

When Strategic Synergy Fails: A Case Study of Alibaba's Exit from Sun Art Acquisition

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Abstract. This paper is based on the case of Alibaba's acquisition of Sun Art Retail to explore the deep-seated reasons for its strategic synergy failure. The paper systematically sorts out Alibaba's M&A motivations, integration paths, and obstacles in the execution process by analysing M&A theory and strategic synergy theory. Alibaba has invested heavily in technology empowerment and organisational structure adjustment. However, problems such as management overlap, cultural conflicts, and inconsistent system logic have emerged during its integration process. This has led to the failure to achieve synergy and a continuous decline in business performance. In the end, Alibaba chose to sell all its shares by the end of 2024. This marks a major adjustment in the new retail strategy. The paper believes that synergy in cross-industry mergers and acquisitions needs to be achieved through multi-dimensional means such as structural design, cultural integration, and performance monitoring. This case provides important lessons and strategic suggestions for platform-based companies to promote online and offline integration and cross-border integration in the future.

Keywords: Alibaba; Sun Art Retail; mergers and acquisitions; integration.

1. Introduction

Through mergers and acquisitions, businesses may swiftly gain offline resources, market share, and a client base in the context of the global digital wave and the new retail revolution. This can hasten their merging of online and offline [1]. This integration helps to improve consumers' shopping experience. Hence, it can further enhance the competitiveness of brands.

Alibaba has been gradually acquiring shares in Sun Art Retail since 2017 and acquired a controlling stake in 2020. Alibaba plans to leverage channel synergy and digital technology. It hopes to further advance its "new retail" strategy based on this [2]. In China's retail industry, this transaction is considered a model of O2O (online-to-offline) integration. This also demonstrates Alibaba's innovation capabilities in the retail industry [3]. However, due to the economic slowdown and the epidemic, this strategy did not achieve the expected results [4]. However, at the end of 2024, Alibaba officially announced that it would sell its shares in Sun Art Retail to CDH Capital. This shows that the expected effect of strategic synergy has not been achieved [5].

This paper will explore the synergy path of Internet companies acquiring traditional retail companies through the case of Alibaba's acquisition of Sun Art Retail. In addition, the paper will also combine secondary data (including financial papers) to explore the difficulties faced by both companies during the acquisition process.

2. Theoretical Framework

2.1. Mergers and Acquisitions

Merger and Acquisition Theory Merger and acquisition theory is a series of theoretical frameworks that study how companies achieve strategic goals through mergers or acquisitions. Its core focuses on the motivation for mergers and acquisitions, process management, synergy effects, and their impact on corporate performance [1]. Transaction cost theory was proposed by Coase and Williamson. It believes that companies can reduce the costs of market transactions through mergers and acquisitions. For example, risks such as bargaining and default. This is applicable when there is a

high demand for collaboration between companies [2]. In addition, synergy theory believes that the main motivation for mergers and acquisitions is to obtain the synergy effect of "1+1>2" through resource integration. This means that companies can increase their market share and competitiveness through mergers and acquisitions [3]. Companies can reduce unit costs by expanding their scale. This can further enhance market competitiveness [1]. This is particularly important for digital platform companies (such as Alibaba) that seek to quickly enter the market and achieve diversification through M&A [6]. This is because they may face the problem of whether their organizational culture, management system and other aspects can be effectively connected [7]. In a rapidly changing market environment, companies like Alibaba Group can achieve rapid expansion through M&A. However, the key to the success of M&A lies in how to effectively integrate different corporate cultures and management systems. Based on this, this can ensure the consistency of strategic goals and the realization of synergy.

2.2. Strategic Synergy Theory

Strategic synergy refers to the synergy formed by two or more enterprises through resource sharing, complementary capabilities and consistent goals during mergers and acquisitions or cooperation. This synergy can enhance the overall competitiveness and market position of enterprises [6]. Under the RBV framework, synergy is indeed regarded as a process of resource reorganisation and capability sharing. Specifically, it includes the following dimensions: Cost synergy aims to reduce operating costs by sharing resources and optimising configuration. Revenue synergy aims to enhance the potential for revenue generation by integrating resources and capabilities. Knowledge synergy means that enterprises enhance their innovation capabilities and market responsiveness through knowledge sharing and integration [8].

In the new retail M&A scenario, companies are more focused on digital empowerment through technology platforms, such as integrating offline channels. However, the realisation of strategic synergy is often affected by factors such as differences in corporate culture [2]. This may lead to a deviation between "synergy expectations" and "actual effects" and even ultimately lead to strategic failure.

