The Impact of Business Merger on Profitability —— in the Case of Ctrip and Qunar Merger

Yuanyuan Han

Jiangsu University of Science and Technology, Jiangsu Province, China

429872408@qq.com

Keywords: Business Merge, Online Travel, Profitability

Abstract: In recent years, the Internet industry has continued to merge, and the industry concentration and maturity have increased. The online tourism market segment is no exception. However, the ultimate purpose of corporate decision-making is to make profits. Most of the mergers of traditional processing and manufacturing industries have improved their profitability, but it remains to be proven for emerging industries such as the Internet and medical care. This thesis attempts to analyze and study the profitability before and after the bussiness merger of ctrip and Qunar.com, which are representative of online travel industry, and at the same time conduct a horizontal industry comparison with other online travel companies. Based on this, we can analyse the impact of the business combination on the profitability of online travel companies, explore the existing problems, and and put forward corresponding suggestions for improving the profitability of enterprises.

1. Introduction

Business merger first appeared in western countries. Since the end of the 19th century, enterprises in western developed countries have experienced four major waves of merger, while in China, the wave of business merger occurred in the reform and opening up from 1949 to 1965 when the People's Republic of China was founded, and since the 1980s. In recent years, the Internet industry has mushroomed and developed rapidly, and many physical companies have also begun to develop into the e-commerce industry. However, when the Internet industry develops to a white-hot stage, there will be fierce competition, shortage of resources, service quality cannot keep pace with the situation, so the merger with other enterprises in the industry has become a way for most enterprises to broaden the market and develop better. [1]

In the past decade, China's online tourism market has been developing rapidly with increasingly fierce competition. Now it has entered a golden period of development, which is also a period of transformation, improvement and efficiency. The merger of Ctrip and Qunar shows that China's online travel market will accelerate the shift to cross-shareholdings and win-win cooperation. This study is of great theoretical and practical significance for the enterprises in online tourism industry to achieve better profitability by means of merger.

2. Case Study: The Impact of Ctrip and Qunar Merger on Profitability

Ctrip (Ctrip for short), founded in 1999, now has more than ten thousand employees, its headquarters is set up in Shanghai, with branches in 16 cities in China, using the Internet and traditional tourism combined operation mode, is China's leading tourism service group [2].Qunar (Qunar for short), founded in February 2005 and headquartered in Beijing, is China's leading travel search engine and is currently the world's largest Chinese online travel website.[3]

On October 26, 2015, Ctrip announced that it had reached an agreement with Baidu on the stock exchange transaction. Baidu will exchange 178,702,518 class A common shares of Qunar and 11,450,001 Class B common shares of Qunar for 11,488,380 additional common shares of Ctrip, and the conversion ratio of one Qunar ADRs to 0.726 Ctrip AdRs for this transaction is the share exchange ratio of this transaction. After the completion of this transaction, about 26% of Ctrip's total voting power will be owned by Baidu, while about 46% of Qunar's total voting power will be owned by Ctrip. Moreover, the combined market value of the two enterprises has reached $15.6 billion. [4]

2.1. The Motivation for the Merger of Ctrip and Qunar

(1) Reduce enterprise costs and improve profitability. After the merger of Ctrip and Qunar, the online hotel and air ticket market share will decrease, and the vicious price war will come to an end, which will undoubtedly reduce ctrip's costs to improve its profitability. In addition, Qunar is ahead of other enterprises in the technology of comparing prices of various websites. The merger of Ctrip with qunar can save the cost of r&d and staff training and develop more high-profit projects.

