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Motivation and Performance Analyses of Suning's Acquisition of Carrefour

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Abstract: In the new era of China's retail business transformation, retail enterprises have launched online and offline omni-channels, developed all-category business models, and taken the step toward merger and acquisition expansion. This paper studies and analyzes the motivation and performance of Suning's merger and acquisition of Carrefour China through literature research, case study, the financial index method, non-financial index method, and comparative analysis method. Based on the analysis, this merger and acquisition has improved Suning's management efficiency but reduced its profitability and increased its risks, mainly due to the pressure of traditional business sales, the unstable operating channels, and the fact that the integration of the two parties has not achieved the desired results.

Keywords: Retail; Motivation of M&A; Performance of M&A

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1. A theoretical overview

1.1. The concept and types of mergers and acquisitions

Mergers and acquisitions (M&A) is a process by which a company acquires control of another company, for instance, by buying or taking over shares. M&A mainly includes horizontal M&A [1-4], vertical M&A, and mixed M&A [5-7]. There are many motivations for M&A, including strengthening the integrative effect of enterprise supply chain, achieving the synergistic effect of M&A, and expanding the market.

1.2. Evaluation methods of M&A performance

The two evaluation methods are the financial index method and non-financial index method. Different indicators are used to evaluate and analyze the effectiveness of mergers and acquisitions.

The two methods are complementary in general. The evaluation emphasizes on the outcomes of M&A; not only the financial situation after M&A, but also the overall operation, making the evaluation more scientific and effective.

These two methods are also used in this paper.

2. Brief introduction of Suning's merger and acquisition of Carrefour China

2.1. Introduction of both parties to the merger

Suning, established in the 1990s, is a representative wholesale and retail company for electrical appliances. After 30 years of development, it has steadily advanced to become China's leading smart retail service provider.

Carrefour, founded in 1959, began to explore the Chinese mainland market as early as the end of last century, and it was one of the first largest multinational retail companies to develop in China.

Suning's merger and acquisition of Carrefour China has always been regarded as a classic M&A case and is of great significance for research due to the particularity of its retail industry.

2.2. Motivation analysis of Suning's merger and acquisition of Carrefour China

2.2.1. Improving the supply chain and enhancing the direct selling propensity

The merging with Carrefour China enables Suning to make good use of Carrefour's resources in China and its inventory capacity to improve its supply chain and realize the rapid supply of fast-moving consumer goods (FMCG), respectively, thus solving the last mile problem [8-10].

2.2.2. "Smart Retail" system layout

People's daily consumption needs are constantly increasing; thus, consumption will not be confined to a single online or offline channel, but rather a deep integration of both, online and offline forms. After Suning's acquisition of Carrefour, home appliances can be purchased on Carrefour's offline stores, and the market will continue to expand by constantly improving online and offline omni-channel sales lines [6].

3. Performance analysis of Suning's merger and acquisition of Carrefour China

3.1. M&A performance analysis based on the financial index method

3.1.1. A significant decline in profitability

As can be seen from **Figure 1**, which reflects the ROE of Suning from 2016 to 2020, Suning's return on net assets has been in a state of constant fluctuation, with an obvious downward trend. A detailed analysis of its operation revealed that the main reason is that many mergers and acquisitions as well as equity transfers have taken place in the company over the past five years, thus affecting its profitability [11-15].

