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Merger and Acquisitions of Internet Companies: A Comprehensive Analysis

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Abstract: With the rapid development of the Internet, the world has entered the Internet era - new technologies such as Big data, artificial intelligence and cloud computing are rapidly changing people's lifestyle and consumption concepts. At the same time, competition among internet companies is also very fierce, and after rapid growth, internet companies will also face certain business growth bottlenecks. In this context, if a company wants to expand its business scale, in addition to relying on its own endogenous growth, it usually chooses to implement mergers or acquisitions. By integrating the advantageous resources of enterprises in the same industry or upstream and downstream, the goal is to integrate the value chain, increase market share, and achieve diversified development. This article compares and analyzes two merger and acquisition cases in the Chinese internet industry, exploring the key factors behind mergers and acquisitions, and hoping to provide some inspiration for the merger and acquisition of internet enterprises.

Keywords: merger and acquisitions, Internet companies, synergistic effects, resource integration

1. Introduction

In recent years, the competition in the Chinese market has become more intense with the development of the economy and technological innovation. In order for enterprises to achieve scale expansion, in addition to relying on endogenous growth, they usually integrate resources through mergers and acquisitions. According to data, in 2021, China accounted for 13% and 20% of the global M&A market in terms of transaction amount and volume, making it the second largest M&A investor in the world, second only to the United States [1]. It can be seen that China's position in the global capital market is increasingly improving.

China's internet penetration rate has been continuously increasing, and the user base has been expanding. At the same time, internet companies have been increasing their market share through various means. However, in recent years, the increasingly fierce market competition has forced internet companies to no longer focus on a single business area, but rather hope for diversified development. Therefore, companies usually choose to integrate advantageous resources in the same industry or upstream and downstream in the market, and achieve scale expansion through mergers or acquisitions.

Although the number of mergers and acquisitions is very large, the results of many mergers and acquisitions are not satisfactory, even in the highly regarded internet industry. Internet companies

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have paid a huge price to implement mergers and acquisitions, but have not achieved the expected results, integrated resources, expanded market power, or improved operational efficiency. However, they have experienced a decline in performance or a major change in core personnel after the merger and acquisition, which is worth summarizing and reflecting on.

2. Mergers and Acquisitions (M&A)

2.1. The Concept of Mergers and Acquisitions

There are usually two general terms for Mergers and acquisitions (M&A) between enterprises, one is to acquire ownership of the target company through acquisition, such as direct cash acquisition and stock acquisition, also known as mergers. Another method is to pay consideration, purchase shares of other enterprise assets, or obtain absolute control of the enterprise, commonly known as an acquisition [2].

M&A can usually be divided into three types based on business relevance. Mergers and acquisitions within the same industry are called horizontal acquisitions, mergers and acquisitions between upstream and downstream enterprises in the industry chain are called vertical acquisitions, and mergers and acquisitions unrelated to the company's business are called mixed acquisitions [3].

2.2. M&A Motivation Theory

2.2.1. Theory of Synergistic Effects

The theory of synergistic effects was first proposed by American scholar Ansoff, who believed that synergistic effects can strengthen mutual cooperation, share resources, optimize resource allocation, fully leverage each other's advantages, achieve the maximization of overall comprehensive benefits, and achieve a 1+1 greater than 2 effect, thereby improving the overall value of the enterprise. The synergistic effects after mergers and acquisitions are mainly reflected in three aspects: management, operation, and finance [4].

2.2.2. Market Power Theory

The market power theory, also known as the market power theory, has the core idea that the target of enterprise mergers and acquisitions is usually companies operating the same type of business. By acquiring such companies, the number of competitors in the industry can be reduced, the market share of the company can be increased, the scale of existing business can be expanded, and control over the business environment can be enhanced to obtain sustainable income and profits. Based on this theory, when a company acquires a company that is also in a competitive relationship and the market share of the acquired party's products or services decreases, the acquiring enterprise can gain its market share, thereby strengthening its control over the market [5].

2.2.3. Diversification Theory

The diversification theory emphasizes that "enterprises should not put all their eggs in the same basket", that is, they should not only engage in one business, but also fully utilize their own resources and implement a diversification strategy. If a company only launches one product and focuses on one industry, then in today's increasingly innovative technology and rapid economic development, the company's business is highly susceptible to market risks. Diversified business operations can to some extent dilute the risks caused by the impact of a single business [6].

