

Brief Analysis for Beijing Tourism Group Acquisition to Home Inn from Business Synergy Perspective

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Abstract. Currently many enterprises are carrying out acquisition action frequently. However, the key factor to measure successfulness of acquisition is whether the business synergy effect has been realized or not. Therefore, the Beijing Tourism Group acquisition case for Home Inn has been selected to check business synergy effect from profitability, growth potential and market share aspects. The result of this study will offer experience reference for future synergy effect research of horizontal acquisition and propose some suggestions to related regulatory authorities.

Summarization for Transaction Parties and Acquisition Expectation

Beijing Tourism Group

The Beijing Tourism Group is a comprehensive tourism enterprises subordinate to State-owned Assets Supervision and Administration Commission, Beijing which was founded in Feb. 1998. There is tremendous growth for the company through operation for many years. Beijing Tourism Hotel is a leading group with strong market scope focusing on asset investment and operation management for economical chain hotels and high-end hotels. Meanwhile, the operation management business in scenic spot has also been included. There are two kinds of hotel transactions including: hotel operation and hotel management. There are 19 hotel brands in this group covering economic to high-end hotels including hotel, apartment, standard & non-standard accommodations to meet different demand from customers according to prices. In year 2016, it has ranked as the 72 position in most valuable brand list and the second position in tourism service industry. In Apr. 2016, the Beijing Tourism Group has completed the acquisition transaction for Home Inn with contract amount as 11 billion.

Home Inn Group

Home Inn Group was established in year 2002 and has been listed in USA market (stock code: HMIN) in year 2006 through constant development. This is the first case for domestic hotel listed in oversea securities market. The Home Inn Group has concentrated on economy hotel development aiming to development gap between high-star and low-star level hotel from establishment period. It has become the top hotel enterprise in economy hotel fields all over the world through constant reformation and market segmentation. Moreover, family accommodation atmosphere has been created so that the guests will have a feeling as going back home when they live in Home Inn hotel. In Apr. 2016, the Home Inn Hotel has been acquired by Beijing Tourism Group and the previous management team has been kept unchanged.

Acquisition Expectation

There is important strategic meaning for this acquisition transaction to realize resources integration, advantages complementation, scope expanding and enriching brand system. After this transaction, the Beijing Tourism Group will become parent company for Home Inn with 100% shareholding and Home Inn will withdraw from Nasdaq stock market. The combination has brought more opportunities for closer cooperation and both parties will have better resources, more talents and wider platform. After this transaction, the combined group will become the unique listed

enterprise covering high-end, medium-end and low-end areas in China. We believe we will build a successful enterprise in hotel, tourism and culture service area in near future with target to offer more, better and mature tourism products and make more contributions to development of Chinese tourism and hotel industry. After the acquisition accomplishment, the new group will be named as Beijing Tourism & Home Inn Hotel and the second largest hotel group in China.

Analysis for Business Synergy Effect to Beijing Tourism Group Acquisition for Home Inn

Business synergy effect refers to production efficiency improvement phenomenon in economies of scale & scope, market forces, competitive cost and transaction cost saving aspects after enterprise acquisition. This improvement includes economies of scale, complementary economies, cost saving, market expanding and more comprehensive service. For instance, economies of scale mainly reflected in expanding of production and sales scope which will bring some benefits including: (1) increasing of sales revenue; (2) reducing average fixed cost; (3) increasing single purchase quantity for purchase cost saving; (4) enlarging marketing and sales scope for sales expenses reduction; (5) enhancing overall profit level for enterprises for market competition improvement.

Business synergy effect for acquisition of Beijing Tourism Group has been analyzed with traditional financial evaluation index including profit capability, growing ability and market share to confirm whether this effect is existed or not. All data of this article comes from financial report of Beijing Tourism Group during year 2014 to 2017. And the important point to pay attention is assets reorganization in year 2016 and the scope of report consolidation has been changed. In Apr. 2016, the Beijing Tourism Group has accomplished the acquisition and this transaction has been recognized as non-identical control according to current enterprise accounting principle. So in consolidated financial report level, the corporation can only include financial data of Home Inn during Apr - Dec 2016 in consolidated report with details as: (1) financial data during 2nd quarter to 4th quarter has been included in Profit & Loss statement; (2) data for balance sheet is only included in year-end and there is no same data included in year-beginning. Meanwhile, this special item is not included in financial report before year 2016 and year 2017 afterwards.

Index Analysis for Profitability

The index reflecting profit capability include sales margin ratio, sales net profit ratio, operating profit ratio, profit ratio from cost & expenses and return on total assets which is shown in table1.

