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Motivation and Impact of Ctrip's M&A of Qunar: Evidence from SWOT Analysis

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Abstract: This article is based on the acquisition of Qunar, China's second largest online travel platform, by Ctrip, China's largest online travel platform, in 2015. The SWOT analysis method was used to analyze the main motivations of Ctrip before the merger and the competitive situation after the acquisition. It mainly judges the internal and external impact of Ctrip's acquisition of Qunar to determine whether Ctrip's acquisition is a good decision. The analysis found that the acquisition brought more benefits than risks to Ctrip, both internally and externally, so it can be considered that Ctrip made a very wise decision. This article mainly explains the purpose and strategic significance of Ctrip's M&A decision, and analyzes the impact of Ctrip's M&A on itself and the entire industry from a macro perspective. It not only analyzed the causes and consequences of the entire M&A event, but also analyzed the entire strategic decision of Ctrip from multiple angles. This acquisition is an important case in the competition in the same industry, and provides the management of other enterprises with important experience in governance, decision-making and competition, which is of great reference significance.

Keywords: merger and acquisition, online travel platform, SWOT analysis

1. Introduction

1.1. Research Background

Ctrip is an online ticketing service company founded in 1999 and headquartered in Shanghai, China. With over 600,000 member hotels available for booking at home and abroad, Ctrip is the leading hotel booking service center in China [1]. Prior to the mergers and acquisitions studied in this report, in order to achieve a monopoly on the online travel platform, the Ctrip Group had acquired the third largest company, Yilong, down to other new entrants, and even held a portion of shares of partner companies and downstream industries, leaving its current competitor with only Qunar.

Qunar is China's leading travel search engine, Qunar is the world's largest Chinese online travel website, founded in February 2005 and headquartered in Beijing. Qunar provides consumers with real-time searches for airline tickets, hotels, venues and holiday products, as well as group purchases of travel products and other travel information services, and provides online technology and mobile technology solutions for travel industry partners [2]. Despite the large capital injection from Baidu in 2011, the long-term losses of Qunar resulting from the long-running price war with Ctrip were clearly something that Baidu did not want to accept.

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By the time of the merger, Ctrip had been China's largest online travel service for many years, but its lead was not secure as Qunar, the second largest online travel service, continued to grow and catch up behind it. The two sides engaged in a protracted price war in the online travel industry, resulting in a bitter defeat for both sides. How to face Qunar, the biggest competitor, became the main objective of Ctrip, and the way chosen by the CEO of Ctrip was to consolidate resources within the industry by merging Qunar. Back in 2014, Ctrip proposed to acquire Qunar, but the two sides ended up disagreeing over the control issue. In May 2015, Ctrip made a formal takeover offer for Qunar, but the two sides again put their cooperation on hold due to control issues. Although Qunar was adamant, Ctrip gradually hooked up with Baidu, the main shareholder of Qunar. On 26 October 2015, Ctrip officially announced an equity swap with Baidu. The two sides decided to exchange the equity stake in Qunar with additional ordinary shares issued by Ctrip to Baidu. After the share swap, Ctrip accounted for 45% of the total shares of Qunar, making it the largest shareholder of Qunar and completing the acquisition [3].

1.2. Research Purpose and Significance

This paper focuses on this acquisition, analyzing the motives and objectives of Ctrip in initiating the acquisition, as well as the impact of the acquisition afterwards. In analyzing the impact, the paper analyses the case of Ctrip's acquisition of Qunar through a SWOT model to explore the development of the company after Ctrip's acquisition of Qunar, focusing on the possible advantages and disadvantages, as well as the possible opportunities and threats, this will be used to judge whether Ctrip's acquisition is a good decision and to infer the future development and strategic direction of Ctrip. The merger is of special research significance because it was initiated by the industry's first against the second and also allowed Ctrip to complete its monopoly on the online travel platform, making the market structure transition from oligopoly to monopoly. The merger is also a unique case study because it guarantees the maximum degree of autonomy for Qunar after the successful acquisition.

