to a sharp increase in costs and expenses. The net profit growth rate dropped from 194.55% in 2016 to -38.88% in 2017, primarily due to a surge in financing costs. After the acquisition in 2018, the net profit growth rate rose from -38.88% in 2017 to 46.75% in 2018, a year-on-year increase of 220.24%, indicating improved financial performance. From 2016 to 2020, Alibaba's total asset turnover remained positive and relatively stable, indicating continued expansion of the company's scale.

Table 6: Growth Ability Indicators

Indicator	2016	2017	2018	2019	2020
Operating Income Growth Rate (%)	32.73	56.48	58.12	50.58	35.26
Operating Profit Growth Rate (%)	27.53	47.92	44.98	18.64	33.80
Net Profit Growth Rate (%)	194.55	-38.88	46.75	37.12	70.03
Total Asset Turnover (%)	42.60	39.14	41.50	34.58	35.74

4. Acquisition Conclusion

The case of Alibaba's acquisition of Ele.me is a strategically impactful merger in the internet industry. Through this acquisition, Alibaba not only filled its gap in the local life services sector but also achieved synergies with its existing businesses, creating a more complete "new retail" ecosystem. Ele.me's massive user base, mature delivery network, and rich data resources provided Alibaba with important traffic channels and data support, while also enhancing its competitiveness in the local life services market and effectively countering competitors like Meituan. In terms of acquisition performance, although it faced challenges such as high integration costs and intense market competition in the short term, which put pressure on financial performance, the long-term synergistic effects of the acquisition are gradually emerging. Under Alibaba's technological and resource empowerment, Ele.me's operational efficiency and user experience have been significantly enhanced, with user scale and transaction volume continuing to grow, bringing considerable traffic and revenue to Alibaba. Furthermore, the acquisition further solidified Alibaba's position in the local life services market, providing crucial support for the implementation of its "new retail" strategy.

5. Insights from the Acquisition

Alibaba's acquisition of Ele.me offers valuable insights for strategic acquisitions in internet companies. Acquisitions should be aligned with the company's long-term strategic goals, focusing on business synergies and ecosystem integration rather than merely expanding scale. By acquiring Ele.me, Alibaba filled its gaps in local life services, achieved high synergies with its existing business, and strengthened overall competitiveness. Additionally, acquisitions should emphasize the integration and utilization of data resources, using data-driven strategies to achieve precise operations and breakthrough innovations. The success of Alibaba's acquisition of Ele.me shows that strategic mergers and acquisitions are not only about capital operations but also about ecosystem development and resource integration. Only through deep integration and innovation-driven growth can sustainable development be achieved in a fiercely competitive market.

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