



Strategic Analysis of Chinese Internet Enterprises in Developing Southeast Asian Market——Comparison of Acquisition Strategies of Alibaba and Tencent

Heqi Fan^{1,a}

¹Business School, Jinling College of Nanjing University, Nanjing City, Jiangsu Province, 210000, China

^afhq0419@foxmail.com

Abstract. By comparing the M & A cases of Tencent and Alibaba, this paper analyzes the event from the perspective of the acquirer and the acquiree, discusses the motives of M & A and different strategic choices of M & A, studies the performance after M & A through empirical analysis and financial report analysis. This paper points out that it provides suggestions for more Chinese Internet companies entering the Southeast Asian market through M & A.

Keywords: Internet Acquisition; Localization; Southeast Asia

1 Introduction

The Southeast Asia Internet Economy Report in 2021 points out that in 2021, there will be 40 million new Internet users in Southeast Asia, and the total number of Internet users will reach 440 million [1]. Southeast Asia is the preferred place for many Internet leading enterprises. In recent years, Alibaba, Tencent and other Internet giants have explored the Southeast Asian market through mergers and acquisitions. It is extremely important for the development of Chinese Internet companies to explore a suitable business strategy in Southeast Asia.

2 Literature Review

The ways to enter the international market mainly include building factories in the host country, mergers and acquisitions as well as strategic alliances. [2] Huweina (2016) Doctor summarized the reasons for overseas M & A of Chinese enterprises [3], which are developing and acquiring overseas resources, acquiring advanced management experience and exploring overseas markets.

3 Research design

3.1 Event analysis method

The event research method is to study whether the stock price will fluctuate when a certain event occurs in the market, and whether the "abnormal return" will be generated [4]. This paper studies the performance of M & A through the event analysis method, and chooses the typical case of Alibaba's acquisition of lazada and Tencent's acquisition of shoppe as a comparative study.

3.2 Model construction

This paper uses the market model method to evaluate the short-term performance of the two companies.

$$R_{it} = \alpha + \beta R_{mt} + \varepsilon_i \quad (1)$$

R_{it} represents the actual rate of return per share of Alibaba or Tencent within time t , R_{mt} represents the market rate of return. Alibaba is listed on the New York Stock Exchange, so R_{mt} is the market rate of return of S & P 500. Tencent is listed on the Hong Kong stock exchange, so R_{mt} is the Hang Seng Index of Hong Kong. α , β is correlation coefficient, ε_i is the residual.

3.3 Empirical test

This paper assumes that the stock price in the event window period is not affected by factors other than M & A, and takes the day of M & A as the origin of time axis 0, extends 20 trading days before and after the event window period. The estimated period of the event is from the 20th trading day to the 140th trading day before the merger and acquisition. Assuming that Alibaba's share price has a linear relationship with S & P 500, Tencent's share price has a linear relationship with Hong Kong Hang Seng Index. Alibaba: $\alpha=0.000655$, $\beta=1.288923$ Tencent: $\alpha=0.001469$, $\beta=1.545898$ The linear regression results with Excel are as follows. Alibaba: $R_i=0.000655+1.288923*R_m$, Tencent: $R_i=0.001469+1.545898*R_m$. It has significance through t test.

Table 1. Alibaba stock price and the S&P 500 linear model (Data Sources: iFinD)

Regression statistics	
Multiple R	0.568803
R Square	0.323536
Adjusted R Square	0.318292
Standard error	0.020977
Observed value	131

Analysis of variance		df	SS	MS	F	Significance F
Analysis of regression	1	0.027148	0.027148	61.6976	1.36437E-12	
Residual	129	0.056762	0.00044			
Total	130	0.08391				

	Coefficients	Standard error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	0.000655	0.001834	0.356996	0.721678	0.00297311	0.004282
X Variable 1	1.288923	0.164094	7.854782	1.36E-12	0.964258603	1.613587

Table 2. Tencent Holdings' share price and the Hong Kong Hang Seng Index Linear Model (Data Sources: iFinD)

Regression statistics	
Multiple R	0.737648
R Square	0.544125
Adjusted R Square	0.540294
Standard error	0.010117
Observed value	121

Analysis of variance		df	SS	MS	F	Significance F
Analysis of regression	1	0.014538	0.014538	142.0363	4.94E-22	
Residual	119	0.01218	0.000102			
Total	120	0.026718				

	Coefficients	Standard error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	0.001469	0.000931	1.576917	0.117469	-0.00038	0.003313
X Variable 1	1.545898	0.129712	11.9179	4.94E-22	1.289055	1.802742

The excess rate of return and the excess cumulative rate of return can be calculated. Excess rate of return $AR = R_i - R_m$.