2.2.4. Signal Transduction Theory

Signal transmission theory refers to the positive signal that a company sends to the market through mergers and acquisitions, thereby improving its performance. From an external perspective, the disclosure of merger and acquisition information will increase the market attention of the acquired companies, allowing some undervalued companies to regain market attention and enhance the confidence of investors and the capital market [7].

3. Case Study

3.1. Success Case: Ctrip's Acquisition of Qunr

3.1.1. Case Introduction

Ctrip (Ctrip. com International) was established in Shanghai, China in 1999. The company provides various tourism related services by integrating hotel and transportation information to meet the different booking and travel needs of leisure and business tourists. In December 2003, Ctrip successfully landed on the NASDAQ market in the United States [8]. On its first day on the NASDAQ market, the company achieved its largest increase in the three years since its opening, demonstrating the recognition of this Chinese internet tourism company by global investors. At the same time, with the rapid rise of Chinese internet companies, especially the rapid expansion of China's top internet companies, the competition in the internet tourism industry has become extremely fierce. Before 2015, the Chinese internet tourism industry mainly presented four major patterns, including Ctrip's Tongcheng Network, Qunr under Baidu and Yilong under Tencent, Qiongyou Network, a subsidiary of Alibaba [9]. In this fierce competition in the online tourism industry, in order to improve their market position, enterprises can only spend money to subsidize, in order to obtain more traffic and customer sources. By obtaining more users at low prices, it can not only bring market share to the company, but also incur huge costs, ultimately causing the company to fall into financial difficulties. At that time, the two largest internet tourism companies in China were Ctrip and Qunr, which led to a long-term and intense direct price war between the two companies. The continuous "burning money" caused the operating conditions of the two companies to be unbearable [10].

Against this backdrop, in October 2015, Ctrip and Qunr officially announced their merger with Qunar after a two-year price war. Online travel services have transformed from the initial "two strong competition" to "one super many strong". After the merger and acquisition, Ctrip became the largest internet tourism company in China, and its financial situation quickly improved. The company achieved sustainable profits in the industry and is also the most promising and potential internet company in the tourism industry. In addition, Ctrip has been the largest travel agency brand in China for many consecutive years and has become one of the world's largest online travel agencies [11].

3.1.2. Case Analysis

Seize the low market position. Seizing market share and expanding user base are important reasons for internet companies to engage in mergers and acquisitions. Firstly, after the merger and acquisition, the two companies became partners, and the price war between the two companies was completely ended, no longer fighting for profits. Since 2014, this war has lasted for more than a year, with both sides suffering heavy losses [12]. The merger and acquisition between the two sides can be said to have turned the tide of losses in reality. Secondly, the merger of Ctrip and Qunr is a horizontal merger that has played a significant role in expanding market share, expanding customer base, and enhancing market control. Secondly, from the perspective of market power theory, firstly, through horizontal acquisitions, companies can strengthen their control over hotels and accommodation, and improve

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their negotiation ability with hotels and even consumers; The second type is to obtain economies of scale and maintain a certain level of profitability, and after occupying a high threshold, one can enjoy the excess returns obtained from a monopoly position [13].

Gain synergies effects. Ctrip and Qunr are similar companies. Prior to the merger, both companies focused on online travel agencies as their core network supporting services. However, there are some differences in the business focus between the two companies. Ctrip focuses on online hotel services, while Qunr focuses on online flight booking services. Through this acquisition, the company has achieved complementary advantages and further expanded its business chain, giving it more say in commercial relationships with hotels and travel agencies, thereby further enhancing its competitiveness in the online tourism industry. Due to Ctrip's acquisition of Qunr, it also involved a network giant - Baidu, which is Qunr's largest shareholder. Due to the abundant resources under Baidu, mobile terminal technology is also relatively mature in China. Ctrip Travel can expand its business boundaries with the help of relevant map navigation, group buying consumption and other resources, further improve its mobile technology weakness, and integrate offline business. The mutual utilization of resources has brought many conveniences to both parties, ultimately achieving the effect of "1+1>2" [14].

