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Analysis of Meituan's Acquisition of Dianping

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Abstract: *In this paper, we first analyzes the industrial background of two Internet companies, Meituan and Dianping, and then analyzes the reasons for Meituan's acquisition of Dianping. Secondly, the article introduces in detail the merger and integration process of two Internet companies, Meituan and Dianping. After the integration, the existing performance of Meituan was analyzed. Through the above-mentioned process of Meituan's acquisition of Dianping. It is not difficult to find that in the process of strategic integration, it is not only the decision of the enterprise's strategic plan, but also the integration of the strategic management ideas behind the enterprise. The two enterprises are integrated into the same strategic acquisition company from different strategic management objectives. It is necessary to have a unified strategic integration idea in the middle to support.*

Keywords: *Business management; Strategic management; Strategic plan*

1. Background

The external reasons for the merger of the two companies were slowing economic growth and the industry facing changes: Since 2014, the domestic economy has begun to enter a new market environment, and the economic growth rate has begun to slow down. Under the new economic situation, if the traditional Internet companies cannot carry out system and structural reforms in a timely manner, it is very likely in the Internet competition environment. To be eliminated, it is necessary to transform from the traditional Internet to the form of O2O e-commerce. In addition to internal upgrading, the company's own structural reform must adapt to the current “Internet +” environment. At the same time, China's Internet group buying market is more concentrated and the demand is more refined.

With the continuous innovation of the Internet era, the Internet group buying market system has become more and more perfect. In August 2011, the number of group buying websites in China reached 5,058. Driven by the wave of capital, the Chinese group buying market began a "burning war", and finally formed the situation of Meituan, Dianping, and Baidu Nuomi is one-third of the world. At the same time, the negative impact of the money-burning war has gradually emerged, and where to go in the future has become a hot topic of concern for all parties.

2. Reasons for acquisition

2.1. Let the business return to rationality based on market share

Although Meituan has occupied the first market position in the industry, in the face of competitive pressure from new group buying companies such as Baidu Nuomi, which is mainly invested by Baidu, Meituan, which has already incurred losses due to the continuous money-burning war, needs to stop losses in time. At this time, Sequoia Capital, the co-investor of Meituan and Dianping, proposed a plan to merge Meituan and Dianping, which can reduce vicious competition and improve the competitiveness of the industry. Both parties were moved.

2.2. Complementarity between regions and industries

Dianpings business scope is more to promote low-frequency and high-priced businesses such as weddings in first-tier cities, but Meituan is more to promote high-frequency and low-priced businesses such as movies and takeaways in third- and fourth-tier cities to find customers. Therefore, the merger of Meituan and Dianping has obvious operating synergies, which is the main driving force for the merger of the two companies. The merger of Meituan and Dianping is also a concrete manifestation of economies of scale. The reason is that both Meituan and Dianping belong to O2O platforms. There are certain costs in operation and manpower, and there is huge pressure during operation. The merger of Meituan and

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Dianping can reduce operating costs through market sharing and generate significant economies of scale.

2.3. Financial synergies

The "capital winter" in the second half of 2015 reduced investors' investment desire and changed their risk appetite, hindering the financing of enterprises. Therefore, it is difficult for Internet companies to increase market share and obtain new models in the form of cash-burning subsidies. The merger can integrate the resources of the two and effectively enhance their ability to obtain external investment [1]. In addition, it is actually capital that is easier to achieve monopoly than entrepreneurs themselves, and the profit-seeking nature of capital enables institutional investors to further enhance corporate valuation by promoting corporate mergers and acquisitions when the profitability of normal business operations continues to decline. value and speed up its listing process, thereby maximizing its own return on investment. As shown in Tables 1 and 2, the financing process of Meituan and Dianping can be seen:

Table 1: The financing process of Meituan before the merger

Time	Financing situation
2010	Received $12 million series A financing from Sequoia Capital
2011	Led by Alibaba, Sequoia Capital and other Venture institutions with the investment of $50 million round B financing
2014	Secured a $300 million Series C round led by General Atlantic Capital and co-funded by Sequoia Capital and Alibaba
2015	Obtained a SERIES D financing of $700 million from China Amc

Table 2: Dianpings financing process before the merger

Time	Financing situation
2006	Received $1 million in the first round of investment from Sequoia Capital
2007	Received $4 million investment from Google
2011	Received US$100 million co-investment from Sincere Capital, Sequoia Capital, Qiming Venture Partners and Lightspeed Venture Partners
2012	Received $60 million in fourth round of investment
2014	Received a strategic investment of US$400 million from Tencent and sold 20% of the shares
2015	Received US$850 million joint investment from Tencent, Temasek Holdings, Wanda Group and Fosun Group

There is a common capital, Sequoia, behind Meituan and Dianping. Therefore, the vicious subsidy competition between the two parties is essentially the internal consumption of Sequoia Capital, which also determines that this market situation will not last for a long time. Sequoia often invests in multiple companies operating in the same field at the same time, and these companies often merge to increase their valuation or share price. For example, it has invested in the parent company of Lefeng.com in 2008, and invested in Vipshop twice in 2011. Vipshop announced the acquisition of Lefeng.com in 2014, and the stock price rose nearly 8% on that day. After the merger of Meituan and Dianping, Sequoia became one of the major shareholders of the new company, and Meituan was listed on the Hong Kong Stock Exchange in the third year after the merger. Based on this, it is reasonable to speculate that the reason behind Meituan's acquisition of Dianping is also There is a strong push from capital parties such as Sequoia.

Moreover, at this time, the development situation of China's Internet group buying industry has reached a bottleneck, and investors' investment confidence is also declining. As a result, Meituan and Dianping cannot stand out in the new round of financing. When a change is needed, Meituans acquisition of Dianping is an effective use of capital to a certain extent, and it is a powerful alliance in terms of industry status, which is beneficial to the development of the entire industry [2].

3. Introduction of merger and acquisition process and integration process

3.1. Acquisition process

On October 6, 2015, Meituan and Dianping entered into a share swap agreement. Meituan first exchanged ordinary shares and preferred shares for 40% of Dianping's ordinary and preferred shares, and the remaining 60% of the shares will be sold in 2017. Complete the acquisition. On October 8, 2015, Meituan and Dianping jointly issued a statement of strategic cooperation. After the merger, the two

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parties will become the leading platform in the domestic O2O field, and their business scope will fully cover local life services such as restaurant reviews and movie ordering.

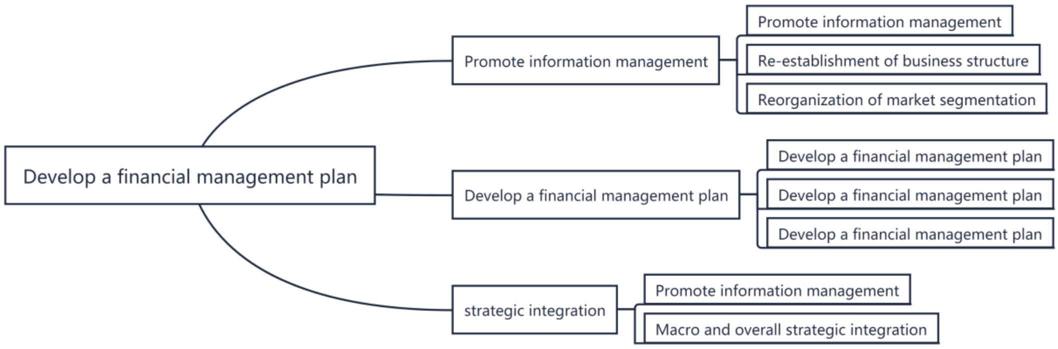

Figure 1: Acquisition process and integration process

As can be seen from this Figure1, the merger of Meituan and Dianping adopted the vie structure to establish a new company, and Sequoia Capital became the largest controlling shareholder. The dual-CEO system adopted by the personnel system means that the former CEOs of both parties have a common right to speak. The Vie structure refers to protocol control, and this structure also lays the foundation for the successful listing of Meituan in Hong Kong in the future. In terms of company integration, Meituan and Dianping achieve value creation through financial, organizational and strategic integration.