Table 1, Changes in profitability indicators before and after the Beijing Tourism Group

Index [%] \ Year	2014	2015	2016	2017
Sales Margin Ratio	33.44	86.39	94.49	94.64
Sales Net Profit Ratio	4.79	8.46	5.11	7.83
Operating Profit Ratio	6.06	10.00	7.16	12.31
Profit Ratio from Cost & Expenses	6.40	11.32	8.57	13.53
Return on Total Assets	5.99	2.85	1.93	3.91

Data Source: Financial Report of Year 2014 - 2017

It can be seen that from table 1 that the sales margin ratio has increased year by year especially in year 2015 which there is great promotion compared with year 2014. Meanwhile, 8.1% rising has been achieved in year 2016 vs year 2015 and the figure tends to be stable afterwards. The overall movement trend has also tended to be consistent in movement trend of Sales Net Profit Ratio, Operating Profit Ratio and Profit Ratio from Cost & Expenses. There is upward trend in year 2014 and 2015 with increasing rate as around 4%-5%. However, there is decreasing in all of three index in year 2016 resulted from added financial cost from loan for acquisition purpose. All of these indexes have risen again in year 2017 with 5% increasing in operating profit ratio and profit ratio

from cost & expenses and 2.72% rising in net profit ratio. During year 2014 and 2015, it shows general downward trend in return on total assets before acquisition transaction and falls to lowest point in year 2016 after acquisition. In year 2017, this figure has increased again which shows that the overall capital utilization efficiency has been improved after acquisition. Although there is a remarkable decreasing in other index excluding sales margin ratio in year 2006, all of the factors have raised again afterwards which shows good business synergy effect. So from profitability aspects, this acquisition has brought good business synergy effect.

Index Analysis for Growth

The main index reflecting growth includes net assets growth ratio, net profit growth ratio and sales revenue growth ratio which is shown in table 2.

Table 2, Index movement for growth capability for Beijing Tourism Group after acquisition

Index [%] \ Year	2014	2015	2016	2017
Net Assets Growth Ratio	3.85	4.69	398.01	8.91
Net Profit Growth Ratio	-2.21	-15.62	195.70	97.78
Sales Revenue Growth Ratio	-5.87	-552.24	389.40	29.03

Data Source: Financial Report of Year 2014 - 2017

It can be seen from the table 2 that there is a gradual increasing in net assets growth ratio over years. Slightly rising has appeared in year 2014 and 2015 and related ratio has increased by 398.01% during year 2016 due to enterprise consolidation scope enlarging and incremental data from Home Inn. However, there is negative increasing for net profit and sales revenue growth ratio in year 2014 and 2015 especially large dropping as -15.62% in net profit growth ratio and -52.24% in sales revenue growth rate. After that, the ratio has risen again from year 2016 and acquired prompt growth rate afterwards. Therefore in summary, good overall development capability has been shown through gradual increasing in absolute value of net profit and sales revenue with prompt growth rate.

In summary, the operational level has been improved largely through in-depth analysis for growth ratio before and after acquisition. There is constant increasing in net assets, net profit and sales revenue and shows certain development trend. Generally, operating synergy effect has been realized in both parties of this acquisition transaction in growth capability aspect.

Market Share Analysis

Market share refers to the occupation rate of products in market and this also reflects the control power of company in market. This is an index which shows competency position in some extent and a key factor of enterprises.

There is less data support for market share analysis of Beijing Tourism Group since it is a comprehensive listed brand with wide operation scope covering high, medium and low class hotels. Meanwhile, tourism industry is included and all brands in this group ranked in this market independently. Therefore, the hotel quantity and guest room data of year 2016 has been selected for market share analysis in China region. Horizontal comparison has been carried out with service chain hotel from Jinjiang Group which ranked the first place in market share.

Table 3, Hotel number change for Beijing Tourism Group and Jinjiang Group – year 2016

Beijing Tourism Group			Jinjiang Group		
Number	Net Increasing	Increasing Percentage	Number	Net Increasing	Increasing Percentage
3401	3248	2122.88%	5868	3645	163.97%

It can be seen from table 3 that there is 3401 hotels in China of year 2016 which increased 3248 hotels with 2122.88% increasing rate compared with last year. The Beijing Tourism Group has become the second largest hotel group in our country with main business scope in China coasts, central section and southwest of China. There are 5868 hotels from Jinjian Group in China with 3645 increasing in number and 163.97% rising in rate. From this aspects, there is a large market share increasing for Beijing Tourism Group and has strengthened the second position of hotel groups in China.

Table 4, Hotel number change for Beijing Tourism Group and Jinjiang Group – year 2017

Beijing Tourism Group			Jinjiang Group		
Number	Net Increasing	Increasing Percentage	Number	Net Increasing	Increasing Percentage
3711	310	8.35%	6694	826	12.34%

We can see from the table 4 that the number of hotels increases to 3711 with increasing number as 310 and rising percentage as 8.35% compared with year 2016. Meanwhile, there is 3.8% rising in high-end hotels. On the other hand, the limited service chain hotel in Jinjiang Group has reached 6694 at the end of year 2017 with newly established numbers as 826 and increasing rate as 12.34%. In year 2017, the growing trend has been slowed down in Beijing Tourism Group within normal extent compared with last year in which there is a big rise due to acquisition. Although the increasing rate is lower than Jinjiang Group, Beijing Tourism Group has followed next to it and there is no much gap. And the future growing trend will be better.