1.3. Article Structure

In line with the above research objectives, the structure of the text is set out below, the second section focuses on Ctrip's possible motives for launching the M&A and the strategic implications it hopes to achieve. The third and fourth sections focus on the analysis of the company's internal environment, focusing respectively on the strengths (S) that can be gained from the acquisition and the weaknesses (W) of having to accept integration following the acquisition. The fifth and sixth sections focus on the analysis of the company's external environment, analyzing the opportunities (O) that may be seized after the acquisition and the threats (T) that may be faced. The final section concludes by synthesizing the results of the above four sections to determine whether the Ctrip acquisition was a good decision and to infer the subsequent development and strategic direction of Ctrip.

2. The Potential Purpose and Significance of the Merger

2.1. Purpose

Ctrip wants to achieve many targets through the merger against Qunar, including but not limited to improving its own business environment, expanding its market share, reducing the competitive pressure it faces, improving its risk resistance, achieving economies of scale, and complementing the strengths of Qunar. Achieving these purposes will also contribute to Ctrip's further growth and help in the implementation of its new strategy. Meanwhile, behind this merger is also the profit

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seeking needs of the investors behind both the two companies. As competition on online travel platforms intensifies, price wars are causing both companies to continue to lose money and shareholders are slow to make a profit on their investments. The majority shareholder behind Ctrip wants to raise its share price through merger and acquisition to bring benefits to its investment, while Baidu, the majority shareholder behind Qunar, hopes that the acquisition will allow the Qunar company, which continues to lose money, to be exchanged for much-needed funds to develop its other businesses [4]. So, they bypassed the Qunar company and reached a merger agreement at the expense of the Qunar management's earnings.

2.2. Strategic Significance

The acquisition is strategically significant for Ctrip, not only eliminating the competitive threat of its largest competitor, but gaining access to each other's existing exclusive resources, which will facilitate Ctrip's further growth, as well. After the acquisition, Ctrip has access to the online travel search engine designed by Qunar's founders, hotel resources previously controlled exclusively by Qunar, and access to Qunar's internal management talent, which provides the basis for Ctrip's further growth. The other strategic significance of Ctrip's acquisition of Qunar is to gradually gain market share in the online travel industry and complete its monopoly of the industry [5]. Ctrip has already acquired the third largest company in the industry, Yilong, and if it goes on to acquire its main competitor, Qunar, Ctrip will have complete control of the market for basic services in the online travel platform, then gaining excessive monopoly revenue. Secondly, in order to end the long-standing competition with Qunar, stop the protracted price wars in the online travel industry and save the company's loss-making performance year after year. In addition to the strategic operational implications, Ctrip's move is also intended to win back the trust of investors and attract more capital injections. The previous price war in the online travel industry made it difficult for investors to realise their investments, so few new investors were willing to join. But once Ctrip has formed a monopoly, the monopoly revenue it could generate will attract investors who were previously on the sidelines.

3. Strengths

3.1. Improve Operation Position

The first strength that Ctrip will gain from the acquisition of Qunar is an improved operational and financial position within the company. Ctrip's acquisition of Qunar gives it access to Qunar's resources and technology, particularly Qunar's exclusively owned hotel resources and independently developed vertical search engine technology. Having the help of these technologies can boost Ctrip's own sluggish growth rate. Mergers and acquisitions have also reduced unnecessary and unhealthy competitive expenses for Ctrip. After the acquisition, Ctrip can take advantage of the positive synergies arising from the merger, such as the sharing of resources to boost performance and the reduction of costs and taxes from the combined operations, as a means to improve its own operating conditions and financial performance.

3.2. Reduce Competitive Pressure

Another strength that can be achieved by Ctrip's acquisition of Qunar is a significant reduction in external competitive pressure. The significant reduction in external competitive pressure is more than just the vanish of a strong competitor and gaining greater scope for development. With the acquisition of its biggest competitor, Ctrip can stop its long-standing and vicious competitive relationship with Qunar. Not only can the costs and expenses of a long-running price war with

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Qunar be cut, but more money can be invested in business development rather than market competition. With the annexation of Qunar, Ctrip has more capital capacity to deal with more market risks, while the reduced external competitive pressure also allows the company's strategy to shift from competing with Qunar to a business strategy that is more conducive to Ctrip's long-term growth, for example, it is concerned about other possible new entrants and the threat of substitutes for the basic tourism services it holds [6].

