



“New Retail” in action - Issue 15

## Alibaba fully acquires Ele.me

– Key highlights and takeaways

 FUNG BUSINESS INTELLIGENCE

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### Background

On 2 April, 2018, Alibaba Group announced to acquire all of the outstanding shares that it does not already own in Ele.me, a leading domestic O2O catering player. It hopes to deepen the platform’s integration into Alibaba’s ecosystem and further expand the technology company’s New Retail strategy for local services. The transaction implies an enterprise value of US\$9.5 billion for Ele.me. Alibaba and its affiliate, Ant Small and Micro Financial Services Group, currently own roughly 43% of Ele.me.

## Comments and implications

The acquisition further underscores Alibaba’s ongoing “New Retail” strategy in the O2O catering sector, as Ele.me is the leading domestic O2O catering platform in China which has over 260 million users. Currently, Alibaba’s “New Retail” strategy covers four major areas – (1) department store-related innovations including the smart retailing initiatives in Intime Department Store; (2) home-related innovations such as Home Times, cooperation between Tmall and Suning, and the investment into Easyhome; (3) fresh food and FMCG innovations including Hema Xiansheng, Tmall Xiaodian, and the investment into Sun Art Retail Group; (4) local services including Koubei. It is likely that Ele.me will join Koubei as part of Alibaba’s effort in the local service market.

### BOX: China’s O2O catering market

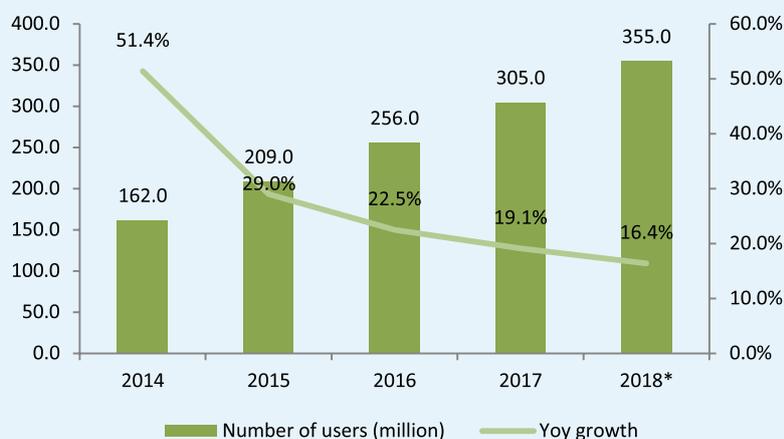
China’s O2O catering sector is a fast-growing market in China. According to a report by iimedia, a domestic research consultancy, in January 2018<sup>1</sup>, the O2O catering market in China is expected to reach 243 billion yuan in 2018, up from 205 billion yuan in 2017. Number of users exceeded 300 million in 2017, up 19.1% yoy, and it is expected to reach 355 million in 2018.

**Exhibit 1: Market size of China’s O2O catering market, 2014 – 2018 (estimate)**



Source: iimedia, compiled by Fung Business Intelligence

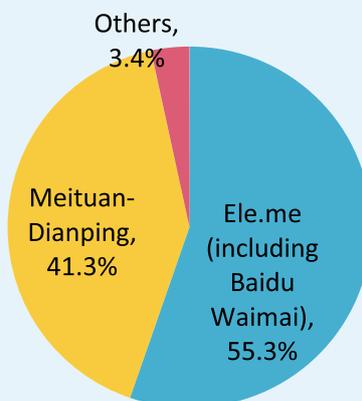
**Exhibit 2: Number of users of China’s O2O catering market, 2014 – 2018 (estimate)**



Source: iimedia, compiled by Fung Business Intelligence

Ele.me was founded in 2008 and it is one of the leading O2O catering platforms in China. After its acquisition of Baidu Waimai in August 2017, Ele.me's market share reached 55.3% in 4Q17, while its rival Meituan-Dianping held a 41.3% market share.

**Exhibit 3: Market share of China's O2O catering market, 4Q17**



Source: iimedia, compiled by Fung Business Intelligence

Alibaba has invested in Ele.me since 2016. In August 2016, Alibaba and Ant Financial Services completed a subscription for newly issued preferred shares in Ele.me for a total combined investment amount of US\$1,250 million, of which Alibaba's total investment was US\$900 million and Ant Financial Services was US\$350 million. In April 2017, Alibaba and Ant Financial Services further subscribed for newly issued preferred shares in Ele.me for a total combined investment amount of US\$400 million, of which Alibaba's investment was US\$288 million<sup>2</sup>.

Fung Business Intelligence believes that the acquisition of Ele.me will complement Alibaba's businesses in O2O catering market, especially its local services platform Koubei. Ele.me focuses on food ordering and delivery characterized by high-frequency usage and last-mile logistics in communities, while Koubei continues to focus on providing online information or services to consumers to drive offline purchases; the acquisition enables Ele.me and Koubei to better connect with each other, thereby strengthening the connections of restaurants on the platforms with customers. It is likely that further integration between Ele.me and Koubei will take place to improve the overall efficiency and reduce overlapping of business functions.