After Alibaba's acquisition of lazada, the stock price's excess rate of return and excess cumulative rate of return increased significantly, but the cumulative excess rate of return dropped sharply in late April and early May. According to its quarterly report, the excess return rate reached 3.93% on May 5, while the cumulative excess return rate reached 2.9% on May 9.

Both the excess return rate and the cumulative excess return rate of Tencent have increased significantly after the merger. However, there is a decline in game revenue, and Tencent's largest shareholder sold shares and other reasons, resulting in a decline in the excess return on the share price. After a series of adjustments by the company, the excess return on the share price slowly rose.

This paper conducted a paired sample t-value test on return rate in the event window period. Alibaba: $P = 0.788$. It indicates that there is no obvious positive impact in the short term after the M & A. Tencent holdings: $P = 0.151$. It did not pass the empirical test. Therefore, the performance of Tencent Holdings' acquisition of Shoppe needs to be measured by the analysis of its financial indicators later.

Table 3. Paired sample test of returns before and after Alibaba's mergers and acquisitions (Data Sources: SPSS)

Paired sample test								
name	mean	standard deviation	standard error mean	lower 95%	upper 95%	t	DOF	sig
Alibaba's real return before and after the merger	0.12650%	2.07060%	0.46300%	-0.84257%	1.09557%	0.273	19	0.788

Table 4. Paired sample test of returns before and after Tencent Holdings' M&A (Data Sources: SPSS)

Paired sample test								
name	mean	standard deviation	standard error mean	lower 95%	upper 95%	t	DOF	sig
Ten-cent hold-ings real return before and after the merger	-1.05750%	3.16258%	0.70717%	-2.53763%	0.42263%	-1.495	19	0.151

3.4 Financial index analysis

Alibaba's total revenue increased by 56% from rmb101.143 billion in fiscal 2016 to rmb158.273 billion (US \$22.994 billion) in fiscal 2017. According to Alibaba's financial statements in 2016, the growth of its international retail revenue was mainly obtained from lazada through direct sales of goods. Alibaba's international commercial retail business increased significantly after the acquisition of lazada in 2016, from RMB2204 million in 2016 to RMB7336 million in 2017, and its share in total revenue also increased from 2% to 5%.

After the acquisition of lazada on April 12, 2016, the gross profit margin increased slightly, from 60.5% in the first quarter of 2016 to 63.5% in the second quarter, and reached 64.1% by the end of 2016. The net profit margin increased significantly, from 21.1% in the first quarter of 2016 to 38.8% at the end of the year. The quarterly report

shows that Alibaba began to carry out strategic integration of lazada in April. The growth of overseas revenue in the quarter is mainly due to the acquisition of lazada. In the first quarter of 2017, Alibaba's net profit margin decreased significantly, from 38.8% to 24.7%. According to the financial report of the first quarter of 2017, the percentage of Alibaba's revenue cost in revenue will increase from 35% in the quarter by March 31, 2016 to 37% in the quarter by March 31, 2017. The increase is mainly due to the increase in content acquisition cost of Youku Tudou, inventory cost of lazada and logistics cost paid to Cainiao network. Tencent began to invest in sea in May 2017, which is the parent company of shoppe, and became the largest shareholder on the eve of the listing of sea in December 2017. The gross profit margin and net profit margin of sales showed an upward trend, but the increase was slower than that of Alibaba. Overall, the M & A event has improved the profitability.

The operating capacity of Alibaba and Tencent declined. The asset liability ratio of the two companies remained stable, but the current ratio decreased significantly during the M & A period. Alibaba's current ratio decreased from 257.6% in the first quarter to 185.9% in the second quarter. Tencent's current ratio decreased from 362% to 294%. Due to the large amount of working capital paid during the acquisition, the liquidity of the company has decreased to a certain extent. However, after the merger and acquisition, both companies integrated the merged companies and adjusted their own operation modes, and the current ratio rose slightly in the next quarter. Alibaba's current ratio increased from 185.9% to 202.2%, and Tencent's current ratio also increased from 294% to 301%.

Development capacity decreased before M & A, but increased after M & A. In terms of asset growth rate, Alibaba and Tencent both increased slightly after the completion of M & A. In terms of net profit growth rate, Alibaba significantly improved, from -58.9% in the first quarter of 2016 to 72.4% in the second quarter, and increased to 128.4% at the end of the year. As of June 30, 2016, the revenue of Alibaba's international commercial retail business was 1.117 billion yuan (US \$168 million), an increase of 123% over the corresponding period of 2015, which was 501 million yuan. The growth of international commercial retail business in this quarter was mainly due to the integration of lazada from mid April 2016 and the revenue growth generated by global express. However, after Tencent acquired shop, it decreased significantly in the first quarter of 2018. It was mainly due to Tencent's integration of domestic business, from simple revenue growth to healthy growth, and actively reducing loss contracts. Tencent's net profit growth rate rebounded sharply in the second quarter, and its net profit continued to grow in the following quarters.

