Economics & Business Management
ISSN Print: 3079-5214
ISSN Online: 3079-5222
https://doi.org/10.63313/EBM.9081

Financial Risk Analysis and Prevention in E-commerce Platform Mergers and Acquisitions: The Case of Mogujie's Acquisition of Meilishuo

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How to cite this paper: Lu, B. Y., & Ding, Y. F. (2025). Financial risk analysis and prevention in e-commerce platform mergers and acquisitions: The case of Mogujie's acquisition of Meilishuo. Economics & Business Management, 2(2), 72–79. ISSN Print: 3079-5214, ISSN Online: 3079-5222.
https://doi.org/10.63313/EBM.9081
Published: 2025-07-16

Abstract

At the beginning of the new century, with the advancement of science and technology, the internet economy has flourished. Consequently, numerous e-commerce platforms have emerged and continue to develop. However, the proliferation of platforms intensifies competition. To survive this fierce environment, many e-commerce platforms resort to mergers and acquisitions (M&A) as a strategy for expansion and sustainable development. Yet, M&A is a high-risk economic activity fraught with significant financial risks. Against this backdrop, this paper examines the financial risks associated with e-commerce platform M&A, using the 2016 merger of Mogujie and Meilishuo as a case study. The study first identifies the main types of financial risks likely to arise during e-commerce platform M&A. It then analyzes the specific causes behind these common financial risks and investigates strategies to mitigate and prevent them effectively.

Keywords

E-commerce Platform; Financial Risk; Mergers and Acquisitions (M&A)

1. Research Background and Purpose

The early 21st century witnessed rapid technological progress and a burgeoning internet economy. This environment fostered the emergence and continuous development of many enterprises. However, as China's market economy evolved and industrial structures adjusted, industry competition intensified. The rise of more enterprises inevitably led to fiercer competition. To avoid being eliminated, an increasing number of enterprises have chosen M&A as a means of expansion, sustainable development, and business transformation. According to 2021 statistics from Zero2IPO Research Center, China's M&A market recorded approximately 1,893 deals in 2020, with transaction value reaching RMB 1,211.177 billion, representing year-on-year increases of 3.3% and 19.6%, respectively. M&A has become an effective path for enterprises to rapidly expand market scale and achieve business integration and upgrading. However, completing an M&A transaction does not guarantee its success; data indicates that nearly 50% of M&A outcomes fall short of expectations. M&A is a highly risky economic activity, involving numerous financial risk issues during the process. E-commerce platforms, emerging enterprises born from technological advancement, face even more financial risks in M&A compared to traditional firms in such a competitive market environment.

2. Existing Problems of E-commerce Enterprises

2.1 E-commerce Enterprises Belong to the Light-Asset Industry

The first characteristic of e-commerce enterprises is their "light-asset" nature. Light assets refer to intangible assets such as experience, standardized governance, brand, customer relationships, human resources, and corporate culture. Compared to heavy-asset industries requiring substantial capital investment, these assets are less capital-intensive, flexible, and agile. Light-asset companies aim for high returns and profitability with lower capital investment. However, this characteristic leads to rapid emergence. As non-physical entities, light-asset industries have short development cycles, enabling quick proliferation. The value of typical e-commerce enterprises lies in users, brand culture, sales channels, technological support, and operations—core components of their assets. Yet, these assets are difficult to identify and evaluate accurately, potentially leading to valuation risk.

2.2. E-commerce Enterprises Are Capital-Intensive with Significant Financing Risk

The second characteristic is high capital intensity and reliance on financing. Capital-intensive enterprises have a high proportion of materialized labor costs or a high organic composition of capital in their product costs. As products of the new era, specific laws and policies for the e-commerce sector are still underdeveloped in China. The business model of this industry is unprecedented, its future trend is unclear, and it carries inherent risks. Being part of the internet sector, e-commerce inherently demands massive capital, creating an urgent need for funding. Combined with other factors, this makes financing exceptionally difficult for e-commerce enterprises, posing significant financing risks.