3. M&A Integration Barriers

The success or failure of corporate mergers and acquisitions depends not only on the completion of the transaction itself but also on whether the post-merger integration process goes smoothly. Many studies have shown that the core reasons for the failure of mergers and acquisitions are often synergy barriers and management errors (such as cultural differences) in the integration stage [9].

3.1. Cultural Conflict

Cultural conflict is one of the most common obstacles in M&A integration. They might cause miscommunications and disputes, which would hinder the integration process's progress. Cultural differences may result in "double cultural adaptation" in cross-border M&A. Integration becomes more difficult and complicated as a result [10]. Conflicts during cultural integration can sometimes result in workers quitting the organisation or becoming less productive. This demonstrates that managing cultural integration is seen as one of the largest issues in M&A, and that cultural elements are significant in post-merger integration [11]. Furthermore, Cultural differences affect cooperation between employees. This leads to communication problems and conflicts in management style and organisational values [12]. This often hurts the performance of M&A. As for the non-cross-border merger and acquisition between Alibaba and Sun Art Retail, the cultural conflict should be further explained as the organizational culture differences between digital enterprises and traditional retail enterprises.

3.2. Unclear Integration Goals

Unclear integration goals or poor execution are also important issues. In the post-M&A integration process, complexity and causal ambiguity make it difficult for managers to track multiple interacting elements at the same time [13]. This may lead to the suppression of management capabilities and weaken the integration effect. Furthermore, team members face the challenge of managing uncertainty in the absence of a clear leadership vision [14]. This uncertainty affects their perception of integration activities. Moreover, the lack of effective planning and execution of a clear IT integration strategy makes the realisation of synergies less likely [15].

3.3. Overlapping Responsibilities

Redundancy and overlapping responsibilities can also reduce integration efficiency. In the M&A process, the integration of similar resources is usually achieved faster, but this may also lead to power struggles and other problems, thereby increasing the need for human integration [13]. Members of the integration team may face unclear role definition and overlapping responsibilities during the integration process [14]. This will cause the decision-making process to be unclear and confusing. For instance, knowledge asymmetry can lower integration efficiency and have an impact on team members' dedication and support. Moreover, failure to optimise organisational structure and job settings after mergers and acquisitions can easily lead to collaborative chaos. The existence of redundancy may lead to a waste of resources, thereby affecting the realisation of synergy [16].

4. Background: The Process of Alibaba's Acquisition of Sun Art Retail

4.1. Overview of Sun Art Retail and Alibaba

Sun Art Retail Group Limited (Sun Art Retail) is one of the largest hypermarket operators in China. It is mainly known for its "RT-Mart" and "Auchan" brands. As of 2024, Sun Art Retail has a total of 466 hypermarkets in China [17]. However, with the rapid rise of e-commerce and changes in consumer behaviours, traditional retail chains like Sun Art have begun to face declining customer traffic and competitive pressure from digital native platforms [2].

Founded in 1999, Alibaba Group is China's leading technology group. Its core businesses include e-commerce (e.g. Taobao, Tmall) and digital payment (Alipay). Since 2015, Alibaba has been pursuing a new retail strategy that aims to integrate online and offline commerce using data analytics and mobile technologies [3]. Therefore, the acquisition of Sun Art Retail is seen as a key step in Alibaba's broader goal of reshaping China's retail landscape through omnichannel integration.

4.2. From Strategic Cooperation to Controlling M&A (2017-2020)

Alibaba's acquisition of Sun Art Retail was not a flash in the pan. In 2017, Alibaba announced a strategic alliance with Auchan Retail. It planned to invest HK\$22.4 billion and acquire 36.16% of Sun Art Retail's shares. The deal made Alibaba the second-largest shareholder of Sun Art Retail [18]. Alibaba and Sun Art Retail entered into a strategic partnership. Its main purpose was to integrate its digital technology into Sun Art Retail's operations. For example, store digitisation, mobile payment, etc. [3]. This partnership improved Sun Art Retail's operational efficiency. At the same time, it also promoted Alibaba's implementation of the "New Retail" strategy. This will further enhance consumers' shopping experience [2].

Between 2018 and 2019, the two companies experimented with operational synergies. For example, Alibaba leveraged its Cai Niao logistics network for delivery services. Based on this, Sun Art Retail's urban stores achieved one-hour delivery service [2]. At the same time, RT-Mart has indeed adopted Alibaba's data-driven retail management system to optimise its inventory and pricing decisions. The application of this system has enabled RT-Mart to manage inventory levels more effectively and thus improve operational efficiency [3].