3.2. Integration process

3.2.1 Integration of organizational structure based on business modules

Before the merger, Meituans organizational structure based on business modules includes four parts: takeaway delivery business group, in-store business group, hotel tourism business group and Maoyan wholly-owned subsidiary, of which the group purchase business is all incorporated into the in-store business group. After the acquisition of Dianping, Meituan has carried out four integrations of organizational structure based on business modules, focusing on the “Food+Platform” strategy, with "eating" as the core, and building “two business groups + two platforms + two businesses” The main structure of "Department": formally established the two service scenarios of "to the store" and "to the home", established RMS (SaaS cash register and ordering) and aggregated acquiring system; under the model of Dianping APP continuing to operate independently, its transaction function was diluted, Deeply cultivated in the content field; completed the wholly-owned acquisition of Mobike in April 2018, officially incorporated the shared bicycle business into the LBS (location-based service) platform, and completed the ecological layout of big travel; finally, continue to deepen the life proposed by Wang Xing. The digital reform from the service demand side to the supply side provides supply chain solution services for merchants, strengthens the profit harvesting ability of the B-side, and enables Meituan to seize the opportunity in the "second half " of Internet competition.

3.2.2 Integration of managers

After Meituan acquired Dianping, the management has undergone four adjustments along with the organizational structure. In the early stage after the merger, the co-CEO system was implemented. Meituan CEO Wang Xing and Dianping CEO Zhang Tao jointly served as co-CEOs and co-chairmen, and jointly decided major decisions of the company. However, due to Meituan's larger market share, stronger financing capabilities, and higher proportion of senior executives, the co-CEO system cannot be sustainable. In January 2017, Zhang Tao ceased to be the co-CEO of the new company, and Wang Xing became the only CEO. Since then, the senior management of the original Dianping Department has gradually descended to the functional department level, or has successively resigned, and almost all of them have completely withdrawn from the core business of Meituan Dianping. On October 22, 2020, Meituan Dianping completed the change of name registration and change of stock abbreviation "Meituan" in Hong Kong, marking the official completion of Meituan's integration of Dianping's business and personnel.

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4. Analysis of the effectiveness of Meituans merger with Dianping

4.1. Increase user traffic and expand market share

On the one hand, Meituan and Dianping have a common target user group, that is, young people with high educational level and proficient in operating Internet and other related software and apps. On the other hand, Meituan and Dianping have highly overlapping business layouts. Before the merger, Meituan had four business groups: in food delivery, Dianping invested in Ele.me in 2014; in store, Dianping had the largest user and merchant resources in the catering market in first- and second-tier cities; In terms of wine and travel, Dianping has entered the hotel tourism industry in a big way in 2013. Therefore, Meituan can directly absorb all the users of Dianping through the acquisition of Dianping and input them into its own business areas. At the same time, in terms of market share, the two companies, as the first and second largest companies in the group buying field, account for a huge proportion of the market share. After their merger, they will directly become the largest local life service companies [3].

