

Analysis of Kweichow Moutai's Business Model and Finance

Zhichun Huang^{1, a, †}, Boyu Lu^{2, b, †}, Yihang Zhu^{3, c, †}

¹Tiangong University, Tianjin 300380, China;

²Hefei No.1 High School, Hefei 230001, China;

³School of the Affiliated High School to Hangzhou Normal University, Hangzhou 310030, China.

^aguanghua.ren@gecacademy.cn, ^byihang6992@foxmail.com, ^c1185483650@163.com

[†]These authors contributed equally.

Abstract. Taking Kweichow Moutai company, a successful Chinese baijiu making company, as the research object, this paper introduces the background of China's baijiu industry and studies the reasons for the success of Moutai company through the analysis of its business model and financial data of Moutai company. This paper also analyzes the possible problems in the baijiu market and gives the corresponding solutions from the aspects of national policies and product substitution. Finally, through analysis, this paper concludes that although there may be future problems, Moutai has made the operation of the national company very successful through different business strategies and financial management.

Keywords: Kweichow Moutai; Business Model; Finance.

1. Introduction

(1) Industry Background

Baijiu industry is a unique traditional industry in China. It is always in the core position of the food and beverage industry due to its influence on eating habits, history and culture. Its market scale is large, and its output is high. "Moutai" is a traditional baijiu-making company. In recent years, due to the change of consumption structure of baijiu, the proportion of high-end baijiu consumption has been increasing and production and sales have been greatly affected. Overall, the production and sales volume of the high-end baijiu products is declining gradually due to the capacity constraints of the high-end baijiu products. According to the relevant data, the output has dropped by more than 40% over the past five years. Accordingly, the total consumption of the baijiu industry will be flat in the next five years, and sales and profits will maintain steady growth.

Kweichow Moutai was constructed on November 20th, 1999. The registered capital was 185 million yuan, but now, it is over 10000 million yuan. Kweichow Moutai is the leading company in the Chinese baijiu industry, and it sells Moutai series products. However, its business also involves food, beverage, packing material and anti-counterfeit technology development. Kweichow Moutai has a long history. Depending on the exclusive natural environment of Kweichow and special techniques, Moutai becomes the representative of Chinese soy sauce flavor baijiu and has a good reputation of "Chinese baijiu". From the current industry situation, the sales of single products of Moutai baijiu rank first in the global distilled baijiu industry. The revenue, net profit and stock market value rank first in the domestic baijiu industry [1].

(2) Main Conclusion.

For the business model, Moutai focuses on single products initially, resulting in a good reputation at first. And then, it begins to develop sub-products that also use Moutai's name. However, in the end, Moutai still owns a large proportion of high-class baijiu in the market with a small portion of sub-products. Moutai is also good at using the OPM strategy, which takes full advantage of its big brand and shifts the financial pressure to suppliers. As a result, it owns only small quantities of debts and has plenty of cash flow. Moutai has a well-managed supply chain. It has good cooperation with its raw material suppliers and local government, which turns out to be extremely beneficial to big plantation scale and stable raw material supply. Moutai also spends more money which will later be back in the high profits market on local plantation construction and well-fare for farmers. It becomes

a win-win strategy for Moutai and the local economy. For downstream buyers, Moutai is able to decide its products' prices since it is the top-hot brand in the baijiu market.

The paper is organized as follows.

Section 1 presents the main background of the Chinese baijiu industry, Kweichow Moutai's history, social status and the high position in the baijiu industry. We briefly demonstrate our main and additional conclusion.

Section 2 presents Moutai's business model and financial performance. We analyze the business model from three aspects which are brand strategy, the OPM strategy and supply chain.

Section 3 presents Moutai's financial performance.

Section 4 presents Moutai's three main problems: government prohibition, substitution's development and Moutai's low leverage in the future. For these three problems, we discuss and make four feasible solutions and suggestions.

Section 5 presents our main findings in the previous article.

2. Moutai's Business Model

2.1 Brand Strategy

(1) Brand positioning

Moutai has a slogan of "Drink Chinese baijiu Moutai, drink health". From the slogan, we can figure out Moutai's brand positioning is Chinese baijiu and healthy baijiu. Chinese baijiu, which can also relate to the old Chinese culture, long Chinese history and national confidence, shows that Moutai is extremely confident with its quality. Healthy baijiu shows that drinking Moutai benefits consumers' health, satisfying consumers' demands to be healthy while drinking baijiu. This position is decided from consumers' position, and it meets consumers' values [1].

