Research on Enterprise Acquisition Risk under the Shared Economy Model—Taking Mobike Acquisition by Meituan as Example

Tongtong Qin

School of Management of Wuhan University of Technology, Wuhan, Hubei
781952790@qq.com

Keywords: Sharing Economy, M&A Risk, Solution and Measure, Mobike Acquisition By Meituan

Abstract: There emerges a new economic pattern followed by the rapid development of internet technology and its application which leads to the realization of sharing economy philosophy, integrating the internet achievement into economy pattern. The bicycle sharing mode, characterized as convenience and efficiency, under the current economy pattern, is surging forward by taking advantage of massive market necessity. Such mode, however, is still faced with certain risks under the fierce competition along as in absence of sound laws and regulations. On the basis of abovementioned, this essay is analyzing the M&A risks in the sharing economic pattern and then putting forward a few of corresponding solutions and measures to such risks, by taking instance of Mobike acquisition case initiated and conducted by Meituan.

1. Research Background

1.1 The birth of sharing economy.

As early as 1978, Marcos Felson (Marcus Felson) and Joan Spence (Joel Spaeth), sociology professors from the United States, have mentioned in their paper named Community Structure and Collaborative Consumption: A Routine Activity Approach that the concept of "collaborative consumption", which emphasize what people need is the use value of the product, not the product itself. However, due to the limitation of technical conditions and social factors at that time, this concept has not been realized.

1.2 The connotation of sharing economy.

Sharing economy separates the ownership of idle resources from the right to use in the society. Although the shared economy model is a new economic model, the essence of its development is the process of disintermediation and re-intermediation. In the Internet era, the realization of the shared economy model sets up the direct content between the supply and demand sides, and further meet the needs of consumers in a more convenient way, and do not have to rely on the commercial organization as the intermediary to achieve the de-intermediation. Although separated from the original intermediary, in order to establish a more efficient and convenient connection, both supply and demand need to use the Internet platform to achieve resource sharing, that is, re-intermediary.

1.3 The reason for the rise of sharing economy.

1. The rapid development of Internet technology and its application has laid a technical foundation for the realization of shared economy. With the rapid development of Internet
technology, innovative achievements based on the Internet emerge in endlessly, which provides technical support for the development of shared economy. The widespread use of smart phones and mobile Internet has changed people's living habits and consumption patterns, mobile intelligent terminals have realized the interconnection between people, and established the quick and effective links between supply and demand. The widespread use of mobile payment realizes the payment transaction at anytime and anywhere.

2. Thanks to the rapid development of social economy, the change of user demand and its consumption concept. When the material life is satisfied, the user's demand and consumption concept change accordingly, from the material demand to the pursuit of the quality of life, the pursuit of life gradually tends to individualize. Traditional consumer market has high cost, slow logistics, poor effect and other pain points, it is difficult to meet the increasing demand. The emergence of the shared economy model makes people's choices more diversified, and consumers are no longer limited by the high cost of the product itself, and can experience its use value. Hence, the sharing economy model adapts to the change of user's demand and consumption idea to some extent.

3. The development of the shared economy is backed by huge amounts of money. Between 2010 and 2013, total investment in the shared economy reached $4.3 billion, compared with $8.5 billion in 2014 and $142.06 in 2015. In the shared cycle sector, total financing in 2017 reached 25.8 billion yuan, according to data from the Center for Electronic Commerce Research. On the one hand, the rise of sharing economy is inseparable from the support of funds. On the other hand, thanks to the broad development prospect in the field of sharing economy, so huge funds will flood into this sector.

4. The national policy carries on the vigorous support to the sharing economy. A shared economy can be developed to further promote employment stated in the thirteenth Five-Year Plan. Through the development of shared economy, to advance the utilization efficiency of idle resources, promote the transformation and development of traditional enterprises, stimulate the vitality of innovation and entrepreneurship, improve the quality of economic development and then promote the employment to a certain extent.

2. Meituan’s Acquisition of Mobike

2.1 The development of Mobike. Mobike (MOCAR), developed by Beijing Mobike Technology Co., Ltd., is an internet-based bicycle travel scheme. Unlike a public bike, it has the advantage of making it easier to travel without a pile. The user can obtain the right to use a bicycle by registering through the software port on the mobile phone and pay for the use of the bicycle during the period of use by means of mobile payment. Mobike makes it easier for users to rent and return cars, makes bicycles more secure and durable by rigorous manufacturing technology, makes bicycles easy to identify by carefully designed appearance, and makes mobile phone applications easy to use. Committed to solve the bus station and subway station to the destination of the "last kilometer" travel problem, welcomed by the majority of users. In June 2017, Mobike launched 130 cities at home and abroad, with a total of more than 5 million bicycles, more than 100 million registered users and an average of 20 million rides per day. The number of cities covered, the total number of bicycles launched, the number of users and daily orders are the largest in the industry. On November 6, 2017, Mobike Technology Co., Ltd. announced its entry into the field of shared cars, named MOCAR. Meituan paid $1.2 billion in cash, $1.5 billion in Meituan Dianping shares and $1 billion in debt on April 3, 2018, for a total of $3.7 billion merged Mobike.
2.2 Mobike's Financing Situation

