The Reasons and Future Implications of Alibaba's Acquisition of Yahoo China

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Abstract. On a global scale, mergers and acquisitions have emerged as a crucial strategy for enterprises to expand their scale, strengthen strength, and improve efficiency. In recent years, the merger and acquisition activities of multinational corporations in China are increasing and showing a strategic trend. For both companies, these decisions represent critical moments in the process of transaction and company development, which generate value and opportunities for the future. By examining the case of Alibaba's acquisition of Yahoo China, this paper discusses the background, circumstances of both companies, the reasons and implications, and derives the following conclusions. Acquiring companies can yield additional technical resources and market share, further enhancing their market competitiveness. The cooperation between the two sides can facilitate the mutual exploitation of resources, providing more growth opportunities for both parties. However, one of the biggest acquisitions in the history of Internet also reflects the need for companies to heighten their risk consciousness when engaging in mergers and acquisitions, in order to preclude potential adverse scenarios for both sides in the future.

Keywords: Mergers and Acquisitions; Alibaba; Yahoo China.

1. Introduction

In the late 20th century, the Internet spread rapidly around the world and became a crucial infrastructure of modern society, which marked the beginning of human beings into the information age. During this period, numerous e-commerce enterprises emerged, such as Google, Amazon, Alibaba, Yahoo and so on [1]. This not only spurred the innovation of Internet technology, but also furnished novel ideas for the development of Internet business models. Many e-commerce companies subsequently folded or went bankrupt during the dot-com bubble burst, thus Alibaba sought assistance in expanding its business by acquiring other companies when China's economy remained robust [2]. The success or failure of an acquisition has a significant impact on an enterprise, therefore an in-depth understanding of the reasons behind the acquisition can inspire more enterprises to pursue further development in the context of global economic integration. Corporate mergers and acquisitions is like a human organ transplant operation, whether the operation is successful is not only the success of the operation process but also depends on the acceptance of various organs after the operation. Consequently, the integration of all aspects after the acquisition is more important. This paper will utilize the Alibaba and Yahoo China acquisition as a case study to analyze why an acquisition that everyone thought would have a promising future at the time would have a negative impact later on. This paper firstly provides a brief overview of Alibaba Group and Yahoo!. It delves into the underlying motivations for the acquisition, which primarily involve furnishing Alibaba with technology and capital, facilitating Yahoo China's business transformation, and jointly exploring new markets for both companies. Ultimately, the paper evaluates the impact on the two companies and the factors contributing to their divergent paths after the acquisition.

2. Alibaba Group

Alibaba Group is a world famous Chinese e-commerce company. Alibaba Group was founded in 1999 by Jack Ma and 17 other co-founders and operates a number of businesses. Jack Ma started the company when he learned about what he thought were promising Internet technologies during a visit to the United States in the 1990s [3]. On September 19, 2014, Alibaba Group was listed on the New York Stock Exchange at $68 per share and its initial public offering reached $25 billion. It was the largest initial public offering in U.S. history. The founder of the company is Jack Ma and the stock symbol is “BABA”. On November 26, 2019, Alibaba was listed on the Hong Kong Stock Exchange and reached a total market value of more than 4 trillion yuan. Alibaba is the first Chinese Internet company to list on both the New York Stock Exchange and the Hong Kong Stock Exchange. The firm’s business covers a variety of industries including e-commerce, financial technology, cloud computing, digital entertainment and education. The company’s main business is B2B trade between companies and online retail. In addition, it also owns Internet platforms such as Tmall, Taobao, Alipay and AliExpress [4]. Alipay overtook PayPal in 2013 to become the largest online payment service [5]. Therefore the company has one of the largest cloud computing infrastructures in the world. From 2014 to 2019, Alibaba’s performance grew rapidly and its annual revenue growth rate reached more than 50%. Alibaba peaked at $319 per share in 2020, after which the share price began to fall because the listing of Alibaba’s financial technology platform Ant Financial was suspended. In 2023 the company’s share price fell due to complaints that Alibaba was suspected of monopolizing and interfering with normal market transactions. People remain negative about Alibaba’s future.

