Merger and Acquisition Analysis: a case of Meituan and Dianping

Enming Zhang

Taizhou High School, Taizhou, 225300, China.

tzxslzem@sina.com

Abstract. The purpose of this article is to find some methods that other companies can learn from when merging by analyzing the successful case of Meituan-Dianping merger. Starting from the perspectives of the merger process and merger risks, it studies the methods of market occupation and mitigation of internal and external risks. Ultimately, it is found that they utilize synergies and economies of scale to create value, and mitigate risks by increasing market share and unifying company management. These findings are very enlightening for company mergers.

Keywords: Meituan, Dianping, M&A, Synergistic Effect, Business Complementarity, Economics Of Scale, Merger Risk.

1 Introduction

In 2015, Meituan and Dianping began their merger. And in 2018, it was announced by Meituan that the acquisition and merger of Dianping had been completed, with a total transaction value exceeding 30 billion yuan. Undoubtedly, this merger was a huge success, as the combined market value far exceeds the sum of the individual market values of both parties and the combined company named Meituan-Dianping became one of the largest local life service platforms in China, covering multiple areas and offering an all-in-one lifestyle service platform. This success did not come easy. At that time, with competition and pressure from Baidu and Alibaba, both, Meituan and Dianping struggled to gain a dominant position due to significant flaws in their operating models. In order to safeguard themselves, they chose to merge. It was challenging for two companies to merge in such a short period. In fact, both of them had operational deficiencies, for their different company cultures, they have problems in technology integration which resulted in the loss of many management layers. eituan and Dianping showed the potential benefits a merger can offer to problem-laden companies. In order to expand its industry, Meituan had launched offensives in various fields, especially in China's O2O (online to offline) market and online food delivery market. Since 2014, Meituan has rapidly risen and begun its plan to become the market leader. Since then, it has continuously expanded its business scope, creating new services and promotional activities to attract more users, further enhancing its competitiveness. Although Meituan

Z. Wang et al. (eds.), *Proceedings of the 2023 2nd International Conference on Public Service, Economic Management and Sustainable Development (PESD 2023)*, Advances in Economics, Business and Management Research 273,
https://doi.org/10.2991/978-94-6463-344-3_65

faced fierce competition, it had become one of the leaders in China's online food delivery market and expanded into other areas such as hotel reservations, movie tickets, and so on to effectively elevate its market position. And at that time, Dianping maintained a strong competitive edge and a leading position in the local life services market in China. When they were in the process of merging, Baidu Company intervened and attempted to use Nuomi Company to disrupt the market and increase their market share. The Nuomi Company is a subsidiary of Baidu and can be said to be a tool used by Baidu to compete for market share. Additionally, Alibaba also wanted a piece of the pie, and all these reasons accelerated their merger. It was challenging because companies wishing to utilize mergers to solve operational issues need to design proper business strategies to deal with the potential problems after acquisition[1]. As we all know, it is difficult for two men to do the same things and hold similar thoughts, let alone two big companies. And the purpose of the article is mainly to study their merger and the accomplishments they have achieved.

Meituan was a comprehensive online service company in China that provided various services, including food delivery, hotel, and travel booking, movie ticketing, fresh produce, and so on. The company was established in 2010 and its headquarters was in Beijing. As of the end of 2021, Meituan had covered more than 2,000 cities nationwide, with over 400 million active users and more than 6 million merchants on its platform. Meituan was a leading player in China's O2O market. Although Meituan was not well established, it emphasized rapid expansion and has long been in second-and third-tier cities, taking up many market shares.

However, the problem it faced was that the scale was difficult to achieve much money because its transaction volumed plans to exceed trillions, but the gross profit was very low, and its users were mainly price-sensitive, making it difficult to make money. It explained an example of sacrificing profits in order to make a market impact for the sake of gaining market share.

In contrast to Meituan, Dianping took a more measured approach though it establishes early in 2003. It had a steady and conservative style, with a clear profit model. Dianping's offerings include promoting businesses through keyword ranking, group buying, and other methods, as well as wedding-related services.