(2) Relieve the pressure of cash flow shortage. In 2014, where the net revenue rose more than 100%, but its spending by more than 300%, the low price, high cost, shareholders don't agree, the condition of the development of their own lack of innovation, to alleviate the pressure of a shortage of cash flow, you need to get new money, so you need to find new investors or by baidu to credit, obtain higher loan interest rates. As qunar's losses are becoming more and more serious, seeking new development paths is the road it must choose. [5]

2.2. The Impact of Ctrip and Qunar Merger on Its Profitability

2.2.1. Comparative Analysis of Profitability

Due to the full outbreak of the online tourism price war in 2013 and 2014, the average profit margin of the entire online tourism industry reached the lowest level in 2014, and the gross profit of Ctrip and Qunar was generally low. After the merger of Ctrip and Qunar, the total revenue of both companies increased significantly, and the gross profit driven by the total revenue showed a stable and rapid rising trend after 2015. The merger of Qunar's financial statements caused Ctrip the largest quarterly loss in history, with the net profit rate of sales dropping sharply from 23.01% to -7.44%. However, if the impact of Qunar's business is deducted, Ctrip will also generate high fees due to the granting of super-high options to the team, which is still a loss. The fluctuation caused by the merger was only temporary.[6]Ctrip made good use of the advantages of Qunar to further expand the market scale, and the interest rate rose in the middle of 2017 and was in a stable rising state. Qunar gradually turned to profit in 2016, and Ctrip's operating profit increased significantly in 2017. Although there are some short-term challenges, the two sides have achieved a good development trend of turning losses into profits in the state of mutual benefit and complementarity.

2.2.2. Comparative Analysis of Operating Capacity

Before the merger, the receivables turnover ratio of the two enterprises was relatively stable. Qunar was better than Ctrip in terms of faster receivables turnover, faster capital recovery and stronger solvency. And after the merger, exists in the ticket, hotel operations such as repeat business, thus wastes the relevant funds, research and development costs, the cost of the two companies to increase, making the total asset turnover fell, all show that the two businesses in the merged didn't improve on the utilization of assets, sales ability decreased, in 2014 and 2015, the Internet market competition entered the white-hot stage, online travel industry for a long time to implement the price war, sometimes even to sell below cost, makes the enterprise own development, which is one of the factors that affect operating ability over the years.[7]After 2017, the turnover rate of total assets has a trend of gradual increase. It can be seen from the good trend that enterprise merger makes enterprises develop healthily.

2.2.3. Comparative Analysis of Development Capabilities

Ctrip and Qunar revenue growth rate before the merger at a more stable growth level. From 2013 to 2015, Ctrip's revenue growth rate was 30.21%, 36.39% and 48.33% respectively, and qunar's revenue growth rate was 69.6%, 106.45% and 137.44% respectively. This is because of the price war among tourism enterprises, which makes profits by cutting prices. It can be seen that Qunar has obvious advantages, but long-term price war is difficult to maintain corporate profits. In 2016 after the merger, the revenue growth rate of both companies increased significantly, which shows that the merger has a good effect on the future development ability of enterprises.

Before the merger, the gross profit growth rate of the two companies was in the same growth state, but the growth rate was still small. Both companies gained some profit growth through the price war. However, after the merger, Ctrip grew from 49.71% in 2015 to 84.60% in 2016, with a significant increase in gross profit growth rate. This is because qunar gained wings after the merger. With ctrip's investment, Qunar expanded its market share, and the company announced that it realized overall profit in the third quarter of 2016. Therefore, the merger of Ctrip and Qunar brings mutual benefit and win-win results, which will continuously improve the future development and sustainable operation capacity of the two enterprises.

2.3. Comparative Analysis within the Industry

Only when point and surface are combined, can analysis and argumentation be carried out better. The following will be through Ctrip and Tuniu's financial situation comparison, to do further research. [8]

According to Tuniu's financial data, Although Tuniu's gross profit has been increasing year by year, its net profit rate of sales has been in negative territory, indicating that its profitability has not improved in the context of the price war in previous years, and it has been in the state of loss for a long time. The operating capacity of the enterprise was very good in 2013, but with the war of attrition in the industry, the speed of asset turnover was decreasing year by year. However, according to its development indicators, the profitability of its own capital is gradually strengthening. The return on equity increased from the low point in 2016 to -5.41 in 2018, and the basic earnings per share increased to -1.50. The overall development trend of the enterprise is in a good direction, which also benefits from the general background of the economic recovery of the online tourism market.