2.3. E-commerce Enterprises Primarily Hold Current Assets with High Proportion of Monetary Funds

Monetary funds are crucial for enterprise development. The third characteristic is the dominance of current assets and high dependence on cash flow. Unlike traditional enterprises, e-commerce firms typically have higher current and quick ratios, indicating stronger short-term solvency and a lower immediate likelihood of financial distress. However, a large proportion of monetary funds is not entirely beneficial. During development, e-commerce enterprises face greater financing risks than traditional firms due to significant fluctuations in cash flow, potentially leading to financing difficulties. Therefore, e-commerce enterprises must utilize their substantial monetary funds correctly and rationally to maximize value.

3. Case Introduction: Mogujie's Acquisition of Meilishuo

3.1. The Acquirer: Mogujie

Mogujie, founded in 2012 by Zhejiang Meiling Network Technology Co., Ltd., is a social e-commerce platform focused on fashion and trends. Its core strength lies in effectively integrating online products with community features, incorporating sharing, reviews, and mutual assistance into the e-commerce process. By the end of 2011, Mogujie successfully secured a $20 million Series B financing round co-led by Bertelsmann Asia Investment Fund (BAI) and Qiming Venture Partners, substantially expanding its asset base.By 2014, Mogujie had nearly 60 million active users and 6.5 million daily unique visitors (DAU), with over 200% growth recorded over the preceding six months. Its user base was 99% female, aged 20–26, residing in Tier 1 and Tier 2 cities, exhibiting an average order value (AOV) of approximately RMB 120, a return rate below 5%, and a repurchase rate exceeding 50%. at the end of 2015, valuing the company at nearly $2 billion.

3.2. The Acquiree: Meilishuo

Meilishuo was officially established in November 2009. Initially pioneering a female-focused social vertical e-commerce model, it quickly attracted a large female user base, becoming a popular fashion trendsetter. During its transformation, Meilishuo aggregated thousands of quality suppliers, offering comprehensive women's fashion products and successfully transitioning to provide a strong mobile shopping experience. By June 2014, nearly 10,000 merchants had joined Meilishuo, with over 75 million mobile app installations. Mobile orders accounted for over 70% of total orders, surpassing PC. User stickiness on mobile was high, with daily average usage exceeding 30 minutes, making it a high-frequency scenario for young fashion-conscious women. Data shows Meilishuo completed a $xx million Series E financing led by Hillhouse Capital in August 2015.

Table 3-1. Meilishuo's Profit Situation (2013-2015)

Year	2013	2014	2015
Main Business Income (RMB Million)	2080.11	1961.69	1538.31
Gross Profit	576.717	646.324	375.306
Net Profit	430.324	470.468	308.425

The table shows a clear annual decline in Meilishuo's main business revenue. Gross profit in 2015 was nearly halved compared to 2014, and net profit also decreased significantly. Possible reasons include poor cost control leading to inefficient resource allocation or intense competition from rivals like JD.com and Taobao. Despite increased advertising spending in 2015, which might have boosted business slightly, net profit remained unsatisfactory, hindering planned financing efforts.

3.3. M&A Process

Before the merger, both Mogujie and Meilishuo were listed on 36Kr's China Unicorn List. Mogujie's valuation was approximately RMB 9.56 billion, while Meilishuo's was around RMB 5.98 billion, indicating Mogujie's significantly higher valuation. However, valuations for both companies had been declining over the previous two years, indicating operational challenges. Besides high business overlap, a key driver for the merger was investor facilitation. The rise of various e-commerce platforms (e.g., Taobao, JD.com, Xiaohongshu) squeezed the market space for Meilishuo and Mogujie. Despite significant investments, both failed to establish strong barriers to entry in the women's vertical fashion e-commerce niche, making growth increasingly difficult and valuations decline, prompting investors to push for a merger. Rumors of a merger surfaced before the end of 2015. On January 11, 2016, CEOs Chen Qi of Mogujie and Xu Yiren of Meilishuo jointly held a press conference to officially confirm the merger. According to disclosed information, the transaction was structured as an all-stock deal. Based on the most recent investment valuations (See Table 4-1), the exchange ratio was approximately 2:1 (Mogujie:Meilishuo). The post-merger entity was valued at nearly RMB 30 billion. As no existing shareholders exited and all parties supported the exchange, Tencent also made an additional investment in the new company.