We also expect Ele.me to further integrate into the rest of Alibaba's ecosystem of services. The cooperation with Hema Xiansheng will be a feasible one, where Hema Xiansheng can leverage the delivery team of Ele.me for offline deliveries. It is also possible for Ele.me's delivery team to provide delivery services for Tmall and Taobao. It is expected that the delivery efficiency of Ele.me will increase if it can serve delivery orders beyond food delivery. Delivery costs would further lower.

On the other hand, after the acquisition, Ele.me can get more customer data from Alibaba and Ant Financial to carry out target marketing – it can predict more precisely what type of food is popular in a particular district; it can send out promotions to certain target markets when a new restaurant is opened; and it can offer discounts for selected members according to the consumption history.

Meanwhile, the acquisition will allow Alibaba to better compete with Meituan-Dianping, which is backed by Tencent. Recently, both Alibaba and Tencent have been actively tapping the O2O local lifestyle services market as they saw more affluent Chinese resorting to their smartphones to book meals, get movie tickets and other offline services. Meituan-Dianping currently has over 280 million users. Earlier in October 2017, Meituan-Dianping landed a US\$4 billion round of financing led by Tencent, with a hope to expand into other horizontal sectors, apply more AI technologies into food delivery service sector, and strengthen various businesses, such as movie ticketing, restaurant bookings, travel and entertainment . With Ele.me and Koubei together, Alibaba hopes to better compete with Meituan-Dianping in areas of online platforms, offline merchants, online and offline entrance, smart technologies, big data, and logistics. Recently, there are also rumors saying that Meituan-Dianping will soon offer delivery services for menswear brand HLA, showing that Meituan-Dianping is actively expanding beyond food delivery businesses; Alibaba must keep a close watch on the situation.

#### Exhibit 4: Comparison of Ele.me and Meituan-Dianping

	Ele.me*	Meituan-Dianping**
Founded year	2008	2010
Coverage	2,000 cities	2,800 cities
Merchants on the platform	1.3 million restaurants	Over 5 million merchants
Number of users	260 million	280 million

\* As of August 2017

\*\* As of October 2017

Source: Internet, compiled by Fung Business Intelligence

The acquisition also allows Baidu to leave the O2O catering market and focus on AI-related businesses. In August 2017, Ele.me has acquired Baidu Waimai, the food delivery arm of Internet giant Baidu Inc. for US\$800 million. After the completion of the deal, Baidu still holds 5% of Ele.me’s shares. After the acquisition of Ele.me by Alibaba, Baidu can exit from food delivery business and step up its efforts to focus on R&D on artificial intelligence (AI), as well as other AI-related businesses.

**The press release can be accessed at the website below:**

<https://www.businesswire.com/news/home/20180401005041/en/Alibaba-Acquire-Full-Ownership-China-Online-Delivery>

## Company snapshots

### Alibaba

- Founded by Jack Ma in 1999, Alibaba is a leading Chinese e-commerce company that provides consumer-to-consumer, business-to-consumer and business-to-business sales services via web portals. It also created a business ecosystem that covers commerce, on-demand services, logistics, data & technology, social media, marketing, finance, and other services.
- In FY17, Alibaba's revenue was 158,273 million yuan, an increase of 56% yoy. GMV transacted on China retail marketplaces in FY17 was 3,767 billion yuan, an increase of 22% yoy, with mobile GMV rising to 2,981 billion yuan, or 79% of total GMV, an increase of 49% yoy.
- Annual active buyers on Alibaba's China retail marketplaces reached 515 million, an increase of 27 million from the 12-month period ended on 30 September, 2017; and mobile MAUs reached 580 million in December 2017, an increase of 31 million over September 2017.

### Ele.me

- Founded in 2008, Ele.me has 260 million users in 2,000 Chinese cities served by three million scooter-riding delivery staff, more than 1.3 million restaurants joined the platform.
- Ele.me has 53.3% market share of the O2O catering market, just ahead of its rival Meituan-Dianping's 51.3% in 4Q17, according to iimedia.

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<sup>1</sup> "Report on China's O2O catering market, 2017-2018", 17 January, 2018. iiMedia.

<http://www.iimedia.cn/60449.html>

<sup>2</sup> "Annual and Transition Report", 15 June, 2017. Alibaba Group.

<http://otp.investis.com/clients/us/alibaba/SEC/sec-show.aspx?Type=html&FilingId=12129538&CIK=0001577552&Index=10000>

<sup>3</sup> "Meituan gets more funds from Tencent", 20 October, 2017. China Daily.

[http://usa.chinadaily.com.cn/business/2017-10/20/content\\_33477144.htm](http://usa.chinadaily.com.cn/business/2017-10/20/content_33477144.htm)

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