

Analysis on the Motivation and Effect of Ctrip's Merger and Acquisition of Qunar

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Abstract: In recent years, with the rapid development and maturity of the Internet industry, more and more Internet companies have acquired M&A to seize the market, and pursue the maximization of corporate value. However, most of the current researches on M&A are aimed at traditional enterprises. Internet companies cannot fully adapt to traditional M&A theories due to the characteristics of attention economy and light assets. This paper takes Ctrip's M&A of Qunar as an example, and explores the motivations and effects of Ctrip's M&A activities, and summarizes the problems that existed in the Ctrip's M&A activities. Finally, it puts forward some suggestions for future Internet enterprise merger and acquisition.

1. Introduction

With the growth and improvement of the m&a market at home and abroad, m&a has become a common activity in the world economy. According to statistics compiled by the research center of Qingke, the merger and acquisition volume of Chinese enterprises in 2017 was as high as 2,813, with frequent occurrence of large cases, and the disclosed transaction scale was 18,91.923 billion yuan.

At present, the Internet industry has penetrated into every corner of our daily life, and people have to pay more attention to Internet enterprises. In 2015, Ctrip announced the merger of Qunar. The merger of Ctrip and Qunar was typical and representative. This paper selected the case of Ctrip's acquisition of Qunar, analyzed the motivation and effect of Ctrip and Qunar's acquisition, summarized the existing problems of merger and acquisition, and put forward Suggestions for the problems, hoping to provide references for future Internet enterprise mergers and acquisitions.

2. Analysis on the Motivation and Effect of Ctrip's M&A

2.1 Review of Case of Ctrip's M&A of Qunar

Ctrip founded in 1999, is a leading comprehensive travel service company in China. Core competitiveness of Ctrip is the accumulation of a large number of high-quality clients and powerful call center, market positioning in no seasonal fluctuations in the high-end customer business travel, the main business for the hotel reservation, ticket booking, travel management, special merchants; Core competitiveness of Qunar is a leading travel search engine, comparison of the technology, market orientation on price comparison service for the price sensitive low-end customers, main business for the hotel search, ticket service, such as ticket order, tickets and ticket price trend query.

On October 26, 2015, Ctrip issued additional shares of 11,488,381 common shares, trading the 178,702,519 ordinary shares of QunarA and 11,450,000 common shares of Qunar class B from baidu in a ratio of 0.725:1, so as to complete the merger and acquisition of Qunar and acquire 45% voting rights of Qunar.

2.2 Analysis on the Motivation of Ctrip's M&A of Qunar

2.2.1 Stop the Long Price War and Return to Rational Market

In July 2012, Ctrip launched a new round of price wars in the online travel industry by announcing an injection of \$500 million for a year-long low-price promotion. Subsequently, Qunar also announced to invest 30 million dollars to build a free intelligent travel service platform. According to statistics, Ctrip's net profit in that year decreased by 34% compared with 2011, and Qunar's loss reached 566 million yuan. 2014 was another year when online travel companies suffered severe losses due to fierce price competition, and the long-term price war also led to the decline of Ctrip's profitability. Qunar's loss is even more serious. According to Qunar's 2014 financial statement, Qunar lost as much as 1.845 billion yuan. Ctrip's acquisition of Qunar ended the vicious competition with Qunar in the long price war and promoted the gradual return to rationality of the market.

2.2.2 Consolidate Industry Position, Raise Market Share

In 2014, the platform enterprise Fliggy developed rapidly, and its online ticket market share increased rapidly due to the continuous improvement of the work of fast refund and change and service quality. In 2014, the monthly per capita traffic volume of Fliggy air ticket service ranked first in the whole year, among which the monthly per capita traffic volume of Fliggy air ticket service reached 4.3 times in March and September, higher than the 2.2 times of Ctrip air ticket. In the online hotel market, Meituan entered late but developed rapidly. In 2014, 45 million hotel reservations were made, with a total transaction value of 5.5 billion yuan. Although Ctrip's online air ticket market share and online hotel market share are still in the forefront, the excessive user stickiness of Fliggy and the high-speed growth ability of Meituan have brought Ctrip a certain threat. Ctrip's horizontal merger and acquisition of Qunar will combine with each other to improve its control over the market and thus increase its market share.

2.2.3 Reduce Enterprise Cost and Improve Profitability

After the acquisition of Qunar, Ctrip expanded the operation scale of Ctrip, rapidly increased the user scale of Ctrip, effectively allocated enterprise resources, reduced duplicate facilities, acquired Qunar data and traffic for its use, and reduced the production cost of the enterprise. After the merger of Ctrip and Qunar, the two companies have possessed more than half of the market, raised industry barriers and strengthened bargaining power with upstream and downstream companies, thus reducing transaction costs with upstream and downstream companies. Qunar has a leading travel search engine, and Ctrip USES the platform to promote its products and reduce marketing costs. Qunar has invested heavily in research and development to maintain its core strengths. After Ctrip's acquisition of Qunar, it can make use of Qunar's technology to make up for Ctrip's disadvantage in this aspect and save Ctrip's research and development costs. Ctrip and Qunar have a large number of business overlaps. After Ctrip's horizontal merger with Qunar, all the employees have work experience in the online tourism industry and spend less on personnel integration, saving the cost of training new employees.

2.2.4 Absorb Qunar's Technology and Take Advantage of Baidu

Qunar is the first to launch vertical search mode in China. Superior data processing capabilities, leading search engines and comparison technology make Qunar stand out. After the acquisition of Qunar by Ctrip, Qunar's powerful technology can provide support for Ctrip, make up for the lack of Ctrip in this aspect, and promote the rapid development of Ctrip's business.

