

Motivation and Risk Analysis of Internet Enterprise Mergers and Acquisitions

Taking Didi Travel Acquisition of Uber China as An Example

Ling Jiang, Zifeng Wang *

School of Economics, Anhui University of Finance and Economics, Bengbu, China

*3264823302@qq.com

Abstract: Today, in the age of economic globalization, competition in China's Internet industry is becoming more intense, with a boom in mergers and acquisitions. In this article, we will use Didi Travel acquisition of Uber China as an example to analyze the current state of the Internet industry, analyze the motives of Internet companies, and analyze the risks faced during the process. Finally, we make some meaningful suggestions for mergers and acquisitions of internet companies.

Keywords: Internet companies, Motivation for mergers and acquisitions, Risk of mergers and acquisitions.

1. RAISING THE PROBLEM

With the convenience of the Internet platform, Didi Travel has developed rapidly and has become an indispensable "artifact" for people to travel. After a series of huge financing and mergers and acquisitions, Didi Travel is in an advantageous position in the online car-hailing industry. On September 1, 2012, Didi Travel received a US\$2 million investment from Jinshajiang Venture Capital. On January 2, 2014, Didi Travel received a US\$100 million investment from CITIC Industry Fund and Tencent Industry Mutual Benefit Fund. On December 11, 2014, Didi Travel received an investment of US\$700 million from China Investment Corporation, Tan Maxi, and Tencent Industry Win-Win Fund. On February 14, 2015, Didi Travel and Kuaidi jointly announced that they would formally merge through a 100% share swap. On August 1, 2016, Didi Travel and Uber Global reached an agreement to acquire Uber China's brand, business, data and other assets operating in mainland China. On August 15, 2016, Didi Travel reached an agreement with China Post Group to introduce China Post as a strategic investor [1].

When Didi Travel acquired Uber China, its market share accounted for the majority of the total, and its valuation was as high as 35 billion U.S. dollars. This series of results attracted the attention of all walks of life. This has caused some worries among the general public: Will the merger of Didi Travel and Uber China constitute a monopoly? After the merger, does Didi Travel have the right to raise prices at will? This article focuses on the motivations behind Didi Travel's merger with Uber China, the risks and countermeasures encountered during the merger and acquisition process.

2. CASE ANALYSIS

2.1 Company Profile

2.1.1. Introduction To Didi Travel

Didi Travel was established in 2012, which has greatly changed the way people travel. In 2015, it merged with Kuaidi Taxi. Didi Travel has become the world's leading one-stop diversified travel platform, and its business scope includes taxis, private cars, and other industries.

2.1.2. Introduction To Uber China

In 2010, Uber was established in Silicon Valley, USA. Uber China was established in China in 2014 to provide customers with low-priced private cars and other services. Through price wars, it will occupy a larger share of the Chinese market in a relatively short period of time.

2.2 Mergers and Acquisitions Background

Due to the fierce competition in the online car-hailing market, in order to gain more market share, the industry leaders Didi Travel and Uber China have taken many measures to consolidate their market positions, such as: full reduction of the first order, student discounts, etc. Didi Travel and Uber China provide subsidies from both drivers and customers, which have a very significant effect in a short period of time. Most of the domestic market is divided by Didi Travel and Uber China. However, the huge subsidies have caused Didi Travel and Uber China to continue to lose money and bear huge debts. The price reduction measures of the two can no longer be maintained [2].

2.3 Mergers and Acquisitions Motivation

2.3.1. Financing Difficulties

Based on the O2O model, Didi Travel has a large number of online customers, and the O2O model is based on a certain scale and market for profit. Didi Travel is customer-oriented, and its profit channel is mainly a combination of each order and advertising business. The current online car-hailing market is fiercely competitive [3]. In order to gain a larger market share in the competition, Didi Travel and Uber China both provide price subsidies, student discounts, and first order full reductions through huge financing to attract customers. From the perspective of valuation, before the merger, Didi Travel's valuation was as high as 28 billion U.S. dollars, while Uber China's valuation was only about 7 billion U.S. dollars. From the perspective of market share, Didi Travel's user coverage is about 88.4%, while Uber China's user coverage is about 40%-45%. Under such circumstances, both Didi Travel and Uber China are not easy to obtain huge financing, which promotes the acquisition of Uber China by Didi Travel.