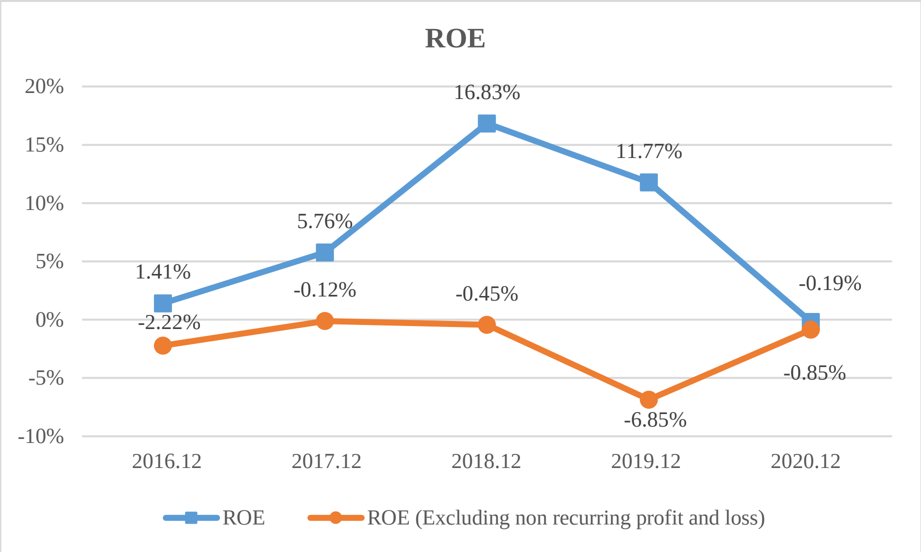
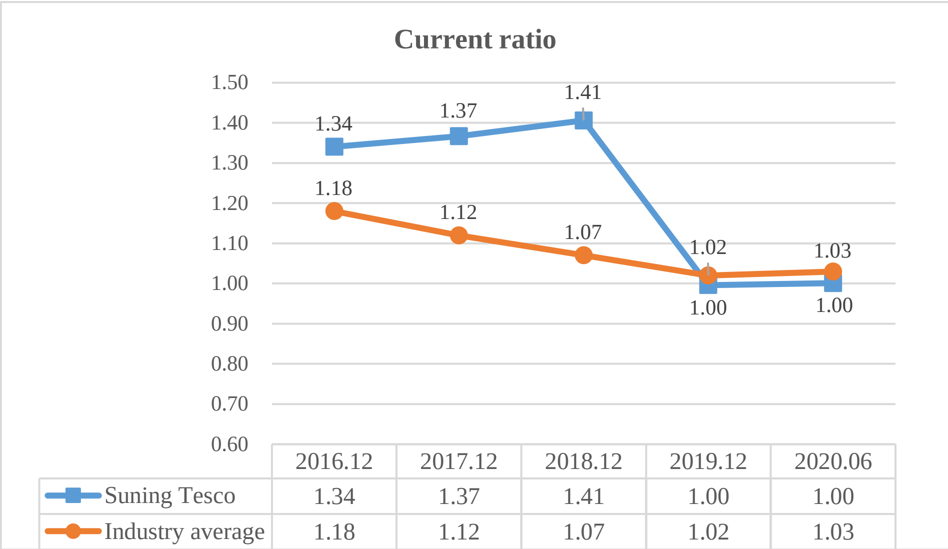


Figure 1. A line graph of Suning's return on equity from 2016 to 2020

3.1.2. A weakened debt-paying ability

(1) Short-term solvency

From **Figure 2**, it can be seen that Suning's current ratio was on the rise in 2016 to 2018, but it began declining in 2018 to 2020. On the whole, Suning faced a great deal of pressure from short-term debt.

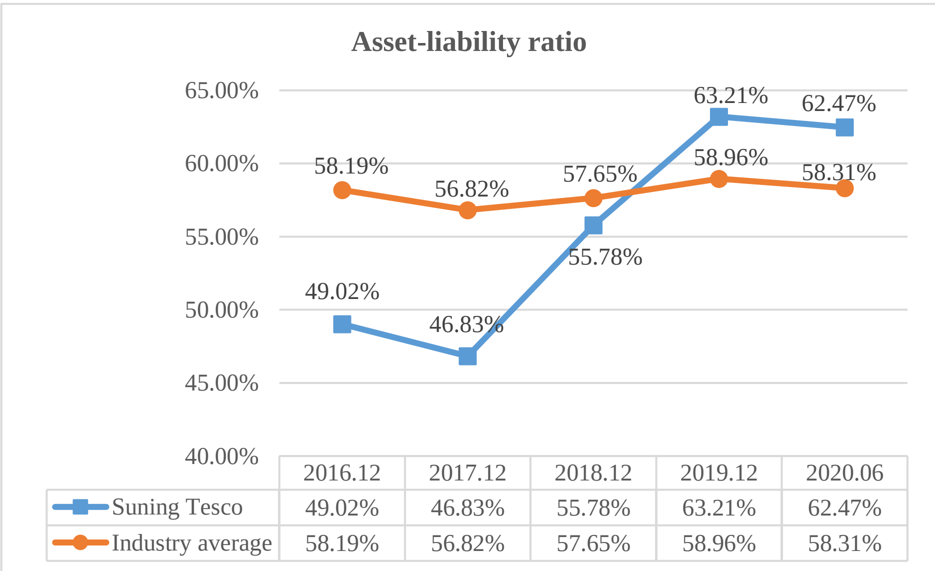


	2016.12	2017.12	2018.12	2019.12	2020.06
Suning Tesco	1.34	1.37	1.41	1.00	1.00
Industry average	1.18	1.12	1.07	1.02	1.03

Figure 2. A line graph of Suning's current ratio from 2016 to 2020

(2) Long-term solvency

The asset-liability ratio indicates the repayment ability of assets to liabilities. As can be seen in **Figure 3**, Suning's asset-liability ratio from 2016 to 2018 fluctuated between 40% and 60%, which was lower than the industry average in a reasonable range. In 2019, the company's asset-liability ratio rose sharply to 63.21%. Since then, it has been slightly more than 60%, about 4% higher than the industry average. Therefore, it is inferred that the M&A has reduced Suning's long-term solvency.



