Analysis of mergers and acquisitions in the same industry: Taking the acquisition of Best Express by J&T Express as an example

Ruotong Wang[1], Yidan Zhang[2], Wanrong Zhu[3, *]

[1]Faculty of Management and Economics, Tianjin University, Tianjin, 300100, China

[2]School of Business, Qingdao University, Qingdao, 266525, China

[3]Kedge Business School, Marseille, 13009, France

*Corresponding author: wanrong.zhu@kedgebs.com

Abstract. With the development of the Internet in recent years, the express delivery industry is playing an increasingly important role in people's lives. In the case of increasingly fierce competition within the industry, the occurrence of mergers and acquisitions has become the norm. Today, people have a certain understanding and research on mergers and acquisitions in the same industry, but different companies still have their own unique features. This topic adopts case analysis and literature analysis, by studying the case of the acquisition of Best Express by J&T Express, and analyzes the motivation and economic consequences of its industry merger and acquisition. The study found that after the acquisition of Best Express, the market share of J&T Express was higher than the simple sum before the acquisition of the two, and even caught up with several express giants. This shows that the acquisition in the same industry can form a good synergy effect and achieve positive feedback. However, how to allocate more resources reasonably and how to manage enterprises after acquisition is still a huge challenge for enterprises.

Keywords: Mergers, acquisitions, express industry development, same industry acquisitions.

1. Introduction

In recent years, with the rise of Internet companies, the traditional retail industry has begun to transform, and the demand for the express delivery industry has increased significantly. The business volume of China's express delivery service industry has shown a continuous growth trend, and the express delivery business volume has reached the level of 100 billion. Under the trend of consumption upgrading and industrial upgrading, as well as the internal requirements of intensified competition in the logistics industry, some enterprises are unable to develop stably with their own resources and strength. Therefore, they expand their scale and improve their efficiency through mergers and acquisitions to enhance their competitiveness. Due to the weak anti-risk ability of small and medium-sized enterprises and the broken capital chain, more and more enterprises have been acquired or eliminated. In this case, it is of great significance to study the motives, results, and related influencing factors of mergers and acquisitions. On the one hand, its purpose is to analyze the types of acquisition strategies suitable for companies in the same industry and to provide possible forecasts for the acquisition results. On the other hand, case studies can provide a reference for the development of the express delivery industry, promote the improvement of market rules and regulations, further standardize the M&A market, enhance the market competitiveness of products and the management capabilities of enterprises, and effectively improve internal synergy. At the same time, by analyzing how to promote enterprises to strengthen the integration of core resources, encourage mergers and reorganizations between enterprises and between upstream and downstream, and provide more possibilities and countermeasures for industry acquisitions and changes in the competitive landscape.

2. Literature Review

2.1. Research on the Motivation of Acquisition

The boost of policy support. With the advent of the Internet era, the development of the logistics industry is a powerful driving force to promote the high-quality development of the national economy, so the state also provides policy support. The 13th Five-Year Plan for the Development of Business Logistics clearly encourages enterprises to integrate and optimize resources and encourages logistics enterprises to carry out asset reorganization, business integration, and process reengineering, so as to form a group of modern logistics enterprise groups with advanced technology and strong core competitiveness.

Expand market share and improve their competitiveness. Due to the different main businesses and market share of different enterprises, they often have their own dominant market scope. Through the acquisition of other enterprises, they can expand their business scope in a short time and seize the market quickly, thus expanding the market scale [1]. In addition, different enterprises have their own strengths and advantages, and acquisition can obtain more human, material, management, technology and other resources to enhance their own market competitiveness and improve their position in the market [2].