3.3. Economies of Scale

In addition to the synergies that can be generated by same-industry mergers and acquisitions, the strength that can arise is the creation of economies of scale, which means produce more products or provide more services at less cost. The acquisition of Qunar, the second ranked online travel platform, by Ctrip, the leader in the online travel industry, is a same-industry merger. In the case of an M&A in the same industry, Ctrip can create economies of scale after the merger with Qunar, maintaining the same services and even increasing the quality of services while reducing operating costs. With the market share that Qunar holds, Ctrip can gradually gain access to Qunar's original ecological position through economies of scale and gain more room for development.

3.4. Complement Each Other

M&A in the same industry can also bring the strength of creating complementary strengths. Although Ctrip and Qunar are in the same industry, there are still differences in the specific way they operate, and both have the advantage of technology and talent that the other does not have. Ctrip has made it clear in the merger that it respects Qunar's autonomy and that both parties will continue to operate independently [7]. This allows the two parties to share their respective strengths and achieve complementary resources after the merger. Ctrip can use Qunar's search engine technology to enrich Ctrip's services, and use Qunar's otherwise exclusive hotel and talent resources to promote its own development. Qunar can also use Ctrip's complete network of partners to reach more partnerships and use Ctrip's financing support to continue to develop new businesses, so that both sides can achieve mutual benefits and win-win situations.

More importantly, in the era of big data, the merger of Ctrip and Qunar will help both parties achieve data interoperability, and combined with Qunar's vertical search engine technology, it will be more conducive to the two companies to accurately identify user portraits, tap more effective demand, and release more market potential.

4. Weaknesses

4.1. Creates Integration Problems

Although Ctrip's acquisition of Qunar offers a number of strengths, there are also weaknesses that need to be accepted, the first of which is the integration of the two companies. Firstly, although Ctrip and Qunar are in the same industry, there are significant differences between their business models and corporate cultures, with Ctrip's business style being more robust and Qunar's style more aggressive, and these differences in style have led to serious integration issues. Secondly, prior to the merger, the two had been in a state of permanent competition, which made Qunar's employees seriously resistant and unable to quickly improve their work attitude to form an effective cooperation with Ctrip's head office staff, making the integration more difficult [8]. How to address the weakness of integration issues will be key for Ctrip to realise the strengths brought about by the merger.

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4.2. Business Stagnated

Another major weakness brought about by the Ctrip acquisition was the resulting stagnation of business. With the successful acquisition of Qunar, Ctrip's largest competitor, and the previous acquisition of Yilong, its second largest competitor, the external competitive pressure faced by Ctrip has almost completely disappeared [9]. This certainly left Ctrip with a large market and plenty of room for growth, but it also brought with it disadvantages that could not be ignored. Having lost its biggest competitive target, Ctrip lost its fighting spirit and stopped focusing on improving its business capabilities and further development. After the merger, Ctrip was distracted by difficult integration issues and did not invest enough in development issues, leading to a stagnation in business development.

5. Opportunity

5.1. Achieve Industry Monopoly

In terms of external factors, the biggest opportunity for Ctrip after its acquisition of Qunar is to achieve a monopoly in the basic service side of the online travel industry. Because Ctrip has previously acquired many online travel platforms, including the third largest travel platform Yilong, it has formed a duopoly with Qunar in the online travel industry, which provides the most basic services. And after acquiring its biggest competitor, Qunar, it has a market share that could almost reach monopoly level [10]. Having reached a monopoly, there will be no other challenger to challenge it in terms of basic travel services. It can stop the prolonged and vicious competition between online travel platforms and even harvest the entire basic services sub-market, seeking monopoly profits and achieving profitability after years of price wars.