Nevertheless, Dianping was quite weak in its slow speed. In a fast-paced world, there are too many new things, and people tend to use the first ones which are created earlier. As a result, for a significant period of the past eight years, Dianping had often been outside the market hotspots, which directly led to it losing a portion of its market share. It seems that they complemented each other's weaknesses perfectly and were able to help each other improve their respective operating models, thus expanding their benefits and gaining more market share. This was perhaps one of the important reasons why they were able to achieve the merger so quickly, as they both saw what they wanted in each other. Thanks to this merger, Meituan-Dianping became the first worldwide on-demand delivery platform to process more than 10 million orders and deliveries per day later[2]. This kind of merger not only improved operational efficiency and reduced costs but also created more profits and value.

Their merger had been over several years now, but it was difficult for us to find some distinct outcomes due to the low exposure. Therefore, I will check more details to find out the reasons why it succeeded. And my main purpose is to study how it utilized this merger and acquisition to create value.

2 Merger Event

Meituan was a highly promising internet company with strong growth potential, particularly in the field of food delivery. In order to consolidate its position in the catering industry and expand further into the realm of lifestyle services, Meituan continuously explored new areas and acquired Dianping to attract more potential customers, thus enhancing its profitability.

2.1 Merger Process

According to reports at the time[3], Dianping and Meituan were set to merge on October 8, 2015. The new company resulting from the merger was expected to capture an 80% market share in China's group-buying sector, while also becoming China's largest O2O platform. The new company was valued at $17 billion USD. Meituan acquired all equity of Dianping at a mutually agreed price. All assets and employees of Dianping were transferred to and owned by Meituan. The completion date of the transaction was confirmed as the day when the equity transfer was completed.

The focus of the merger between Meituan and Dianping was on the business content and related assets of the acquired company, and after the merger, the focus of Dianping's business was on low-frequency, high-unit-price businesses, such as wedding and exhibition services. Dianping's business emphasis shifted from its previous focus on high-frequency, relatively low-customer-traffic price wars and promotional activities.

2.2 Main Methods: Synergistic Effect

The aim to have synergistic effect is to reduce costs and achieve business complementarity, thereby generating economies of scale, economies of scope, and network economies. And the most obvious effect of the merger between Meituan and Dianping is the complementary and synergistic business operations that have been achieved.

2.2.1 Business Complementarity.

By absorbing Dianping's user base and data advantage, Meituan can further expand its local life service sector and at the same time learn from Dianping's expertise in food reviewing, thereby improving its service quality and user experience. Meanwhile, Dianping can rely on Meituan's strong technical support and operational capabilities to enhance its platform products and service quality, further increasing user stickiness and retention rates.

2.2.2 Economics Of Scale.

As I mentioned earlier, most of Meituan's customers come from second and third-tier cities, while Dianping's customers come from first-tier cities. This merger allows them both to have a comprehensive customer base.This merger has brought more extensive business development opportunities and prospects for Meituan and Dianping. Like Jeff said in 2013 that Scale is important because it is the ultimate enabler of competitive advantage[4], with the popularity of smartphones and mobile internet, people's demand for online local life services continues to grow, which provides enormous market opportunities for the future development of Meituan and Dianping. After the two companies merge, they invest together to develop new local life services, meet the growing needs of users, and expand service categories further through cross-border cooperation in fields such as finance and tourism.

In addition, due to the increasing scale of Meituan Dianping, it is gaining more and more benefits from the merchants, as the merchants need to promote themselves through this platform. We can infer from this Table 1 that the demands on business have increased, and their profits have decreased compared to before. However, it is difficult for businesses to refuse because they need a large platform to attract consumers.

Table 1. The increase in group buying costs

Times	Before merger	After merger
Group buying commission	1%--6%	10%--15%

Data source: Analysis[5]

In summary, the merger of Meituan and Dianping is a significant industry event. By integrating strengths and resources, both companies can achieve complementary and synergistic business operations, opening up broader space and opportunities for future development.

For commercial companies whoever want to be industry giants, it is crucial to go public and expand globally. Meituan was such a company with a goal of establishing its own brand[6]. Its financial goals for mergers and acquisitions were to increase the value of the group enterprise. The financial difficulties that Dianping faced in 2013 forced it to remain stuck in a high-frequency, low-price war. However, after the merger and integration, Dianping's financial crisis was timely alleviated, and the business model was promptly transformed from high-frequency, low-cost to low-frequency, high-customer modules. The current Dianping module has shifted towards businesses such as wedding planning, which better leverages its business strengths.