2.2. Research on Acquisition Strategy

Deng Guangzhi pointed out four types of acquisition strategies in Joint Stock Companies, 'Centralized Diversification Strategy,' 'Composite Diversification Strategy,' 'Vertical Integration Strategy' and 'Horizontal Integration Strategy'. Deng also emphasizes that the success of a company's acquisition does not solely depend on completing the transaction but rather on achieving the expected operational performance after the deal. Therefore, selecting the appropriate strategy is crucial for a successful acquisition [3]. Chen Bo, Sun Dianfei, and Liu Wenqing pointed out that companies need to pay attention to long-term investment returns, strive to jump out of industry cycle fluctuations and maintain a leading position in the market when they study the acquisition strategy of the oil industry. They need to be able to accurately grasp the long-term development trend of the market, and at the same time achieve early deployment, comprehensive coverage, and firm promotion of the corporate strategy during the acquisition, leading the development of the industry [4]. Becher and David A. found that the two sides of the acquisition often complement each other and form a synergistic effect [5]. For example, one party has excellent technical strength, while the other party has strong marketing and public influence. It is easier for such two companies to form a 1+1>2 situation after the acquisition. Wu Daoyou and Cheng Jialin conducted research on the matching between corporate M&A synergistic integration strategies and M&A scenarios and finally pointed out four antecedent configurations that can produce high M&A performance, namely absorption strategies [6].

2.3. Acquisition Implementation Effect

In the process of the development of the Western economy, there are many economic theories and views related to mergers and acquisitions, several of which are very classic - economies of scale theory, and principal-agent theory. In the theory of economies of scale, Weston argues that its superiority lies in the fact that its long-term average total cost declines as production increases. The principal-agent theory believes that the most important core point of the principal-agent theory is how the principal chooses the optimal contract incentive agent in the environment of conflict of interest and information asymmetry, if it cannot achieve the most effective effect, it is bound to produce contradictions, thus facing the risk of being acquired [7]. The implementation effect after M&A generally refers to the combination of various synergies, including management synergies, financial synergies, and operational synergies, to achieve the 1+1>2 of transmitting positive signals, improving profitability, improving growth capabilities, improving operational capabilities, improving solvency, and improving the industrial system effect [8]. It is not difficult to find that most of the theories in the Western economy are hypotheses, and there are not a large number of cases and data as support, and the traditional theory of economies of scale can not fully explain the motives of mergers and acquisitions in reality [9], for example, the current situation in the express delivery industry, the express delivery industry is in the stage of shifting gears and slowing down, and the fierce price war cannot become a decisive weapon, but will make some second- and third-tier express delivery companies eliminated, and more new market paths are being explored [10]. Based on such hypotheses, this case study will make a more in-depth exploration and reflection on the motivation and results of acquisitions in the same industry.

3. Overview of J&T Express' Acquisition of Best Express

3.1. Introduction of the Companies Involved in the Merger and Acquisition

3.1.1 Introduction of Best Express

J&T Express, which was established in August 2015, is the region's first technology-based rapid delivery service with Internet delivery at its foundation. With more than 240 large-scale transit centers, 600 pieces of intelligent sorting machinery, 8,000 privately owned vehicles, more than 23,000 outlets, and close to 350,000 employees worldwide, it is the world's largest transport company. In March 2020, J&T Express successfully entered the Chinese market.

In the shareholding structure of J&T Express, the founder Li Jie is the largest shareholder, holding 11.54% shares; Tencent is the second largest shareholder with a stake of 6.32%; Boyu holds 6.1% of the shares, making it the third largest shareholder; ATM is the fourth largest shareholder with 5.49% of the shares, D1 is the fifth largest shareholder with 3.1% of the shares, and Hillhouse Investment, GLP and Redshirt are the sixth, seventh and eighth largest shareholders respectively.