Before this, Qunar was similar to Tuniu, and the company was basically in the red for years. However, after the merger, qunar obviously increased its financial indicators and turned into profit at the end of 2016, unlike Tuniu, which had little change in its profitability and was subject to the market environment. In 2017, Ctrip's annual net profit doubled, while Tuniu's loss narrowed. Ctrip's annual net operating income was 26.8 billion yuan, up 39% from the same period last year. Excluding equity compensation fees, ctrip's annual net profit attributable to shareholders was 4 billion yuan. Tuniu's full-year revenue totaled 2.2 billion yuan in 2017, up 53.3 percent year on year, but its net loss was 771.3 million yuan.

In short, whether it is Ctrip or Qunar, the degree of improvement after the merger performance is much better than Tuniu. It can be seen that the merger of online tourism enterprises and the integration and utilization of resources, although not very significant in the short term, will help improve the profitability of enterprises in the long run.

2.4. Case Analysis and Summary

2.4.1. Ctrip and Qunar Profitability Summary

Through the above case analysis, the profitability, development ability and operation ability of the enterprise are deeply discussed and studied. We make the following conclusions: Firstly, the merger of online tourism enterprises has a good promotion effect on enterprises' economies of scale, management, operation synergies and market share, which is conducive to improving enterprises' economic management efficiency and giving play to the positive effect of merger. Secondly, due to the fierce price war in the online travel market in the merger year of Ctrip and Qunar, the overall profitability of enterprises has been deviated. Merger has no significant effect on short-term profitability, but it is not difficult to find the trend of steady improvement of profitability after merger. Thirdly, Qunar can expand its market share through Ctrip, and Ctrip can get more customer traffic through Qunar. Only by making good strategic planning and mutual complement between advantages and disadvantages can the company truly achieve win-win cooperation.

2.4.2. Defects in the Merge

In the online tourism industry, Ctrip and Qunar respectively account for 35% and 25% of the market share, which makes the market share of the two companies after the merger exceed 60%. It is very easy to create industry monopoly. Once the business integration of the two companies is not proper, it will attract the supervision mechanism, which brings huge monopoly risks in the legal level. In mergers, usually has certain change of executives are arranged on both sides, and the combination is baidu to negotiation with ctrip, where lead to network until late in the transition, has been marginalized in the development, the enterprise culture, idea of both sides cannot very well, also easily lead to changes in some customers on both sides or loss, it will bring some risk for the future development of the enterprise.

3. Research Conclusions: Online Travel Industry Business Merger Related Suggestions

3.1. Related Suggestions

Online travel is the fastest growing part of the tourism industry and is expected to maintain a compound annual growth rate of more than 20% in the next 4-5 years. The steady growth of the online vacation market will also create more challenges for vertical online vacation platforms and even lead to more mergers and acquisitions [9].Therefore, in view of the current impact of online tourism market mergers on profitability, this paper puts forward relatively reasonable suggestions to provide a certain theoretical basis for future mergers between other enterprises in the industry.

Standardize the market order

Market order is the lifeline of the tourism industry, which affects the overall image of the tourism industry. In recent years, the competitiveness of online tourism market has been continuously strengthened, and the "unreasonable low price" in the tourism market is the root of the market order. In order to develop the industry well in the future, the National Tourism Administration must put the regulation of the tourism market order in the first place of tourism management. The government can establish an interview system, launch special inspections, implement supervision and management, improve relevant legal systems, and crack down on illegal acts in the industry. All enterprises should consciously accept social supervision, assist the government to regulate the market order, maintain the benign development of the market, and provide a good economic environment for the merger of enterprises in the industry, which is more conducive to improving the profitability of enterprises after the merger.