2.3.2. Large Losses

Before the merger, Didi Travel and Uber China both suffered huge losses and were unprofitable. In 2015, Didi Travel lost about 10 billion yuan, and Uber China lost about 6.7 billion yuan. And the co-investors of Didi Travel and Uber China do not want to see such a costly and uncertain situation. After multiple rounds of financing, the equity of entrepreneurs has been diluted many times, and investors have a greater say. This has promoted the pace of Didi Travel's acquisition of Uber China [4].

2.3.3. Reduce Costs And Seek Development

Since the advent of online car-hailing, the entire industry has been fighting a price war, with Didi Travel and Uber China winning in the end. Didi Travel and Uber China have been in a competitive situation for a long time, both competing for subsidies to customers for more market share, leading to huge losses in the early stages of business. If there is no change, it will definitely lead to lose-lose in the end. With the continuous development of Internet technology, various taxi-hailing software have also come out, greatly increasing the utilization rate of travel software. As of 2015, the number of mobile Internet users in China was about 688 million, and the Internet penetration rate was about 50.3%. Didi Travel had 300 million users. In addition, Uber China and Meituan Taxi also have relatively stable user groups. It can be seen that the growth trend of the entire Internet travel market has slowed down. In order to continue to increase their own value, senior executives of various companies have begun to look for new markets and opportunities [5].

2.3.4. The Government Issues New Regulations

In July 2016, the "Interim Measures for the Administration of Online Taxi Booking Service Management" was issued, which made very detailed regulations on various aspects of the car-hailing industry, including companies, vehicles, and drivers. Based on this, various localities have successively introduced rules for online car-hailing. As an outsider, Uber China has to quickly adapt to the newly announced policies while maintaining normal operations, which will increase its burden and highlight its disadvantages. For the local Didi Travel, it is easier to adapt to new policies and new environments.

3. MERGERS AND ACQUISITIONS RISKS OF INTERNET COMPANIES

3.1 Legal Risk

In less than two years, Didi Travel successively acquired Kuaidi Taxi and Uber China, which caused Didi Travel to be suspected of being a monopoly. However, Didi Travel and Uber China have not signed a monopoly agreement, so they do not constitute a monopoly. According to my country's "Anti-Monopoly Law", after Didi Travel acquired Uber China, Didi Travel's market share far exceeded 50%, far exceeding the legal warning line, and it has a dominant market position. However, since there is no definite evidence to prove that Didi Travel has "abusing its dominant market position", it does not constitute a monopoly. After Didi Travel acquired Uber China, once it reaches the warning line of operator concentration, it will constitute a monopoly, and it will face huge fines and even market splits. Therefore, in order to avoid the emergence of monopoly, it is necessary to carefully consider possible risks before mergers and acquisitions and prevent them in advance [6].

3.2 Operational Risk

After Didi Travel acquired Uber China, it could not immediately stop the stop loss model. According to the law of market supply and demand and the law of demand in the operating mechanism, the price is inversely proportional to the demand, that is, when the price of the product starts to rise, the demand decreases. In the case of Didi Travel, when Didi Travel immediately ends the price subsidy service, users and drivers will not use Didi Travel's related services, which will lead to a sharp decline in its market share.

3.3 Enterprise Management System Risk

Compared with Uber China, which is an outsider, and Didi Travel, which is a local company, there is a big gap between the two in terms of culture and management. After the merger, the business philosophy and model and organizational structure of the two need to be adjusted. In order to better integrate the two and reduce corporate operating costs, Didi Travel needs to carry out departmental reorganization and layoffs. This requires speeding up the improvement of the management system and adjustment of the organizational structure. During the integration process, it can be found that there is overlap between the two in terms of operating platform and management system, which will cause many wastes to the enterprise. Therefore, Didi Travel needs to solve the above-mentioned problems as soon as possible after the merger, and reduce risks [7].