4. Analysis of Financial Risks in Mogujie's Acquisition of Meilishuo

4.1. Valuation Risk

Valuation risk is common in M&A processes. After mutual intent is established, the acquirer must evaluate the target's core value to determine the acquisition cost and payment structure. Accurately assessing the target's value hinges on a thorough understanding of its internal market environment. However, acquirers often rely solely on financial statements as the primary valuation metric. Targets may manipulate financial reports to maximize sale price, leading acquirers to base valuations on inaccurate data. Therefore, valuation must first ensure data authenticity, then consider the target's strategic direction and internal management systems to form a reasonable assessment basis.

4.2. Financing Risk

E-commerce platforms often pursue M&A due to capital constraints and high funding needs. If the invested capital or costs cannot be recovered post-acquisition, the acquirer bears financing risk. Severe cases can impact future development or even lead to bankruptcy. E-commerce platforms need robust financing plans and rational market financing methods before acquisition.

4.3. Payment Risk

Payment risk materializes after valuation and financing. Choosing the payment method is a critical step in managing M&A financial risk. Common methods include stock swaps, cash payments, seller financing, and mixed payments, each carrying distinct risks: liquidity risk (cash), equity dilution risk (stock), and debt risk (leveraged payments). M&A typically requires substantial funds, straining the acquirer's capital position. Tying up significant working capital reduces agility and adaptability to external changes, increasing financial risk.

4.4. Payment Risk

Post-merger integration presents significant challenges. Key issues include merging management philosophies and bridging operational/cost gaps. Operational/management risk refers to uncertainty arising from post-merger operational changes affecting profitability. Integrating the target's financial systems is a crucial yet risk-prone step post-transaction. Failure to integrate functions scientifically reduces efficiency, increases costs, and creates problems. Integration risk stems primarily from two reasons: (1) senior management fails to fully grasp the integration dynamics or make timely, sound decisions regarding the target; (2) significant differences exist between the acquirer and acquiree in aspects like personnel composition, increasing integration difficulty and risk.

5. Countermeasures for Financial Risk Prevention in Mogujie's Acquisition of Meilishuo

5.1. Valuation Risk Prevention Countermeasures

Conduct Thorough Due Diligence: Information asymmetry exists before M&A. Acquiring as much information as possible about the target is essential. Financial statements offer direct insights into financial health. For listed targets, accessing disclosed reports is easier. For unlisted targets, other avenues like intermediary firms (often providing more comprehensive and objective data) are necessary.

Formulate a Suitable Development Strategy:Bankruptcies sometimes occur due to owners/managers overestimating their financial position, overconfidently pursuing aggressive expansion through overpriced acquisitions, leading to liquidity crises. Establishing a long-term, feasible development strategy provides direction and prevents reckless expansion.

Select Appropriate Valuation Methods:Different valuation methods yield different results. The valuation process should consider the target's actual operations, market conditions, and the acquirer's future return expectations. Reasonable valuation tools should be chosen to reassess the target's net assets. Often, a single method is insufficient; combining multiple methods provides a more comprehensive and reasonable valuation. Mogujie and Meilishuo, being similar in business model and financial structure, could leverage their own financial data and disclosed information to better estimate each other's financial status. Available data (Mogujie ~RMB 9.56B, Meilishuo ~RMB 5.98B) clearly showed Mogujie's higher valuation.