The business competition relation adjustment after the merger

The merger of enterprises within the same industry requires a more sober understanding of the problems existing in the competition within the same industry, and it is the first task after the merger to solve the highly overlapping competition of markets, products and services. Generally speaking, it is almost impossible for both parties to transfer the competing business to an unrelated third party, but one of them gives up the business or indicates that it will not carry out the competing business. Both parties need to adjust their business scope and major markets, avoid unnecessary expenses and expenses in repetitive business, reduce operating costs, and make their enterprises complement each other in services and products to improve their profitability. Therefore, business competition should be adjusted as soon as possible after the merger to avoid horizontal competition.

Prevent the formation of monopoly and related risks after merger

The two merged enterprises have completely different strategic business modes, and their business philosophy, strategies and policies, target markets and other aspects are quite different. In order to achieve the ultimate goal of corporate profitability, there are also certain operational integration risks. First of all, the business development of both companies needs to avoid the formation of monopolies. For example, after the merger of Ctrip and Qunar, the market share of ctrip and Qunar exceeds 60%, which is easy to form monopolies and make the industry development stagnate. Secondly, when enterprises integrate their businesses, they can reduce operating costs by reducing business overlap. Once the integration is not good, both parties may lose some customer traffic and thus increase the cost risk. Finally, the enterprise should not be confused by the temporary profit increase after the merger. During the integration of business objectives, the enterprise should clearly recognize the manpower and financial resources needed to be invested and also pay attention to the possibility of financial losses during the integration of business.

3.2. Enlightenment and Prospect

Under the tide of "mass entrepreneurship and innovation" in the commercial market, the high-speed development trend has been continued in the tourism industry, and online tourism has also benefited from it. However, with the intensifying competition and the intensifying price war, the average profit margin of the entire online tourism industry reached its lowest point in history in 2014. The competition of the whole industry will be a "war of consumption", and the merger and acquisition or financing in the online tourism industry is conducive to the rapid increase of the concentration degree of the industry. This will lead to more and more enterprise mergers in this industry in the future. The merger of Ctrip and Qunar will undoubtedly find a new space for the development of online tourism industry, and improve the profitability of both companies. The following enterprises that need to be merged can learn from the experience, try their best to avoid risks, improve their profitability, and expand the development of the enterprise.

References

[1] He Yinxuan, Wang Jiangshi. History, Current Situation and Development Suggestions of M&a in China [J]. Coastal Enterprises and Technology, 2011(1):41-45.

[2] Yang Shasha. Analysis on the Business Development Environment of Ctrip [J]. Special Economic Zone Economy, 2004(11):109-111.

[3] Wang Mingyu, Liu Shuzhen. Business Model Analysis of Qunar, a leading Internet travel search engine company in China [J]. Electronic Commerce,2013(12):20-21.

[4] Xin Haiguang. The Cost of Internet Thinking [J]. China Customs, 2015(11).

[5] Zhou Yunlan, ZHANG Siquan, YU Ning. Analysis of the Merger case between Ctrip and Qunar [J]. Science and Technology Entrepreneurship Monthly, 2016, 29(18):35-37.

[6] Jiao Y H, Quan R S, Sul W. Comparison Analysis of Profitability Determinants between Local Subsidiaries Abroad of Korean and Chinese Banks[J]. 2015, 19(3):195.

[7] Xiang Dewei. Thoughts on the Refinancing Assessment of Listed Companies[J]. Finance and Accounting Monthly, 2005(5):17-17.

[8] Ma Zhiyang. Analysis on the Impact of Enterprise Merger on Profitability -- Based on the merger case of China Eastern Airlines and Shanghai Airlines [D]. Hebei University of Economics and Business, 2014.

[9] Sheng Y C. On the Measure and Evaluation of Regional Tourism Industry Development[J]. Journal of Hunan University of Commerce, 2016.