4.2. Completion of lock-in through complementary advantageous resources

With the popularization of the mobile Internet, consumers have formed a habitual path of group purchase to store consumption online decision-making, as shown in the Figure 2:

Figure 2: Consumer decision chain

After Meituan acquires Dianping, it can effectively complement each other's advantageous resources, provide consumers with one-stop high-quality services and reduce their willingness to transfer, thereby completing the lock-in.First, Meituan can continue to maintain high-frequency business transactions with users through its established and mature food delivery services, and stimulate other consumer demand. Then, in the consumer information search stage, users can make use of Dianping's huge product and service merchant word-of-mouth comment information database for comparison and selection. In the purchase and payment stage, Meituans "reservation-free" service and "refund at any time" service first launched in 2013 and the "Shanhui" product launched by Dianping in April 2015 provide consumers with “consumption first, settlement later”. Convenience service, conforming to the trend of mobile payment, providing consumers with convenient services of “buy anytime, use anytime, and pay anytime”. Finally, in the evaluation stage, the evaluation function of Dianping can perfectly connect with the user database built by Meituan [4].

4.3. Establish a profit mechanism based on data analysis

Before the merger, Meituan had a single source of revenue and relied heavily on platform commissions, with a small portion from advertising fees and food delivery fees. In terms of takeaway delivery fees, due to the high wage costs caused by the large number of riders and the high subsidy fees caused by competition with Ele.me, there is not much room for profit. At the same time, for merchants, the gross profit of this type of business is low, and the willingness to invest in advertising is not strong. As a result, Meituan's profitability is severely constrained. Dianping, which started from the information release of life service platform, has been deeply involved in the content field for ten years. The accumulated evaluation information of products and services and its providers covers almost all consumption scenarios, especially the low-frequency and high-frequency areas such as wine travel, wedding, beauty industry and housekeeping. At the same time, there is a strong demand for information-oriented decision-making of consumers of this type of business. Therefore, after the acquisition of Dianping, Meituan can establish a profit mechanism based on data analysis based on the online decision-making path of consumers. Finally, merchants optimize products and services based on precision marketing solutions, strengthen the feasibility of the profit mechanism again, and complete the closed loop. Once the closed loop of the profit mechanism of "data analysis guides decision-making and service quality drives demand" is completed, the sensitivity of user stickiness to discounts will be reduced, and the diversion effect will be strengthened again, thereby increasing Meituan's commission income.

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5. Merger and acquisition results

5.1. Market Share

In terms of market share, the domestic group buying market share in the first half of 2015 is shown in Figure 3. Before the merger, Meituan and Dianping accounted for 51.9% and 29.5% of the group buying market, respectively. It can be seen that after the merger is completed, Meituan will Occupy more than 81.4% of the market share of the entire group buying industry, maintain the top ten position in the life service industry, maintain the top five position in the retail industry, maintain the top three position in the Internet retail and direct sales, and maintain the top three position in the group buying industry. China has firmly occupied the first place in the industry and established an absolute advantage in the field of group buying.

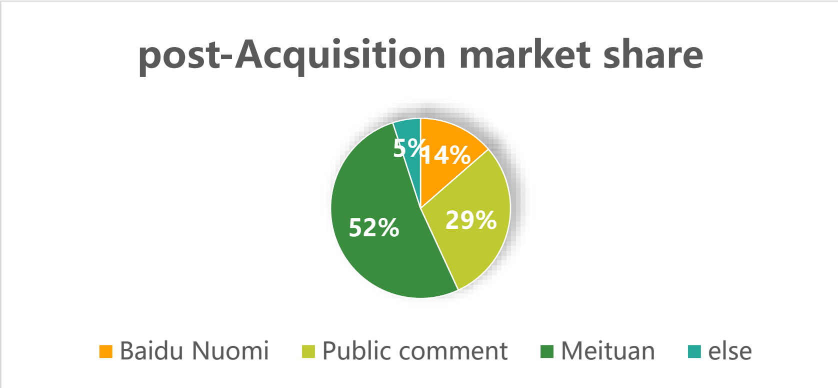

Figure 3: Post-Acquisition market share

5.2. Optimization of personnel structure

After the merger, Meituan-Dianpings employees generally have high educational backgrounds. As shown in Figure 4, it can be found that the majority of the company has a bachelors degree or above, indicating that Meituans merger with Dianpings human resources integration has achieved initial results.