Mobike's financing situation at different stages is shown in table 1:

| Date       | No. Of Rounds | Amount                         | Investors / institutions                                      |
|------------|---------------|--------------------------------|--------------------------------------------------------------|
| 2015.03.01 | angel round   | 1.46 million RMB               | Li Bin                                                       |
| 2015.10.30 | A round       | Millions of dollars            | Joy Capital                                                  |
| 2016.08.19 | B round       | Tens of millions of dollars    | Panda Capital, Joy Capital, Innovation Square                |
| 2016.08.30 | B Plus        | Tens of millions of dollars    | Xiangfeng Capital, Innovation Square                        |
| 2016.09.30 | C round       | $100 million                   | Sequoia Capital (China), Hillhouse Capital                  |
| 2016.10.13 | C plus round  | $55 million                    | Hillhouse Capital, Warbug Pincus WI Harper Group, Tencent, Sequoia Capital (China), QiMing Venture Partners, Bertelsmann Asia Investment Fund |
| 2017.01.04 | D round       | $200 million                   | Tencent, Warbug Pincus WI Harper Group, Ctrip, Huazhu Hotel Group, TPG de Pacific Capital, Sequoia Capital (China), QiMing Venture Partners, OY Capital Joy Capital, Bertelsmann Asia Investment Fund, Panda Capital, Xiangfeng Investment, Innovation works, Hon Hai Group, Foxconn, Yongbo Capital, PGA Ventures, Hillhouse Capital |
| 2017.01.23 | strategic investment | Us $100 million and above | FOXCONN                                      |
| 2017.06.16 | E round       | $600 million                   | Tencent leads the cast, ICBC International, Bank of China International, Farallon Capital, TPG de Tai Capital, Sequoia Capital (China), Hillhouse Capital |

Source: Center for Electronic Commerce Research

Analysis of the Meituan's purchase of mobike. Mobike's original mode of operation is: payment for the timing of the ride. Since June 2017, many companies have flooded into shared cycling, the market competition is fierce. In order to occupy a certain market share, the major shared bicycles have started a price war and subsidy war, which not only did it bring down many small shared cyclists, but the two giants mobike and OFO also lost their main source of revenue. In the face of high manufacturing costs and market operating costs, mobike exposed the shortage of
capital chain in the case of limited revenue sources. Mobike has already owed about 1 billion yuan to major suppliers in the early stages of development, embezzled user deposits as high as 6 billion yuan and owed more than $1 billion in debt. Mobike is in the condition of independent development profit is difficult, even face financial crisis. Many minority shareholders choose to withdraw against the alternative opportunities.

Meituan has always been interested in entering the market of shared bicycles and ride-sharing networks to expand the field of enterprise development, while mobike has a leading position in the field of shared bicycles, and has also involved the field of ride-sharing services and shared cars. Meituan has become the choice to enter the shared market. Mobike's advantage in sharing travel makes up for the shortage of Meituan in travel, and accords with its strategic requirements. In the case of sufficient funds, Meituan chose to take over mobike.

3. M & A Risk in Shared Economy

3.1 Related enterprises lack effective supervision. With the rapid development of the shared economy, it has been applied to almost all industrial fields from production to consumption, but behind it is the lag of government supervision and management system. The traditional regulatory methods, such as access license, qualification, quantity control and price control, are not fully applicable to enterprises under the shared economy model. As a new type of economic model in which the Internet is the medium of mass participation, the sharing economy has the characteristics of a large number and fictitious nature, and is no longer a fixed personnel and place. There are also a large number of unregulated suppliers of products and services. How to supervise it effectively while developing is an important problem and a potential risk.

3.2 There is no guarantee of a legal system. Under the mode of shared economy, the ownership of products is separated from the right to use, and the effectiveness of the original legal system is limited, but the corresponding legal system lags behind. Once trade breach, accident compensation and other disputes occur, in the absence of legal system, the boundary between user and platform liability obligations is not clear, and the accident liability and compensation liability is not clear, which cannot be effectively resolved. It will bring risks to the long-term and stable development of the shared economy.

3.3 Credit risks. The stable development of the sharing economy cannot be separated from the support of the credit information system. At present, China has not established a sound credit information system, which limits the development of the sharing economy to a certain extent. The barriers to access to shared economy trading platforms are low, and everyone can become either side of the supply and demand side and participate in the sharing economy. Under the imperfect credit system, on the one hand, the consumers are not sure about the specific business conditions of the enterprises, so they cannot make the best choice according to the information of both sides; on the other hand, the enterprises are also unable to understand the credit status of the consumers. Low credit users will bring higher maintenance costs to enterprises, increase the operational risks of enterprises, at the same time, will bring certain drawbacks to social development. In the field of shared bicycle, there are chaos such as random parking, reverse driving, running red light, occupying driveway, artificial destruction, hiding shared bicycle and so on.