Table 5, Changes in geographical distribution index of Beijing Tourism Group in 2016 and beyond

	Before Acquisition	After Acquisition	Jinjiang Group
Region	A total of 21 provinces including Beijing, Hebei, Zhejiang, Henan, Tianjin and Shanxi, etc.	Spreading in 31 provinces, autonomous region and municipal city	Spreading in 31 provinces, autonomous region and municipal city

It is illustrated in table 5 that the hotels of Beijing Tourism Group mainly located in Beijing, Hebei, Zhejiang and Henan Province before acquisition and spread to all provinces, autonomous regions and municipal cities excluding Hongkong, Macau and Taiwan. Whereas for Jinjiang Group, the limited service chain hotels have been located in 349 cities and spread to 579 cities in year 2017. Viewing from distributed area, the market share for Beijing Tourism Group has been enlarged after acquisition and reached the status as 3000 less hotels & 270 less city locations compared with Jinjiang Group. This may be variance in reasonable extent. In the future, the medium & high end brand is the main orientation for hotel industry development and market share for this group will be enlarged. Therefore, the operating synergy effect has been reflected obviously from market share aspects.

Appraisal for Acquisition Effect

From operating synergy effect aspect, there is improvement in profitability, growing capability and market share in Beijing Tourism Group after acquisition for Home Inn. There is positive trend for future development and this is helpful to form strong core competency in enterprises. Generally

speaking, the operating synergy effect for this acquisition has been realized which brings much influence in profitability, growing capability and market share with details as follows:

First of all, there is much variation in profitability aspects before and after re-organization and the financial indicators have fluctuated after acquisition due to consolidation scope change. There are three reasons stated by author as follows:

(1) The hotel transaction has been expanded and improved from all aspects after important assets re-organization in year 2016. The hotel business has been reformed and repartitioned as two modules including hotel operation and management. There is decreasing in hotel management cost compared with last year since the hotel management business has been repartitioned after acquisition.

(2) In year 2016, the reformation for replacement of business tax with value added tax has been carried out by government and this has brought profit margin improvement in different business sections. Meanwhile, the VAT input value for operation cost is also increased due to this reformation.

(3) Until end of year 2016, the funds for loan repayment is in place and the asset-liability ratio can be reduced which lays good foundation for future development.

Secondly, there is much change in growing capability after re-organization. Since the Beijing Tourism Group has obtained control right of Home Inn in Apr. 2016 and the revenue and profit figures in financial report have been changed a lot according to data consolidated from Home Inn Group. For the opinion of author, the main reasons for this situation include: the change in business scope has brought much fluctuation in net asset, net profit and sales revenue figure of group and related proportion in different business sections. There is large increasing for income from hotel management business mainly from incremental direct-sale hotels from Home Inn. In summary, the operating revenue has been increased largely based on enlarged business scope compared with last year after asset re-organization.

At last, there is much change in market share due to hotel numbers and guest rooms alteration after acquisition. For the opinion of author, the acquisition transaction of Beijing Tourism Group for Home Inn is the integration for guest sources and optimization, updating & replacement for existing products so that development for high-end hotel brand can be focused. Under the assistance from hotel management, sales & social platform, professional administrative ability for hotel and related business has been improved and resources have been integrated effectively so that potential value can be maximized.

Summary

The acquisition case for Home Inn can be basically recognized as a successful transaction through operating synergy effect analysis. This acquisition has brought much positive influence to strategic target realization for Beijing Tourism Group and much enlightenment has been obtained as follows:

1. The overall financial review should be carried out before acquisition. If the acquiring company has reviewed the target corporation carefully, the problem for unstandardized accounting treatment and other problems during operation process will be found in advance so that planning before acquisition can be completed and operating synergy effect can be strengthened easily.

2. Specific strategic target should be set in acquisition enterprises especially in horizontal merge and this is one of the important premise and insurance to motivate business synergy effect after acquisition. Meanwhile, the planned market segment to be developed and the company self-orientation in this segment should be specified as well.

3. The effective system integration is needed after acquisition so that the pre-set target before acquisition can be achieved. Strict integration plan and related standard should be followed strictly during whole process. Moreover, corresponding merging situation should be reported to management level of enterprises on time so that the managers can make necessary adjustment and carry out effective control so that the integration process can be accomplished smoothly and the business synergy effect can be affected to largest extent.

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