	2016.12	2017.12	2018.12	2019.12	2020.06
Suning Tesco	49.02%	46.83%	55.78%	63.21%	62.47%
Industry average	58.19%	56.82%	57.65%	58.96%	58.31%

Figure 3. A line graph of Suning's asset-liability ratio from 2016 to 2020

3.1.3. A considerable prospect of growth ability

According to the data in the **Figure 4**, Suning's net profit growth rate did not show a good growth trend from 2016 to 2020; it was initially in a state of growth followed by a decline. In 2020, the net profit growth rate was even lower than that in 2016, reflecting a negative growth trend in 2020.

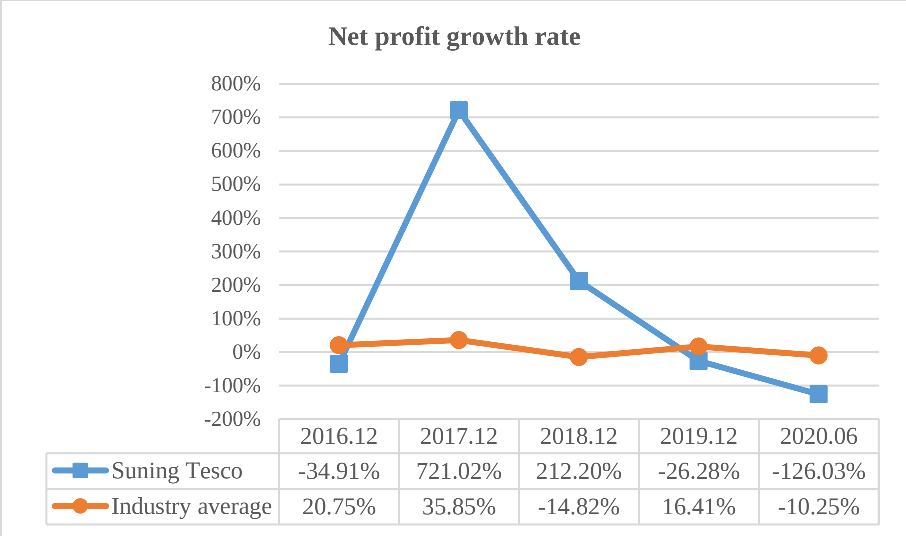


Figure 4. A line graph of Suning's net profit growth rate from 2016 to 2020

3.2. M&A performance analysis based on the non-financial index method

3.2.1. Improved logistic efficiency and sales scale expansion

After the acquisition of Carrefour, Suning realized the improvement of sales efficiency and the expansion of sales scale by using Carrefour's physical storage resources [16,17].

3.2.2. Increased number of consumers and enterprise market expansion

After the acquisition of Carrefour, its membership information is owned by Suning, and through the integration of membership information, the number of consumers has increased. At the same time, it has improved user stickiness by analyzing relevant data [18].

4. Research enlightenment of Suning's merger and acquisition of Carrefour China

4.1. Cautiously slow the expansion

The phenomenon of malignant growth is increasingly prevalent in today's business development. In order to achieve stable development, enterprises must pay attention to their rate of expansion and carefully select reasonable expansion strategies [19].

4.2. Pay attention to upstream and downstream supply chains

Given the present dominance of international trade, supply chains have become a platform for competition among enterprises. With rapid inventory turnover and goods sold, creating a fast supply chain has become an issue that enterprises need to consider.

The more information we acquire, the better we can estimate and evaluate the enterprise, as well as the risk of M&A.

4.3. Conduct a thorough survey on the acquiring company

The information includes not only the ownership of the enterprises, but also the business situation, debt situation, credit situation, guarantee situation, and even the legal risks they will face as they gain familiarity with M&A enterprises. The only way for enterprises to effectively regulate M&A is through a thorough grasp of these data [7,20].

Disclosure statement

The authors declare no conflict of interest.

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