In October 2020, Alibaba announced that it would acquire a majority stake in Auchan Retail, gaining a 72% controlling stake in Sun Art Retail, becoming its largest shareholder and gaining operational control [19]. This move marks Alibaba's shift from a strategic alliance to a full merger and acquisition. Alibaba can directly control the operation and management of Sun Art Retail through a full merger and acquisition. This can further achieve more efficient resource integration and synergy [2].

5. Collaborative Path Design and Deviation Analysis

5.1. Collaborative Path

After acquiring Sun Art Retail, Alibaba attempted to promote the full implementation of the new retail strategy by embedding digital technology. The overall synergy path revolves around "online and offline integration", "supply chain digitisation" and "organisational strategic synergy". It aims to achieve strategic synergy at the cost, revenue and knowledge levels [2, 6]. As of March 2019, all RT-Mart stores have been connected to Taoxianda, and the service range has been expanded from 3 kilometres to 5 kilometres [17]. These initiatives have helped Sun Art Retail improve its online sales performance. However, it turns out that cultural integration between traditional retail organisations and technology-driven companies is complicated.

Alibaba introduced intelligent systems such as "Retail Pass" and "Cloud POS" to RT-Mart stores. The introduction of digital tools has greatly improved the response speed of the supply chain [20]. This has promoted the digital upgrade of traditional retail. This technology embedding has improved operational efficiency and also achieved cross-organisational "knowledge collaboration" [21]. At the same time, with the help of Alibaba's big data capabilities, RT-Mart can conduct personalised marketing based on user behaviours, promote the closed-loop construction of "online traffic-store fulfilment-data precipitation-remarketing", and thus drive the realisation of "revenue collaboration".

At the organisational coordination level, Huang Mingduan, the former CEO of Sun Art Retail, was appointed chairman. This marked a strategic integration of leadership. This move enhanced operational continuity and promoted the integration of Alibaba's technology infrastructure and retail expertise [22]. The success of cross-organisational cooperation often depends on the ability of leaders to build consensus and coordinate actions across different organisations [23].

Therefore, Alibaba has built a highly integrated collaborative path with its platform resources and technical capabilities, attempting to achieve the reconstruction of traditional retail forms through multi-dimensional technology embedding and organisational synergy.

5.2. Deviations During Implementation

The collaborative path design is complete, and the goal is clear. However, in the specific promotion process, the collaborative practice between Alibaba and Gao Xin exposed multiple structural deviations. These deviations are mainly reflected in three aspects: system logic conflict, organisational culture integration barriers and overlapping responsibilities. This ultimately makes it difficult to truly achieve strategic collaboration.

There is a serious conflict between store operations and system logic. The "Retail Pass" system promoted by Alibaba emphasises algorithm-driven and platform data-oriented and advocates decentralised ordering logic. However, RT-Mart's original management mechanism relies on the store's autonomous replenishment rights and regional management experience [17]. This conflict is manifested in practice as a disconnect between system recommendations and actual sales. This will lead to frequent backlogs or out-of-stock of goods. At the same time, the supply chain system between Alibaba and Gao Xin has not been fully connected. This will lead to resource redundancy and channel internal consumption, and the synergy effect will be greatly reduced [24].

Cultural differences lead to integration failure. Alibaba represents a typical "platform culture" and "fast variable orientation". It pursues data priority and result orientation. In contrast, Sun Art Retail places more emphasis on institutional processes and empirical judgment [25]. Cultural differences

make middle-level managers resistant to frequent adjustments. This also makes it difficult for front-line employees to adapt to the high-frequency iteration of technical systems. Mergers and acquisitions without cultural adaptation often have problems such as high turnover and inefficient communication [12]. This will further affect the integration progress and employee morale.

Overlapping responsibilities lead to a decline in organisational operating efficiency. Alibaba and Sun Art have a dual structure in procurement, human resources and other functions. This leads to frequent ambiguity of authority and poor decision-making during the integration process, which in turn affects the speed of execution. For example, the IT teams of the two companies disagreed on system standardisation [13]. This type of “structural redundancy” offsets the originally expected synergy value in execution.

From a theoretical perspective, the above deviations can be attributed to the “structural tension” [26]. When digital technology intervenes in an enterprise as an embedded force, if the organisational structure, operating procedures and cognitive patterns are not adjusted synchronously, it will lead to systemic friction and reduced collaborative efficiency. The integration practice of Alibaba and Sun Art reflects this typical dilemma.

6. Reasons for Exiting M&A

Although Alibaba initially had optimistic strategic expectations for Sun Art Retail. However, internal integration challenges and external market pressures prompted Alibaba to decide to exit the investment by the end of 2024.