Kweichow Moutai mainly develops high-class brands and makes money from higher-profits and more potential high-class markets. Moutai sells lots of its products in segmentation in the high-class market, so it occupies the market which manifests high profits but has fewer competitors. Hence, Moutai does not have to purchase the output and sales. The market prices of Moutai's main products are in the following Table 1.

Table 1 Market segmentation by price

Moutai's brand	Market price(2021)	Units:yuan
Moutai Prince series 53° 500ml	278	
Moutai Flying Rescue 53° 500ml	4590	
Moutai Flying Rescue 43° 500ml	1085	
Moutai 30-year vintage 53° 500ml	16330	
Moutai 50-year vintage 53° 500ml	36450	

(2) Brand strategy selection

According to the contingency theory, the operation environment is vital. The environment is an inevitable element for a company. So, a company has to see a future trend and decide on a long-term strategy in a specific environment. Meanwhile, it has to vary when the environment changes. Brand strategy means a long-term, continuous and directional plan, including brand combination and extension. It is apparently important because a good brand strategy can promote brand reputation, core market competence. Moutai has a good brand strategy. It combines a large portion of high-class

baijiu with a small portion of mid-class baijiu. It implements a single-brand strategy with an extension of "health and fitness baijiu" as a sub-brand.

Single-brand strategy.

At the very beginning of Moutai's business, it concentrated on five-star Moutai. After it made its name, it began to sell the Moutai series and Moutai flying rescue, which also uses the famous name "Moutai". The advantage of this strategy is that the baijiu maker can concentrate on a single product which is always taken as the first image of a brand. And then, after the first product became prevalent, it could sell other related products, which shares the influence of the first product. Nowadays, Moutai has become a well-known brand which also shows a kind of social status.

The sale scale is expanded through all the selling processes, and the concept of Moutai, "Drink Chinese baijiu Moutai, drink health, " spreads too. So, the cost of advertisement of the strategy becomes low, and the cost of brand management is also low. The single-brand strategy shows the core concept, which can promote a company's core competence in the market.

However, the risk also survives. If some problems emerge in one of those products, the whole brand will be blamed easily, probably influencing the whole company. Also, the single-brand strategy hinders manufacturers from making completely different products, and consumers can not easily distinguish all the products.

Sub-brand strategy.

"Moutai never aging" is a kind of health and fitness baijiu. Moutai's birthplace, Kweichow Moutai, is reported to be very suited for making baijiu because the bacteria in the air are extremely active, and the water, climate, and soil are all appropriate. In 2001, China made the district become a protected area, so all the ingredients are pure and contamination-free there.

Moutai never aging uses the high-quality soy sauce flavor Moutai as the basic baijiu with carefully picked herbs and exclusive techniques. So it maintains the previous taste of Moutai and contains large quantities of beneficial bacteria. Moutai never aging has an obvious effect on anti-aging, and drinking it from time to time is very beneficial for human bodies.

2.2 The OPM Strategy of Kweichow Moutai.

OPM (Other people's money) strategy means that a company takes full advantage of large scale to promote the bargaining ability with suppliers. It helps the company transfer the cost of inventory and receivables to suppliers [2].

Moutai's main product, soy sauce flavor baijiu, has a limited output because of the special making technique and natural environment requirements. Besides, the government's prohibition of drinking alcoholic beverage has a great impact on the whole industry. Undoubtedly, as a leader of the baijiu industry, Moutai is influenced greatly. Due to the different preferences of domestic and foreign people, the sale overseas is not as good as it is supposed to.

So, with the threatening of all the outside environment, Moutai takes full advantage of big scale, using the OPM strategy, and makes a large amount of cash [3].

(1) Cash holding is a large portion of current assets.