3.1.2 Introduction of Best Express

Best Express was founded in 2003, formerly known as Huitong Express. In November 2010, Hangzhou Best Network Technology Co., Ltd. successfully acquired Huitong Express and changed its name to Best Express in 2016. After 13 years of development, it has become a large-scale private express delivery company in China, with an annual growth rate of almost 130%. As of September 2019, Best Express's service network coverage rate has ranked among the top in the industry, covering more than 39,000 outlets across the country, 100% provincial and municipal coverage, and 99% district and county coverage. The company's core philosophy is to invest in technology and talent. Best Express has brought certain changes to the information technology and personnel reserve of the logistics industry. Best Express, as a brand of Best Group, operated in great loss due to the impact of the epidemic. Best Group finally chose to discard the domestic express business Best Express, which was officially acquired by J&T Express on October 29, 2021.

As of February 28, 2023, the main shareholders of Best Group have been Alibaba (32.70%), Zhou Shaoning (12.13%), CR entities (8.52%), Goldman Sachs Group (3.16%), Zhou Shaojian (1.72%), three institutions and Two people form. Alibaba is the largest shareholder, with a shareholding ratio of nearly one-third of the total. It holds nearly equal voting rights with Zhou Shaoning, CEO and president of Best Group, which means that Alibaba has a high degree of voice in Best Group.

3.2. Introduction to the Acquisition Process

From 2016 to 2020, Best Group's net losses were 1.4 billion RMB, 1.276 billion RMB, 256 million RMB, 441 million RMB and 972 million RMB, respectively. Through the second quarter of 2021, Best Group's total liabilities reached 17.544 billion yuan, and the asset-liability ratio was as high as 95.21%.

After the first round of financing in May 2020, the valuation of J&T Express reached $7.8 billion, exceeding the old express companies such as YTO Express, STO Express, and Yunda Shares, and ranked fourth in the industry. After the third round of financing in November 2021, the valuation of J&T Express directly reached $20 billion, ranking among the top 10 domestic unicorn enterprises.

On October 29, 2021, Best Group and J&T Express jointly announced that Best Group agreed to transfer its domestic express business, Best Express, to Polar Rabbit for about 6.8 billion yuan ($1.1 billion).

After the merger, the two companies obtained more financing, and their position in the industry was greatly improved.

4. Motivational of Acquisitions

4.1. Attract Talent

Due to the short development time in China, J&T was lack of talent. The talent structure of Best Express could fill this weakness of J&T. The professional manager team established by Best Express may become the driving force for the rapid development of J&T, especially in the highly specialized positions of transfer, and operation. In addition, the expansion of J&T in the Middle East and Latin American markets also needs to quickly accumulate professional express talents in China, and this acquisition of Best Express is a good opportunity to make up for the international talent gap of J&T.

4.2. Grab Market Shares

The two major subdivisions of express delivery and express transportation have entered the stage of stock integration and explicit market, but since 2021, relevant regulatory measures in the express delivery industry have been frequently introduced, making the price war no longer effective. If Jitu wants to seize market share, the most important thing is to hurry up with the time difference. At the same time, because Best Express's main market is concentrated in the Taobao market, the acquisition can help J&T enter the Taobao e-commerce, so the acquisition of Best Express is a good opportunity to make up for the shortcomings in a short time and further expand the company's market share.

4.3. Meet Network Requirements

Best Express has a relatively comprehensive network of outlets and rich franchisee resources. The acquisition of Best Express can further deepen and improve the depth and breadth of the network of J&T, expand the scope of the network, and improve transportation efficiency.

5. Acquisition Results and Impacts

5.1. Expand the Overall Market Shares

Before the merger, Best Express disclosed that the daily order volume was 250 billion (approximately equal to 9.1 billion per year), while the daily order volume of J&T Express was only about 20 million (approximately equal to 7.5 billion per year), and the market shares were relatively small. In 2021, the combined market shares of the two were about 15% of the industry.

After the merger, the expansion of the network and the increase in the number of e-commerce platform merchants served have led to the continuous growth of J&T's parcel volume.