3. Yahoo

Yahoo is a famous Internet site in the United States and created the Internet miracle in the late 20th century [1]. Yahoo was founded by Jerry Yang and David Filo in 1994 and went public on Wall Street on April 12, 1996 at $33 per share. By the end of 1999, the company’s market value exceeded $100 billion, and it was the first company in the entire Internet industry whose market value exceeded $100 billion. In January 2000, Yahoo’s stock hit an all-time high of $475. The company’s business scope includes search engine, news and email in 24 countries and regions. Users can access and publish all kinds of information from all over the world through this website, so it is one of the most widely used platforms on the Internet. Yahoo China, by integrating cutting-edge Internet technology with local operations in China, has emerged as the leading search engine and consulting service provider on the Internet in China. In August 2005, Alibaba and Yahoo announced a partnership under which Alibaba would acquire all the assets of Yahoo China [1], receive a $1 billion investment from Yahoo, and enjoy the exclusive right to use Yahoo's brand and technology in China. Yahoo got 40% of Alibaba’s economic interest and 35% of its voting rights [1]. Over the next three years, Alibaba launched three successful ventures: Taobao University, Alibaba Mama and Tmall [3]. The collaboration between Yahoo China and Alibaba Group endured from 2005 to 2013, after which Yahoo China ceased offering consulting and community services on September 1, 2013. At this point, all Yahoo China services have been stopped. On 25 July, 2016, Yahoo was acquired by Verizon Communications for only $4.83 billion, marking the end of Yahoo’s 22-year tenure in the Internet world [6]. However, Yahoo CEO Jim Lanzone declared in 2023 that the firm boasts a robust balance sheet and intends to take the company public once more.

4. Reasons for Alibaba's Acquisition of Yahoo

From the perspective of Alibaba Group, the acquisition provides the company with significant cash flow and cutting-edge technical support. Taobao, which is owned by Alibaba Group, was initially established as China’s largest platform for individual trading. Simultaneously, eBay, the globally renowned C2C trading platform, poses a considerable challenge to Taobao. The competition between these two sides was intense, with Taobao maintaining a strategy of freedom. In addition, Alibaba B2B, being the sole profit generator at that time, was unable to furnish sufficient cash flow for the entire group’s development [1]. Consequently, a large amount of substantial capital investment imposed considerable pressure on Alibaba, compelling the company to promptly identify a new profit model that would aid in achieving the strategic development goal of diversification [1]. Moreover, eBay revealed its strategic intention to acquire Alibaba posed a threat to Jack Ma, as he faced the risk of his company's sale and his own dismissal. These two urgent and crisis circumstances are enough to require Alibaba to quickly find the appropriate partner. Finally, the acquisition has brought the company access to the search engine and Yahoo's core technology team. As the times have evolved, the online habits of Chinese Internet users have shifted, with search engines becoming the primary source of information, which also serves as an important traffic channel for e-commerce [1]. Therefore, for the development of Taobao e-commerce platform, it is also extremely important for the company to obtain search technology. The proceeds from the acquisition enabled Taobao to emerge as the preeminent player in China's e-commerce sector, thereby transforming the landscape of the Chinese e-commerce industry. In addition, Taobao attracted a substantial number of users from eBay, which ultimately contributed to the success of both Taobao and Alibaba. From 2005 to 2007, Alibaba built its own system on Yahoo's website and provided a better communication space for global e-commerce businesses (strategies and technologies) [7]. In the early 21st century, Chinese Internet companies generally lacked core technologies. However, Alibaba made up for its technical shortcomings to some extent through the acquisition of Yahoo and laid the foundation for the future development of the company. A similar situation occurred in the case of US semiconductor company Broadcom's acquisition of cloud service provider VMware, in which Broadcom will assume $8 billion of debt for VMware, which is equivalent to giving the company a portion of the money. In addition, VMware is a pioneer in virtualization software, therefore the acquisition can provide better software services and broaden their customer base. Acquisition is of great significance for the development of a company in terms of capital and technology. A company can obtain technical support from another company to make up for it disadvantages or cash support to expand its scale or diversify its layout. At the same time, the two companies may dissolve their competition into a partnership and avoid hostile takeover bids from other companies. Subsequently, it will delve into the rationale behind this acquisition and its significance for Yahoo.