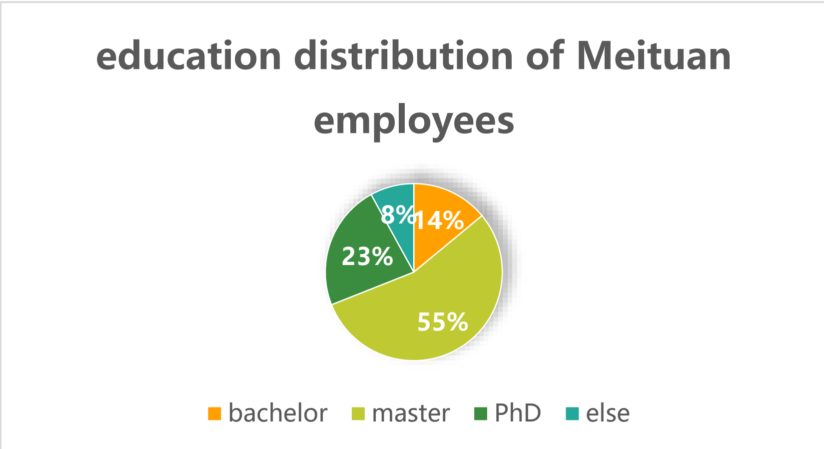

Figure 4: Educational education distribution of Meituan employees

5.3. Financial cost reduction

In the five years since Meituan acquired Dianping, Meituan Dianping has been able to continuously create shareholder returns for the company's shareholders, and its profitability has increased year by year. In addition, Meituan Dianping has strengthened capital management through mergers and acquisitions, actively reducing Funding costs, successfully obtained about 700 million US dollars in round D financing, and its main investors Sequoia Capital and Alibaba also received about 13 billion US dollars in financing, which greatly eased the pressure on Meituan's funds, financial Costs are reduced[5].

After the acquisition of Dianping, Meituan's traffic and technical data have been greatly improved

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and optimized. That has kept its operating income on the rise since the merger.

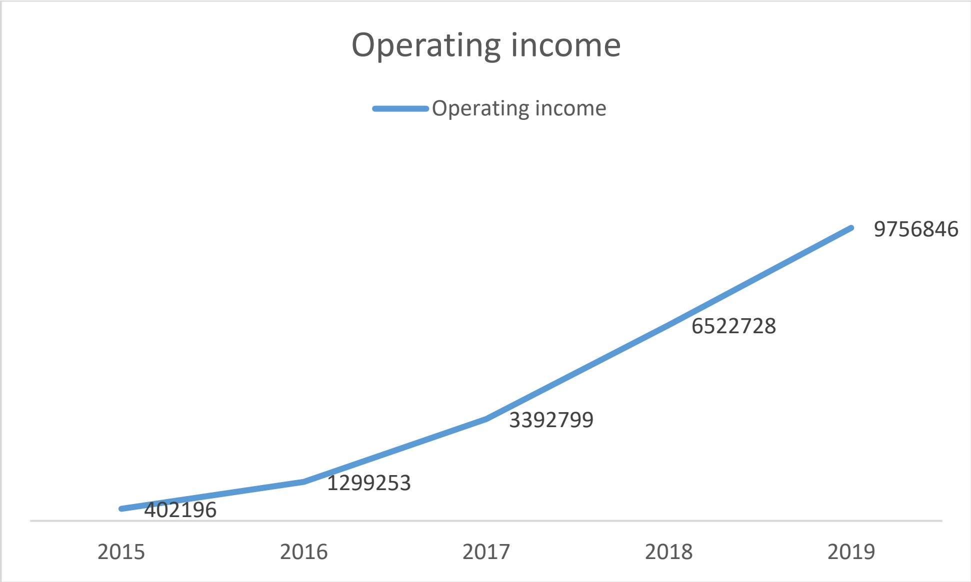

Figure 5: Post-Acquisition revenue

5.4. Platform traffic increases

Operational synergy increases competitiveness and promotes value creation in the industry. After the merger, Meituan and Dianping have joined forces, and they have the ability to compete with Baidu Nuomi and the huge "capital + traffic" of Baidu, and have always maintained a leading position in the competition with other competitors. Occupy the throne of the group buying industry leader.