Baidu in the computer terminal and mobile terminal have a large number of user visits, has a great traffic advantage. After the acquisition, baidu became the shareholder of Ctrip. Ctrip took advantage of baidu's traffic advantages to promote Ctrip's related businesses.

2.3 Analysis on the Effect of Ctrip's M&A of Qunar

2.3.1 Financial Index Analysis

The analysis of financial indicators is based on four aspects: profitability, solvency, operational capability and growth capability. The specific indicators in each aspect are shown in Table 1.

It can be seen from Table 1 above that after Ctrip's merger and acquisition, after a period of adjustment, all aspects of the ability have improved.

Table 1. Ctrip's financial index for 2012-2017

Index	Year	2013	2014	2015	2016	2017
Profitability index	Gross profit margin	74.26%	71.41%	72.07%	93.81%	82.53%
	Return on equity	11.84%	0.96%	6.48%	-2.35%	2.67%
	Net sales rate	16.83%	1.25%	22.02%	-8.51%	8.07%
Solvency index	Current ratio	2.26	1.34	1.21	1.52	1.4
	Long-term debt ratio	27.48%	26.20%	18.08%	26.73%	20.62%
	Asset-liability ratio	58.07%	66.83%	46.41%	47.71%	46.64%
Operating capacity index	Accounts receivable turnover	4.31	4.39	4.38	4.95	5.83
	Current asset turnover	0.49	0.47	0.38	0.44	0.51
	Total asset turnover	0.33	0.28	0.15	0.15	0.17
Growth ability index	Growth rate of net profit	31.27%	-89.89%	2518.79%	-168.19%	232.06%
	Growth rate of total assets	78.40%	50.30%	279.80%	21.52%	12.21%
	Growth rate of operating income	29.53%	36.39%	48.33%	76.45%	39.27%

2.3.2 Non-financial Index Analysis

In 2015, the online transportation market continued to grow but the speed was relatively slow. Ctrip has a significant advantage and is relatively easy to stabilize. According to the statistics, Ctrip accounted for 36% of the online transportation market share in 2015, up 5.4% year-on-year, and Qunar occupied 33.2%, up 5.6% year-on-year. In 2016, Ctrip still occupied half of the industry, and the industry concentration increased. Ctrip was in the forefront of the market. The transaction scale reached 188.55 billion yuan, accounting for 35%.

In 2015, the online accommodation market developed rapidly, and the transaction scale exceeded 80 billion. Ctrip accounted for 43.7% of the online accommodation market in 2015, and Qunar occupied 19.4%. In 2016, Ctrip integrates the business of channel suppliers to form a clearly structured brand structure. Ctrip has a 45.8% share of the online accommodation market, and Ctrip has a market share of 67.3%, leading the market.

3. Analysis of the Problems in Ctrip's M&A of Qunar

3.1 Not Correctly Valued

In the transaction of Ctrip's merger and acquisition, the ratio of Baidu's and Ctrip's shareholding replacement is about 1:0.725. On the day of the merger, the market capitalization ratio of the two companies was approximately 2:1. From the ratio of equity swaps and the market value ratio of the merger date, it can be seen that the premium level of the merger is relatively high, indicating that Ctrip has not made a correct valuation of Qunar, and there is a phenomenon of overvalued value.

3.2 Causes Equity Dilution

Ctrip and third-party Baidu made equity swap acquisitions. After the transaction, Baidu became the largest shareholder of Ctrip with 25% voting rights. Ctrip's additional shares were exchanged for Qunar's stock from Baidu, which did not affect Ctrip's cash flow, but changed Ctrip's shareholding structure, diluting shareholders' equity and leading to control transfer.

3.3 Insufficient Resource Integration

In terms of organizational structure, Ctrip acquired a series of rectifications, and gave up the mature and efficient organizational structure of Qunar. Ctrip also strongly accepted the high-star hotel's independent business of Qunar, and terminated the cooperation with Gaoxing Hotel, coupled with the problems of adjusting the salary and other aspects, resulting in a large number of employees responsible for high-star hotel business leaving. On January 4, 2016, the original CEO of Qunar announced his resignation, some of the senior executives also resigned, causing the stock price to drop on that day.

4. Suggestions for the M&A of Internet Enterprises

4.1 Choose Reasonable Valuation Method

In order to avoid overestimating the target enterprise and increase the pressure of enterprises in the later stage of merger and acquisition, Internet enterprises should conduct a full investigation on the target enterprise and reasonably measure its value before merger and acquisition. Enterprises may select accounting firms, asset appraisal firms and other professional valuation institutions and professionals. Enterprises should also choose reasonable valuation methods and design targeted valuation methods in combination with the characteristics of Internet enterprises.

4.2 Choose Reasonable M&A Methods

Internet enterprises should reasonably choose the way of merger and acquisition to reduce the cost of merger and acquisition. Each mode of merger and acquisition has its own advantages and disadvantages. Before choosing the mode of merger and acquisition, Internet enterprises should have a detailed understanding of their own operating conditions, so as to avoid the heavy pressure caused by the inappropriate mode of merger and acquisition in the later stage.

4.3 Strengthen Post-Merger Integration

Internet enterprises must fully understand the differences with target enterprises in corporate culture, human resources, organizational structure, business activities, market positioning and other aspects, and actively complete the later integration work to ensure the completion of the target. The difference of corporate culture between the two sides of merger and acquisition will cause some estrangement and affect the subsequent integration. In order to ensure the successful integration of corporate culture, it is necessary to strengthen communication and actively input advanced culture and management mode to the acquired enterprise. In addition, Internet enterprises should pay special attention to the integration of technical data and other resources to achieve internal sharing, reduce operating costs and achieve economies of scale.

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