3 Merger risk

Specifically speaking, Meituan-Dianping is a form of vertical integration because it combines Meituan's services such as food delivery and hotel reservations with Dianping's user reviews and merchant information to create a comprehensive online consumer service platform. When analyzing this form, we typically consider the market competition and integration challenges, examining the risks from both external and internal perspectives. And I will discuss the solutions to these two problems in my research on this merger.

3.1 External Risks

A lot of time was needed for them to coordinate and worked together effectively. However, the O2O industry was in a fiercely competitive state at that time.

Table 2. Market share ratio

Company	Meituan	Dianping	Nuomi
percentage	51.95%	29.5%	13.6%

Data source: Analysis[7]

From this table 2, we can understand that the two companies' biggest rival at that time was the company Nuomi, which was supported by Baidu. Nuomi knew that if the merger was successful, they would no longer be competitive, so they chose to disrupt the situation. It took advantage of this opportunity to offer huge discounts and attract users, in order to compete for more market share.

Their competitors were not limited to just these. The most significant rival for Meituan in the food delivery sector was actually Ele.me, as Dianping (a shareholder of Ele.me) merged with Meituan, making their relationship more complicated. According to Table 3, Ele.me had surpassed Meituan and became the new market leader in the food delivery industry. It was easy to find that Meituan’s status was threatened by Ele.me quite a lot in the market of food delivery. Furthermore, Ele.me claimed that it would continue to compete with Meituan and other food delivery platforms. Since the success of the merger would take a great hit to its future, they would not give up the competition. And the market of food delivery was of importance to Meituan, we could learn that due to Ele.me., their speed of taking up the share of O2O market decreased a lot, which lasted about nearly three years.

Table 3. Market share of food delivery

Company	Ele.me	Meituan
percentage	41.9%	34.2%

Data source: Analysis [8]

3.2 Aims To Monopolize The Market

In order to combat competitors such as Baidu's advantage in the market, Meituan-Dianping seized a large amount of market share after the merger to improve its competitiveness. Although it has not been able to monopolize the market yet, its brand awareness and influence have been increasing, resulting in more sales and revenue. As of 2020, Meituan's revenue reached RMB 141.26 billion (approximately USD 21.5 billion), a year-on-year growth of 13.8%, while Dianping's revenue was RMB 20.63 billion (approximately USD 3.14 billion), a year-on-year growth of 10.9%[9]. It could be seen from this that the merged Meituan-Dianping had experienced significant growth in business volume, and after three years of integration, they were finally approaching their goal as a leader in the O2O industry.

3.2.1 Internal Risk.

According to words Buick (2017) said[10], inadequate culture integration may cause the failure of the merger, thus one of the biggest risk of this merger was arguably the impact on corporate culture. Both companies were large in scale, but their operating models, market views, and corresponding choices were completely different. In addition, they had a large number of employees. According to data released by Meituan, the total number of employees would reach 20,000 in 2015, while Dianping had 7,500 employees at the beginning of 2015[11]. This meant that there would be fewer than 30,000 employees after the merger. This was an enormous scale, and whether Meituan Dianping could handle personnel arrangements would greatly affect the success or failure of this merger. Originally, they chose to adopt a co-CEO model, but it's difficult to have two leaders at the top. For example, BlackBerry under the joint leadership of Mike Lazaridis and Jim Balsillie never managed to turn things around from the beginning[12]. It can be said that they both leaned more towards the interests of their respective departments rather than the overall interests of the company. During the merger, both parties expressed their commitment to maintaining the existing personnel structure and preserving their respective brands and independent operations. This included the high-frequency in-store business focused on group buying and flash deals. They also aimed to strengthen advantages and promote industry upgrades. However, there have been media reports suggesting that Dianping will primarily focus on low-frequency, high-value businesses such as wedding planning and exhibitions, and will no longer participate in price wars or subsidies in the high-frequency, low-value sector.