3.4 Profit model risk. Under the shared economy model, the main source of corporate profit is the payment of customers under short-term lease. Take mobike as an example, its main income source is the user short-distance travel vehicle expense. The rent for each ride is about 1 yuan, but the upfront production cost of a mobike is as high as 6000 yuan, and the later production cost is
between 2000 and 3000 yuan. In addition to production costs, there are maintenance costs, market operating costs, depreciation losses and other costs. That is, in the case of satisfying a certain amount of market investment, its pre-investment cost is high, the share of backflow funds is small, the source is narrow, and the speed is slow, therefore, it is very difficult for the enterprise to realize the profit in the early stage, and even bear heavy liabilities.

3.5 The management risk of enterprise’s "fund pool". When the main business is unable to make a profit, most companies choose to invest with a deposit to make a profit. Although each person pays a small deposit, but as the user base continues to expand, this part of the fund will form a large pool of funds. Enterprises may make high profits to make up for the losses in their main business by using the high deposit in the fund pool. However, due to the misappropriation of funds, the failure of investment and the unknown situation of large area refundable deposit, it may lead to the related problems of enterprise capital turnover, even the breakage of capital chain.

4. Solutions to M & A Risk in Shared Economy

4.1 To improve the regulatory mechanism and improve relevant laws and regulations. As a new economic model, the shared economy model is still in the exploratory stage. Establishing a sound supervision mechanism and perfecting the relevant legal system will be beneficial to its legalization and standardized development. On the basis of giving full play to the qualifications of the enterprise platform, we should constantly innovate the mode of supervision, formulate more reasonable and detailed legal norms, strengthen the supervision of enterprises, formulate tax policies suitable for the development of enterprises under the shared economy model, and standardize the consumption process, and then to protect the legitimate rights and interests of all parties. In the process of supervision, we should not only safeguard the interests of traditional enterprises, but also adapt to the development characteristics of enterprises under the mode of shared economy, and take into account the development of innovative ways. To encourage the integration of traditional fields and shared economic models, and then achieve the transformation and upgrading of traditional economic fields.

4.2 Improve the social credit system. First, to collect the information from industry and commerce, taxation, procuratorates, courts, banks and other institutions through a data collection system to form a credit information data center; then, credit files are set up and managed for individuals and enterprises. According to the data of the data center, to carry out the credit rating of individuals and enterprises. Finally, to integrate the credit system through big data. Credit agencies provide credit data for individuals and enterprises, those individuals who with good credit can get certain concessions on the sharing platform, while individuals with low credit rating or who have been lowered due to loss of credit will pay a certain amount of money. Individuals can choose their own products and services based on their credit rating and open information. The credit status of individuals and enterprises is related to their lending and investment behavior in financial institutions.

4.3 The profit pattern is diversified. In order to effectively avoid the difficulty of early profit, we should actively broaden the source of profit and build a dynamic and diversified profit mode. Sharing economy enterprises can broaden the resource sources in the early stage of operation, for example, the public idle resources should be included in it, and in the field of shared bicycles, consideration can be given to making full use of the public bicycles that have been eliminated in the cities. On the other hand, you can make money by developing related derivatives, such as sharing bikes, developing derivatives, sharing sunscreens, and so on. You can also cooperate with some large-scale events to expand the popularity of specialized personalized service customization.
4.4 Strengthen the management of the enterprise's "fund pool". In order to make a profit by using the "fund pool" to make profits, to ensure the user's rights and interests of returning the deposit in time and to avoid the problem of the enterprise's capital turnover effectively, the government should set up a third party organization to supervise the deposit. To manage a large amount of deposits, we should not only consider the rights and interests of users, but also take into account the actual situation of enterprises. Enterprises should be allowed to make reasonable investment with part of deposit when it is difficult to gain profit from the main business in the early stage. Drawing lessons from the bank reserve system, we can combine the enterprise's current profit situation, main business income, profit source and other factors, and formulate the corresponding proportion of the enterprise can invest in the deposit, leaving the deposit to be managed by the relevant government third party organization.

5. Conclusion

The shared economy model is the result of the combination of technology development and social development demand, which plays an important role in stimulating economic growth, improving economic development model and improving the efficiency of resource allocation. However, its development is not mature, there are still many problems to be solved in the future. Meituan's acquisition of mobike is another node in the development of shared economy model, which has an important impact on the development of shared economy model and shared bicycle. Generally speaking, the sharing economy is an inevitable trend, and the traditional fields should actively seek to combine with the shared economy model to realize the transformation of the mode of economic development. With the support of government policy, the continuous improvement of credit information system and the innovation of profit model, this sharing economy will surely create more value for the society.

References

[1]. Zhu Jin. Research on the Development of Shared Economy[J].Times Finances, 2018 08).
[2]. Li Minlian. Market Research and Analysis of shared Cycling[J].Money China, 2017 (05).
[3]. Wang Weizhe. Economic Analysis of Shared Cycle Business Model[J].Times Finances, 2018, (09).
[4]. Liu Yannan. Research and Analysis of Shared Cycle Development[J].Times Finances, 2017 (08).
[5]. Deng Chaoyang, Fan Ying, Su Xingfeng. Risks Faced By Shared Bicycle Enterprises and Preventive Measures[J].Manager’ Journal, 2018 (04).