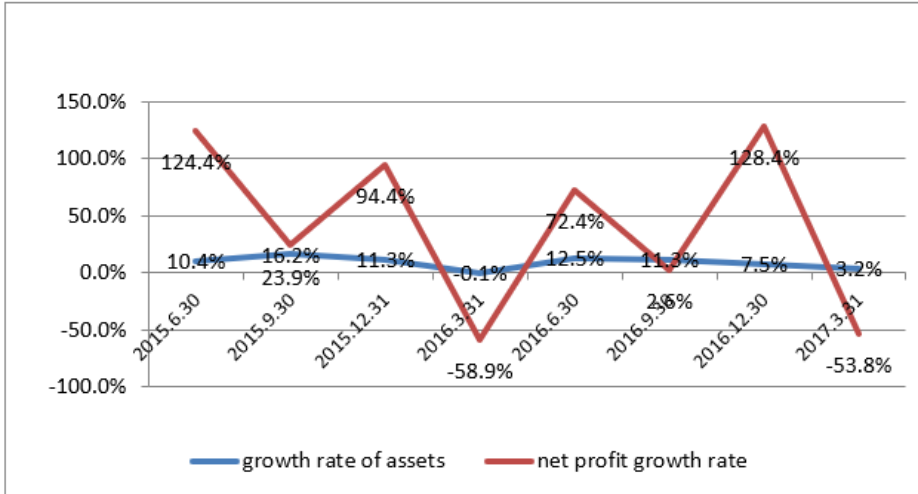


Fig. 1. Development Capability of Alibaba (Self-generated, Alibaba's financial statements)

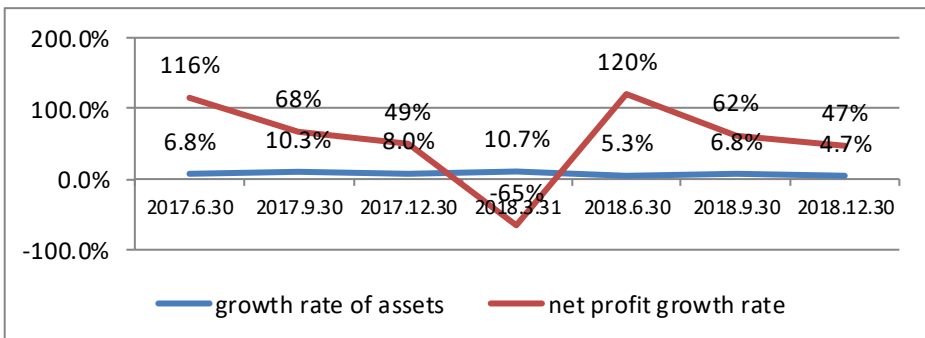


Fig. 2. Development Capability of Tencent Holdings (Self-generated, Tencent's financial statements)

4 Conclusion

According to the ranking of Southeast Asia e-commerce traffic in 2021 released by iprice platform, shopee is ahead of Lazada [5]. It can be seen that Tencent has better integration with Shopee, and Shopee has developed more rapidly after the merger and acquisition.

Alibaba tends to copy the marketing method, product design and personnel management mode of domestic Taobao to lazada., hindered the development of lazada to some extent. But after continuous running-in and adjustment, lazada is also developing rapidly. In contrast, shopee is developing more rapidly, mainly due to Tencent's focus on localization governance.

5 Suggestions

Alibaba should also develop products suitable for localization development and adopt different marketing strategies according to different consumer groups.

Alibaba should encourage lazada to recruit more local e-commerce talents. The selection and appointment mechanism of senior leaders should be improved to reduce the transfer and replacement of senior management. Chinese technicians or managers should be encouraged to stay in Southeast Asia for a long time to deeply understand the local culture, economy, politics and other macro factors.

Alibaba should strengthen the efficiency of integration management in the later stage of M & A. First, the priority should be given to important M & A activities and the integration of talents should be strengthened, to enable the company to operate quickly and reduce financial risks. Secondly, hire special talents to guide the division of work and cooperation of the team, and improve the work efficiency.

References

1. Inpander, e-Conomy SEA 2021, http://news.sohu.com/a/501848639_121169858
2. Christian, A.V & Zang Y.B (2016) Application of Promethee-Gaia Method in the Entry Mode Selection Process in Internarional Market Expansion. 1-2.
3. Hu W.N (2016) Research on Success & Failure Factors of Chiese Enterproses Overseas M&As: Test 2008-2014.
4. Yun Xin, Xin Ling, Liu Ying, et al. (2015) Case study of Youku Tudou's M & A-Based on event analysis and accounting index analysis.
5. Cross border e-commerce Yuguo Network (2017) Is shopee or lazada occupying the largest share of e-commerce market in Southeast Asia.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