5.2. Financing Risk Prevention Countermeasures

Choose Appropriate M&A Financing Methods:The preferred method is often internal financing (using retained earnings), offering low cost and good confidentiality. However, M&A often requires sums exceeding internal resources, and significant internal fund usage can hamper future investment capacity. Therefore, external financing (bank loans, institutional lending, or issuing new shares/bonds) becomes crucial. Bank/Institutional loans offer lower cost and confidentiality but require good credit. Issuing new shares/bonds has higher costs and may dilute equity but offers advantages in funding scale and quality. E-commerce platforms must select rational financing methods based on their situation.
Maintain a Reasonable and Stable Capital Structure:Financing must maintain a suitable ratio between short-term and long-term liabilities, and between debt and equity financing. Short-term vs. long-term debt reflects obligations over different horizons; setting these relationships rationally helps avoid solvency issues and reduce operational risk later. Excessive debt increases solvency risk; excessive equity dilutes ownership. Utilizing financial leverage wisely based on market conditions and the company's actual situation helps optimize the financing structure and minimize costs. Tencent, as Meilishuo's largest shareholder pre-merger, invested additionally in the new entity post-merger. Besides Tencent, Hillhouse Capital also invested at least RMB 250 million. These investments significantly reduced the new company's financing risk, albeit at the cost of equity dilution.

5.3. Payment Risk Prevention Countermeasures

Payment risk stems from the pricing and financing stages. Mitigation relies on ensuring stable or substantial cash inflows post-merger to service debt obligations. Mogujie and Meilishuo's merger, structured as an all-stock deal based on a ~2:1 valuation ratio (Mogujie:Meilishuo), avoided immediate large cash outflows. Merging similar businesses could yield significant cost savings (e.g., marketing, brand promotion) and generate substantial cash flow synergies, helping address solvency concerns. Furthermore, timing differences often exist between asset realization and debt maturities. The merged platform could reasonably estimate these durations and utilize the time gap to reduce solvency risk.

5.4. Integration Risk Prevention Countermeasures

Completion of the M&A transaction marks the beginning of integration. Crucially, management must avoid blind expansion and prioritize post-merger integration, taking timely measures to normalize operations. Post-integration, management should promptly formulate a unified, science-based strategic plan aligned with market realities and the needs of both legacy entities to achieve future survival and growth. This enables effective strategic and operational synergies. Additionally, careful consideration must be given to practical issues from both sides. A detailed personnel allocation plan is essential, ranging from integrating frontline staff to appointing mid/senior managers from both companies rationally. Retaining key talent vital for development and preventing morale issues among acquired employees is critical. Optimizing the organizational structure ensures clear delineation of responsibilities and authority across departments, enabling effective coordination to meet the strategic goals of the modern group. Concurrently, actively improving management and financial systems is necessary to support rapid development. In the new entity, both the Mogujie and Meilishuo brands maintained independent operations, and their management structures and personnel largely remained unchanged. This approach aimed to deliver greater value to young female users and partners. Given the high similarity in business models and personnel structure between the two platforms, the integration risk for this specific merger was relatively low.

6. Conclusion

This paper analyzed the various financial risks encountered in Mogujie's acquisition of Meilishuo. Drawing on prevalent practices in China's M&A market, it detailed the types of financial risks inherent in e-commerce platform M&A, analyzed their specific causes, and proposed corresponding preventive measures. The key financial risks identified include Valuation Risk, Financing Risk, Payment Risk, and Integration Risk. M&A for e-commerce platforms is a highly complex undertaking. Before proceeding, companies must proactively and meticulously identify potential risks to reduce their likelihood and minimize losses. However, the conclusion of the M&A deal is not the end; it marks a new beginning for the merged entity. The merger of Mogujie and Meilishuo solved an immediate crisis but did not eliminate future challenges. Technology evolves, and the market constantly changes; threats continue to emerge. The merger was a critical move made under duress. Ultimately, escaping the difficult situation depends on subsequent strategic actions.

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