5.2. Increase Revenue Channels and Diversify Risks

Alibaba is the largest shareholder of Best Group, and Taobao is the business of Alibaba Group. The acquisition of Best Express by Jitu Express can help J&T Express successfully enter the Taobao market with the help of Ali resources. The new market will help enhance the company's brand awareness and recognition. Through presence and activity in new markets, J&T has increased its brand presence among target customers. In the acquisition, the Pinduoduo platform has always been the main revenue platform of J&T Express, but in 2021, Pinduoduo clarified on the merchant version APP that it has no special cooperation or investment relationship with J&T Express. In the list of major customers in the book, there is indeed no Pinduoduo. However, after the acquisition, J&T Express has opened up new markets and has the opportunity to find partners in new markets. J&T

has established cooperative relations with suppliers and distributors of some merchants. One side brings customers and the other side reduces costs, thus achieving a win-win situation. And entering new markets helped J&T spread its risk. Having multiple markets can reduce reliance on a single market and reduce business risk when a company encounters problems in other markets or faces new competitive pressures.

6. Enlightenment from Successful Experience

6.1. Focus on Understanding Market Share

Different enterprises in the same industry have their own market share and may be relatively backward compared with the leading enterprises in the same industry, so the profit obtained at the same time is relatively low. Mergers and acquisitions in the same industry are not only the simple addition of the market share of two enterprises but often create higher value. Enterprises engaged in mergers and acquisitions should consider their respective market advantages, have a comprehensive and in-depth understanding of market share, pay attention to the quantity of market share as well as the quality of market share, determine the relative importance of the two according to industry competition and product characteristics, and correctly face changes in market share and conduct appropriate regulation.

6.2. Healthy Acquisitions Promote the Healthy Development of the Industry

J&T Express has occupied more market share through mergers and acquisitions, but it is also the beginning of the challenge, how J&T builds its barriers and gets rid of the crisis of low-price competition is the key. After the acquisition of Best, J&T Express is expected to undertake orders from Taobao and penetrate the Taobao market. When the network architecture of J&T Express was gradually improved, the resources obtained by acquiring Best met the needs of J&T Express for supply sources and more terminal delivery interfaces. Therefore, compared with the vicious circle of disorderly price wars in the past, the same industry should pay more attention to complementary advantages, and grasp good infrastructure construction and franchisee network resources, so mergers and acquisitions will eventually become a major trend. This is conducive to optimizing the terminal network layout of both parties in the Chinese market, promoting refined network operation, providing customers with better services, and promoting the healthy development and healthy competition of the sudden industry.

7. Conclusion

The acquisition of Best Express by J&T Express in the same industry has had a positive impact on both parties. The main reason for J&T's acquisition is that the acquisition of Best Express can help companies quickly expand market share, increase revenue channels, quickly acquire professional talents and technologies, and reduce the risk of new competitors in the future. After the acquisition, J&T Express showed positive financial feedback, increased orders and revenue, and squeezed its market share into the top five ranks. At the same time, in terms of strategy, it entered the Taobao market, expanded new market lines, and increased its popularity. For Best Group, after being acquired by Best Express, Best Group has better-integrated resources and improved the operational efficiency of its advantageous industrial chain. J&T Express entered the Chinese mainland market from Southeast Asia, while Best Group is just the opposite. The two companies have a tacit understanding in terms of corporate culture, strategy, etc., and when the two companies form a certain synergy, they will bring more benefits to the company.

At the same time, risk factors need to be taken into consideration, such as integration difficulty, cultural conflicts, financial risks, etc. In future research, we could examine the impact of acquisitions on organizational cultural integration and explore how this integration affects organizational performance. Consider studying case studies across industries and geographies to understand the long-term impact of cultural integration on performance. At the same time, it is possible to study the impact of acquisitions from the perspective of stakeholders and analyze the impact of acquisitions on different stakeholders, such as employees, suppliers, shareholders, and customers. Examine the impact of acquisitions on the attitudes, satisfaction, and behavior of these stakeholders, as well as their expectations for post-acquisition firm performance.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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