3.4 Personnel Risk

After Didi Travel acquired Uber China, many Uber China employees also joined Didi Travel, and the leadership of Didi Travel also changed. However, after the merger, many Uber China employees resigned due to various factors such as company and personal factors, and many of them were senior leaders. First, in the context of such a large turnover and large resignation, it has been highlighted that Didi Travel has not adjusted its corporate culture in a timely manner, resulting in the inability to retain employees and maintain their loyalty. Second, the two have been in opposing classes for a long time in the past, and they have engaged in very fierce competition. If the company cannot eliminate the ideological and emotional opposition between the employees of the two parties in time, it is likely to cause difficulties in the internal management of the company, which is not conducive to the long-term development of the company.

4. CONCLUSIONS AND COUNTERMEASURES

The Internet industry is in a wave of mergers and acquisitions, and corporate mergers and acquisitions are not uncommon. If the risks are not considered before mergers and acquisitions are carried out blindly, not only will it not promote the development of the company, but it will lead to crisis and even bankruptcy of the company. In order to ensure the smooth development of mergers and acquisitions and achieve the expected results, it is necessary to fully understand the advantages and disadvantages of mergers and acquisitions before mergers and acquisitions, and take precautions in advance. Taking Didi Travel's merger with Uber China as an example, a series of risks and corresponding countermeasures can be found in mergers and acquisitions.

4.1 Strategic Aspect

As a leader in the online car-hailing industry, after Didi Travel acquired Uber China, its strategic goal is to improve its own system and improve its core competitiveness. In addition, Didi Travel's corporate vision is to build a one-stop service platform that is the most advanced in the world, providing convenient services for each user and promoting social harmony. If Didi Travel wants to win the favor of customers, it needs to improve customer satisfaction and make improvements based on customer expectations. After the merger, Didi Travel accounted for most of the market share. From then on, the company should focus on customer evaluations and feedback after taking a taxi,

and make timely corrections based on customer suggestions, which will improve customer satisfaction with Didi Travel, thereby promoting Didi Travel's grasp of customer resources.

4.2 Management

Didi Travel should pay attention to the relevant policies and laws of the domestic Internet industry in a timely manner, adapt to the new regulations and laws, and actively make a series of adjustments. After the merger, if Didi Travel wants to achieve better business development, it needs a new business model. Mergers and acquisitions will greatly promote the development of the online car-hailing industry, but it will not happen overnight and will take some time. After Didi Travel's merger and acquisition, it is necessary to adopt a model that can increase corporate profits and better utilize the advantages of mergers and acquisitions.

4.3 Cultural and Personnel Integration

After mergers and acquisitions, companies should actively build an adaptive corporate culture. This kind of corporate culture with strong coordination and good applicability can keep up with the rapid development of the Internet industry. Under the adaptive corporate culture, it can increase the enthusiasm of employees and increase the trust and dependence between employees and between employees and the company. The corporate atmosphere of the adaptive corporate culture is better, which promotes employee and corporate innovation. After the merger, in order to avoid the loss of talents, it is necessary to clarify the senior management personnel of the company, stabilize the employees, and avoid affecting the normal operation of the company. Companies can establish employee incentive mechanisms, and material rewards are the primary method to ensure employee work efficiency. The employees of the current Internet companies tend to be young people, so they can't discuss seniority as in traditional companies, and can't adopt the model of raising and lowering employees based on their working years. Instead, they should establish an incentive mechanism based on their work ability and completion. In addition, for some scientific and technological talents with special contributions, it is necessary to set up a special reward mechanism to protect the enthusiasm of employees. Material rewards can ensure that employees have a certain degree of work efficiency, but to create a positive and harmonious working environment, it is necessary to affirm the value of each employee ideologically. Enterprises should strengthen the humanistic care for employees, help employees to make career planning, attract high-quality talents to join, and improve the core competitiveness of the company.

In summary, with the development of the economy, mergers and acquisitions of Internet companies have occurred from time to time. However, in the process of mergers and acquisitions, due to risks or some problems, mergers and acquisitions may fail or fail to achieve the expected results. Based on this, my country's government, enterprises and individuals must work together to eliminate a series of problems in the process of mergers and acquisitions, ensure that mergers and acquisitions can be successfully completed and achieve the expected results, and promote the development of my country's Internet industry.

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