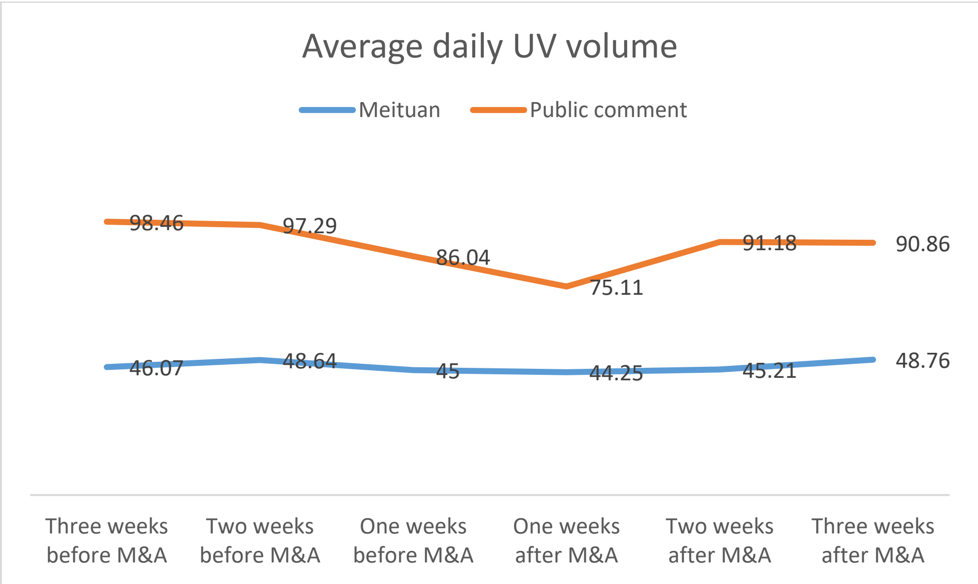

Figure 6: Post-merger platform traffic

As shown in Figure 6, the average daily UV volume of Meituan peaked in the two weeks before the acquisition, and then continued to decline. However, the decline slowed down one week after the acquisition, and continued to rebound from two weeks after the acquisition, even in the Three weeks after the merger, it surpassed the previous peak of 1,200 visits. The average daily UV volume of Dianping has been declining from three weeks before the merger to one week after the merger. This shows that the acquisition of Dianping has had a positive impact on Meituan's average daily number of unique visitors to a certain extent. After the acquisition of Dianping, Meituan's traffic and technical data have been greatly improved and optimized, which has enabled its operating income to maintain a sharp rise since the acquisition.

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6. Conclusion

Through the above-mentioned process of Meituan's acquisition of Dianping. It is not difficult to find that in the process of strategic M&A integration, it is not only the decision of the enterprise's strategic plan, but also the integration of the strategic management ideas behind the enterprise. The two enterprises are integrated into the same strategic M&A company from different strategic management objectives. It is necessary to have a unified strategic integration idea in the middle to support. The result of the determination of the strategic plan is the follow-up of the resource integration project, and the effect of the resource integration is directly related to the result of the merger and acquisition of the enterprise. Therefore, according to the merger and acquisition case of Meituan and Dianping, we can conclude that for enterprises that want to integrate through mergers and acquisitions in the future, leaders should improve their own capabilities, formulate reasonable corporate strategies, and not blindly expand and waste resources. At the same time, enterprises should establish an efficient financial management department in the integration of mergers and acquisitions, making it a link for the smooth progress of the financial integration process and ensuring the integrity of the integration of financial work.

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