One of the main reasons is that Sun Art Retail performed poorly after the acquisition. In the fiscal year ending March 2024, Sun Art Retail’s revenue fell 13.3% year-on-year to RMB 72.567 billion (as shown in Fig. 1). In addition, Sun Art Retail also lost RMB 1.668 billion, and same-store sales fell 9.15% in the first quarter of 2021 alone [27]. These data reflect that Sun Art Retail still cannot achieve sustained profitability or market growth under the digital empowerment of Alibaba’s ecosystem. In addition, the total number of stores dropped sharply to 505, a decrease of 15% in six months [27]. This contract indicates inefficient operations and a failure to revive customer engagement or competitiveness.

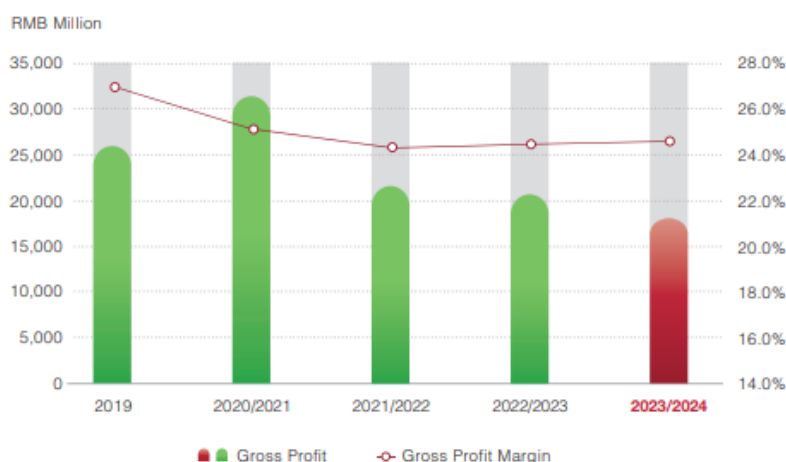


Fig. 1 Gross Profit & Margin

The acquisition did not achieve substantial synergies. Sun Art Retail and Alibaba’s Hema Fresh still use independent procurement and logistics systems. This weakened the expected benefits of the collaboration [17]. This fragmentation exposes a deeper problem. That is, the lack of clear goals and priority structures in the integration design leads to each doing its own thing.

Cultural incompatibility further weakened the basis of the merger. Alibaba’s management culture values data centralisation. In contrast, Sun Art Retail adopts a traditional retail model that focuses on

local execution [25]. The failure to align these organisational philosophies led to employee resistance, high turnover, and inefficient execution.

Ultimately, this financial burden proved unsustainable. Alibaba sold all of its shares for approximately HK\$13.138 billion in early 2025. This estimated a loss of HK\$37.262 billion on investment [5]. This huge write-down marked the official end of Alibaba's journey into large-scale physical retail and the abandonment of its originally conceived "new retail" vision.

7. Implications

The Alibaba-Sun Art Retail case provides some key insights into future M&A strategies. One of the key revelations is that synergies are not an inherent result of acquisitions. Strategic synergies must be carefully designed and supported by operational alignment and realistic implementation plans [2]. This means that M&A that fail to address these issues may become costly distractions rather than growth engines.

Hence, organisations must prioritise cultural integration mechanisms. This means that they need to establish a hybrid leadership team that represents both the acquirer and the acquired. This can bridge cultural differences to enhance mutual understanding [12]. Instead of initiating sudden structural changes at an early stage, the acquirer should adopt a "soft integration" approach. This includes aligning values and customer service concepts before implementing operational transformation [10]. This incremental integration model may generate more sustainable synergies in the digital-traditional convergence scenario. Therefore, companies must establish a dynamic synergy evaluation system. This means that companies need real-time feedback mechanisms (stakeholder satisfaction). This helps to adjust the integration roadmap. This can further ensure continued alignment with strategic goals.

8. Conclusion

This paper explores the case of Alibaba's acquisition and eventual divestiture of Sun Art Retail. This is a classic example of the failure of strategic synergies in the context of digital and traditional enterprise integration. The acquisition was intended to achieve cost-revenue and knowledge synergies through omnichannel retail innovation. However, operational and organisational incompatibility weakened the anticipated advantages. This instance demonstrates that M&A deals do not always result in synergies. But this case's integration failure also demonstrates how major financial losses might result from not meeting integration hurdles. Companies may be forced to undertake strategic withdrawals as a result of this. The paper's conclusions demonstrate the need to put cultural integration first and put in place real-time performance monitoring mechanisms. Additionally, it can provide strategy coherence among company divisions. Essentially, this acquisition instance serves as a useful warning. It underlines that discipline and integration must go hand in hand with aspiration.

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