After years of development difficulties, Yahoo was facing many challenges and pressures and needed more fresh investment. Yahoo's battle with Google in the search business was tight at the time, and it was uncertain internationally who would win. Yahoo doesn't have a significant competitive advantage over Google and Facebook. The two companies' products reach nearly a global audience of Internet users, and Yahoo does not offer customers a different or superior service. In particular, Yahoo Mail has been hacked many times, and its security is significantly lower than Gmail. In addition, Yahoo's business in China has existed for many years but has not been great because the company has not fully localized in China. The acquisition of Yahoo China will allow Yahoo to focus on other markets. For Yahoo China, the acquisition is also positive in some ways. Alibaba's own strong e-commerce genes can inject new vitality and innovation into Yahoo China and promote its business transformation and upgrading. After the acquisition, Alibaba fully developed Yahoo's search engine technology and established Alibaba Cloud Search [8]. Such research and development has also helped Yahoo reach out to Chinese Internet users and pay more attention to Yahoo's other Web services. Yahoo China, for example, has taken advantage of Alibaba's e-commerce platform to quickly promote its own advertising business [9]. A similar case was made in 2012 when Ziemann, a 160-year-old German brewer, turned a profit after being bought by CIMC. Although the two acquisitions are not exactly the same, it also reflects that mergers and acquisitions are a way to change the status quo for enterprises that are not developing smoothly. This may give companies a whole new customer base to market their business more broadly, therefore companies under pressure have the opportunity to form entirely new operating models with the help of acquisitions. Finally, Yahoo has improved its liquidity through the acquisition because it had $1.9 billion in cash on its income statement as of June 30, 2012. It is estimated to provide the company with $4.3 billion after taxes. The sum guarantees that Yahoo will have enough money to fund its future investments.

The combination of Alibaba and Yahoo China enhances both companies' global presence and brand awareness. By integrating the resources of the two companies, Alibaba has the opportunity to strengthen the development of areas such as cross-border e-commerce and international logistics, and both sides may gain more global users to achieve market expansion. Alibaba consolidated its leading position in the Internet industry through Yahoo's global brand presence and media resources and laid a good foundation for the company's future growth. In the acquisition process, the two companies are merged into a new company with the opportunity to enter new foreign markets and even global markets and increase market share.

5. Effects for Alibaba's Acquisition of Yahoo

The integration of the two companies did not proceed as smoothly as anticipated, encountering several challenges. Due to Yahoo's declining competitiveness, Alibaba had to rely more heavily on its own resources to propel the company forward. The relationship between the United States and China and changes in the economic environment may have an unpredictable impact on the cooperation between Alibaba and Yahoo. As Chinese Internet regulations have become more and more strict with the progression of society, they have affected foreign Internet companies such as Yahoo, compelling them to withdraw from the Chinese market. Yahoo, eBay, and Google have all vacated the Chinese market due to both competition and regulation [10]. eBay's market share plummeted by 73.8%, while Google's market share dropped from 33% to 19.3% [11]. Additionally, the swift market fluctuations during that period also resulted in the possibility of unforeseen integration in 11 of the 56 cases. The failure of the collaboration between Alibaba and Yahoo was attributed to the disparity between the user groups of the two companies and the lack of accurate market positioning [12]. Secondly, the relationship between Yahoo and Alibaba began to deteriorate in 2009 when Ms. Bartz perceived that Yahoo China's performance had not improved after its integration with Alibaba. Consequently, the two companies became embroiled in a battle for control, with Yahoo declining Alibaba's proposal to repurchase a 39% stake in 2010. Finally, in 2012, the two sides reached a final agreement under which Alibaba would exchange $7 billion for this stake. This seemed like a good outcome for both sides, but Yahoo loses control of China's largest e-commerce company. The future of Yahoo is hard to predict. The transition from partnership to dissolution also raises the question of business ethics, which is one of the risks any company may face in the process of acquisition. This may cause the public to worry about the company's brand, and if the subsequent problems are not properly addressed, the company's future development will be affected.

6. Conclusion

All in all, the acquisition of Alibaba and Yahoo China brought certain advantages of immediacy to both companies, but did not reflect the expected results for the future development of the two companies and even the performance of Yahoo China gradually declined. Corporate culture and management philosophy from two different countries may not be consistent or even difficult to integrate. The two companies failed to integrate and took a huge toll on Alibaba's growth. At the time, the acquisition was complementary and an opportunity for both companies to build on each other's strengths. However, the acquisition is not a success 18 years later. Although Alibaba not only got a higher capital injection and Yahoo's search engine, it actually handed over the control of Alibaba to Yahoo. Such a deal is likely to make Alibaba Group lose its autonomy in the future. Merger and acquisition may give the company new profit opportunities if the strategic layout and cultural integration of the two companies are consistent. For two companies with different philosophies, a merger or acquisition is not the best choice for both firms. Mergers and acquisitions, especially multinational enterprises, bring opportunities but also unknown challenges. Companies need to negotiate with each other and carefully evaluate possible risks in the future. In the case of Alibaba and Yahoo China, both companies should learn that a deal that looks good at one time does not guarantee lasting success for the company's future. Merger and acquisition is not a simple process, after the merger of resources, personnel and cultural integration need to consume a lot of energy and time, only these aspects are consistent, the transaction may bring good results.

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