On one hand, there are promises of maintaining the status without making any changes, but on the other hand, there are immediate reports stating that Dianping will only be responsible for low-frequency, high-value businesses.[13] Everyone knows that the O2O market's largest and highest transaction volume business segments are in the food and entertainment sectors, which are also the core businesses for both Meituan and Dianping. This has caused conflicts between them as Dianping has reduced the number of its core businesses. As a result, it is difficult to relieve the internal risk for neither of them wanted to give up their own interests.

3.2.2 Take The Dominant Position.

Obviously, the co-CEO model is no longer suitable for Meituan-Dianping, and in order for this new company to go further, there needs to be someone who can take the lead and oversee the entire company. As the saying goes, "being the dominant one", Meituan will absolutely not allow its competitors to appear in front of it, which not only limits Meituan's development but also brings significant trouble to Meituan. After the merger, he finally revealed his ambition. The executives from Dianping have long been expelled, including Dianping's founder and CEO, Zhang Tao.[14] Although this decision is generally correct, there are still many hidden dangers. For example, many employees of Dianping, after leaving their positions, sold off the company's stocks[15], which to some extent slowed down the listing process of Meituan Dianping

4 Summary

This article analyzes the case of the merger between Meituan and Dianping, and focuses on the benefits, risks of the merger and methods to expand benefits and reduce risks. This strong alliance between two leading companies in the industry has made Meituan-Dianping the dominant player in the industry, laying a solid foundation for its strategic goal of expanding worldwide. In order to compete upward, we choose to acquire or merge with other companies. The reason for the successful merger of Meituan and Dianping is that to become the industry leader, it is necessary to use appropriate methods to attract users, build your own brand and seize market shares. After the merger, in order to address internal issues, Meituan truly integrated Dianping into its own entity, transforming the company into a new whole. This way of collaborative development in business is worth learning from other enterprises.

References

1. Xu, L., Zhang, H., & Zhang, L. (2022). Doing a Deal? Merger and Acquisition Negotiation and Business Strategy Analysis: Case Study of Amazon and MGM. Journal of Economics, Business and Management, 10(3), 159–164.
2. Meituan-Dianping; Meituan-Dianping Becomes the First Worldwide On-Demand Delivery Platform to Process More Than 10 Million Orders and Deliveries Per Day[J]. Food Weekly News,2017.
3. Tonghuashun Financial News, https://m.10jqka.com.cn/.
4. Jeff Bezos, 2013. “The Everything Store: Jeff Bezos and the Age of Amazon" by Brad Stone.
5. A report from CCTV. http://news.cctv.com/2016/04/24/ARTIubud1oVPIaDP7krSRonW160424.shtml.
6. Xinyun. A Study on the Integration Effect of Meituan's Acquisition of Dianping [D]. Beijing Institute of Graphic Communication, 2020. DOI: 10.26968/d.cnki.gbjyc.2020.000099.
7. Analysys Report: "China's group-buying market scale exceeded CNY 50 billion in Q3 2015, with three major players fiercely competing for dominance". The report can be found at http://www.analysys.cn/yjgd/13022.shtml.
8. Analysys Report: Q1 2015 China Internet Catering and Takeaway Market Report". The report is published by Analysys, a research firm in China. You can find it at http://www.analysys.cn/yjgd/15350.shtml.
9. Meituan-Dianping's official website, https://about.meituan.com/news.
10. Fiona Buick, Gemma Carey, Melanie Pescud, Structural Changes to the Public Sector and Cultural Incompatibility: The Consequences of Inadequate Cultural Integration, Australian Journal of Public Administration, 10.1111/1467-8500.12262, 77, 1, (50-68), (2017).
11. "Meituan Dianping merger may have underestimated or hastily integrated conflicts" http://column.iresearch.cn/b/201510/747020.shtml.

12. A report on Sohu website https:// mo. mbd. baidu. com/ r/ 137bjzyl RMQ?f = cp&u =d0aad320f41f5c9c.
13. A report from Beijing Times. https://tech.qianlong.com/2015/1008/23198.shtml.
14. A report in Beidou Finance, Dianping is unattended. https://mr.baidu.com/r/137im-KrAZMs?f=cp&u=32a3c775b2c19ab8.
15. A report on Sohu website in 2017. https://m.sohu.com/a/138759018_618348.