5.2. Attract External Investors

The second opportunity that Ctrip encountered after the acquisition of Qunar was that it could attract new investors to inject capital. As the previous giants in the online travel industry were all offering homogenous basic travel services, they all competed using a cost leadership strategy, which meant a continuous race to cut prices [11]. With such fierce competition, the online travel platforms were in a permanent state of loss, leaving initial investors without returns and scaring off other interested investors. With the merger, however, Ctrip has achieved a near monopoly and will most likely continue to be profitable in the coming years by virtue of its monopoly position, which could attract many investors who were previously on the fence to invest. It likewise boosts the confidence of the majority shareholder, preventing it from being abandoned by the majority shareholder Baidu as Qunar was. Both the addition of new external investors and the continued capital injection from existing investors will help Ctrip recover more quickly from its price war with Qunar and help gradually improve its operational and financial performance.

6. Threats

6.1. Industry Saturation

The first threat that Ctrip will face is the stagnation of the industry's development. Although Ctrip's many mergers and acquisitions have consolidated almost the entire industry, but the benefits of this consolidation are negligible, as the potential of the online travel industry today is almost fully exploited. Years of market competition have turned the online travel industry from a blue sea into a red sea, and the phenomenon of homogeneous competition is very serious. Although Ctrip and Qunar are industry giants, they basically provide homogeneous basic services, such as hotel booking, ticket search, travel and vacation, business travel arrangement and so on. Other new competitors focus on differentiation strategies, focusing on customized travel and independent travel in terms of services, and positioning themselves in the sinking market in terms of market [12]. With the basic market of the industry having been developed, the focus of the industry is gradually shifting to personalized and differentiated travel services, and the threat of substitutes for Ctrip's basic only services is gradually emerging. In the future, Ctrip will face not only new entrants but also the emerging threat of substitutes as an industry giant, namely the gradual shift of users towards customized and personalized services.

7. Conclusion

In summary, the results of the analysis focusing on each of these four areas, which are strengths, weaknesses, opportunities and threats, can provide a broad outline for analyzing the business environment following the acquisition of Qunar by Ctrip.

Firstly, Ctrip can gain many strengths from the acquisition of Qunar, such as improving its own business performance, reducing external competitive pressure, achieving economies of scale and complementing each other's strengths, and so on. All these strengths gained will help Ctrip to better exploit the positive synergies after the acquisition of Qunar, improve its business performance, enhance its business growth rate, reduce costs and drive the implementation of its new strategy, which will be conducive to Ctrip's better development after the merger.

Then, the merger with Qunar has also created weaknesses for Ctrip that need to be addressed. For example, the integration of two companies with very different ideas and motivating employees to continue working at a high level after beating Qunar. Although Ctrip has had to accept these disadvantages, they are not all without solutions. During the integration process, Ctrip fully respected Qunar's independence and only merged key resources and technologies, without making too many changes to personnel positions, eliminating the resisting atmosphere between the two companies and laying the groundwork for a more collaborative approach later on.

In terms of the external environment, Ctrip's acquisition of Qunar gives it the opportunity to reach a monopoly in the industry and use that monopoly to attract more investors. The long-standing price war in the industry has made it difficult for giants like Ctrip and Qunar to attract new investment as they have been losing money for a long time. So, opportunities like this to attract new investment are precious and arguably one of the main takeaways from Ctrip's acquisition.

Finally, after the successful acquisition of Qunar, Ctrip also had to face the threats that came with it. Apart from the market gap left by Qunar, which gave room for new entrants to develop, there was also the threat of substitutes in the online travel and tourism market, with consumers gradually moving away from the most basic travel services to more personalized and free-flowing customized services. These threats do not really affect Ctrip's survival. As the only leading player in the basic services side of the online travel industry, its huge capital volume gives it a high level of risk tolerance and enough room for error to deal with these threats.

All in all, although Ctrip will have to deal with some weaknesses and face some threats after the Qunar acquisition, Ctrip has achieved its strategic objectives, gained enough strengths and was able to seize opportunities in time, so it can be considered a wise decision to make the acquisition. With more advantages and opportunities, Ctrip is likely to use both S and O as a launching pad to implement a growth-oriented strategy and make the most of its post-acquisition advantages and opportunities to achieve maximum sustainable growth.

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