3.2. Failure Case: Merger and Acquisition Between Gome Electric and KubaNet

3.2.1. Case Introduction

Kuba Shopping Network is a Chinese online shopping website established in 2006. The company is one of the earliest online shopping platforms in China, mainly providing consumers with home appliance purchasing services. Gome Electric Appliances is the largest retail home appliance trading company in China, with a long history. It was listed on the Hong Kong Stock Exchange as early as 2004, and has a deep supply chain of home appliances and a large number of home appliance sales stores throughout China. At the end of 2010, Gome Electric purchased 80% of the equity of Kubawang for 48 million yuan. In May 2012, another 12 million yuan was invested to acquire the remaining 20% equity of Kuba.com. The home appliance online shopping platform Kubawang was merged into the retail giant Gome Electric in the past, in order to break free from the supply chain difficulties commonly faced by e-commerce at that time and find an industry giant that can provide stable supply of goods. At the same time, Gome can also quickly establish its own online sales service platform to cope with the arrival of the The Internet Age after acquiring Kuba.com. The combination of traditional retail enterprises and online e-commerce websites was truly a combination of complementary resources at that time.

However, after a year of integration, the competitor Suning.com, relying on Suning's resources, has ranked third in the B2C market, while Kuba's market share is only 1.3%, which is far behind the expectation of Gome's 15% market share. Gome Electric hoped to inject its corporate culture into Kuba Network and control the company's management rights, which directly led to the resignation of Kuba Network's original management. Subsequently, over 90% of the old employees of Kuba.com were laid off, and even Gome Electric directly abandoned the long-standing brand of Kuba.com after establishing Gome Online [15]. Until today, under the impact of the wave of internet e-commerce shopping platforms, Gome Appliances has been fiercely left behind, with a large number of company stores closed and the company continuing to lose money. It has long lost the strong momentum of the Chinese electronics retail giant back then, and the stock price has plummeted and even faced the risk of delisting. There is no doubt that the acquisition of Kuba.com back then was a failure.

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Figure 1: Gome Electric's Stock Price.

3.2.2. Case Analysis

The conflict between company culture and management is the biggest reason for the failure of the merger between these two companies. Although both of these companies are Chinese and there are no differences in ethnic or national cultures, one is a thriving internet innovation enterprise, and the other is a traditional enterprise that has long enjoyed the status of a giant. There is a clear conflict in the corporate culture between the two companies. At the same time, due to a conflict between the two companies in the appointment of management rights for Kuba Network, a large number of senior executives and senior employees of Kuba Network have resigned. The resignation of experienced senior employees is undoubtedly the biggest loss to Kuba Network's assets, leaving only a shell internet technology platform. Internet companies that have lost their souls will undoubtedly struggle to survive in the subsequent internet wave, The Marginal utility of the resource integration advantages of the two companies will gradually weaken in the wave of the The Internet Age

3.3. Analysis/Discussion

This article summarizes the following inspirations for internet enterprises through the analysis of the above two cases:

Firstly, it is necessary to clarify one's own strategic positioning and choose the appropriate merger and acquisition enterprise and timing. The main purpose of mergers and acquisitions is to achieve complementary advantages and resources of enterprises, and to leverage synergies. Therefore, selecting suitable merger targets is particularly important. At the same time, the rapid development of the internet industry makes it crucial to choose the appropriate timing for mergers and acquisitions. In the first case, Ctrip and Qunr merged to gain market positioning and profitability in the face of fierce competition and deteriorating financial environment, ultimately growing into industry leaders.

Secondly, enterprises need to pay attention to the long-term development and resource integration after mergers and acquisitions. One of the key factors in evaluating the success of mergers and acquisitions is the integration work between the two parties after the acquisition. Enterprises need to pay attention to the comprehensive integration of human, material, and financial resources, and integrate the differences in development concepts and corporate culture between the two sides to enhance the cohesion and development momentum of the enterprise group. Fully leverage the advantages between enterprises, mobilize the subjective initiative of enterprise employees, especially make reasonable arrangements for the employees of the acquired enterprise, in order to maximize the

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value of employees and the enterprise, and ultimately achieve a win-win situation after the merger and acquisition.

4. Conclusion

This article studies the key factors of mergers and acquisitions by analyzing the two cases of mergers and acquisitions of Ctrip and kuba. Internet companies need to clarify their own strategic positioning, choose the right merger and acquisition company and timing, so as to maximize the ultimate effect of mergers and acquisitions. In addition, long-term development planning and resource integration after mergers and acquisitions are also top priorities. Enterprises need to pay attention to the comprehensive integration of human, material and financial resources, and integrate the differences in development concepts and corporate cultures between the two parties. So as to finally achieve a win-win situation after the merger and acquisition.

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