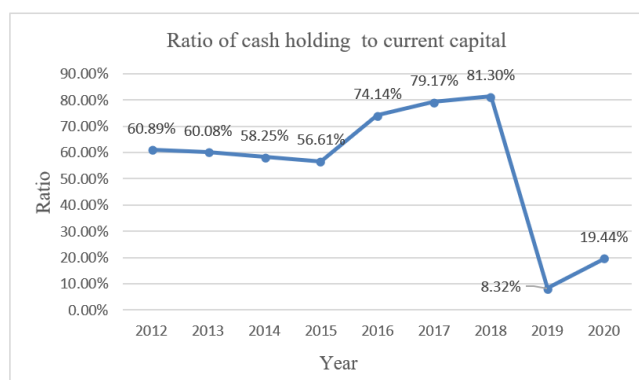


Fig. 1 The ratio of cash holding to current assets

From Fig. 1, we can figure out that the ratio of cash holding to current assets of Moutai is always high except in 2019 and 2020. Although the high ratio is related to the baijiu industry itself, the large amount of cash can help Moutai become less dependent on debts but still have a strong ability to pay debts.

According to the annual report of Moutai in 2019, the steep low ratio is caused by the change of accounting policy. Moutai shifts the interbank deposit from the cash holding to other items.

(2) High stock turnover rate.

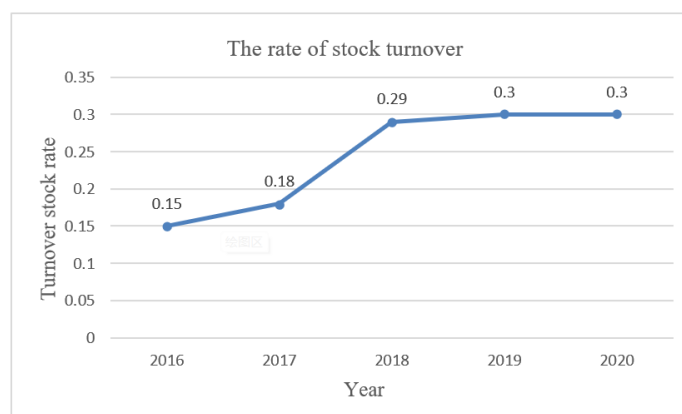


Fig. 2 The rate of stock turnover

The stock turnover rate is not high in general due to Moutai's baijiu production. Because of the special making process, Moutai has to spend a long time making a bottle of baijiu, which is also a method to strengthen Moutai's products' value. The rate of stock turnover increases from 2016, so as the selling income.

(3) High ratio of deposit received to current debts.

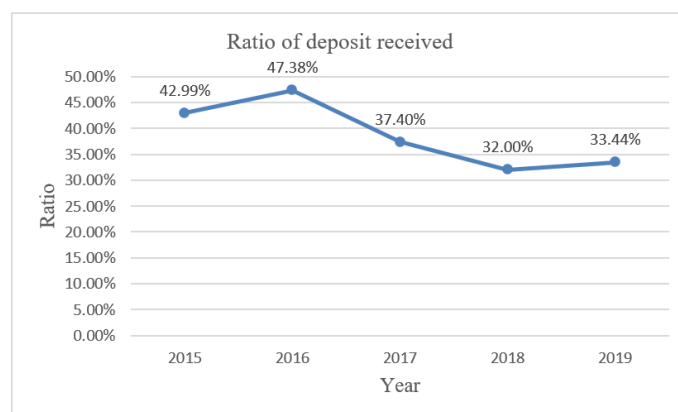


Fig. 3 Ratio of deposit received to current debts

Baijiu sale requires a deposit received, which may also affect the ratio. However, the high ratio indicates that Moutai's sales and deposits received are high under the OPM strategy, which decreases the possibility of bad debts. The ratio of deposit received to current debts is the most prominent character of the OPM strategy. The online sale brings benefits to deposit received for Moutai. Nevertheless, the ratio decrease is because of the advance of receiving time, which may bring about a short period of instability. Also, it benefits the company with sufficient cash flow.

2.3 Kweichow Moutai's Supply Chain.

(1) Supply Chain.

The supply chain is regarded as an all-linked process from purchasing raw materials and components to its shipment, processing, manufacturing and distribution to customers in the end. The

supply chain forms an interface between suppliers and customers through plan, obtainment, store, distribution and service. The final goal of supply chain management is to make customers obtain the right products with the right quality and quantity at the right time, places, and status, which is also regarded as 6R at the lowest cost [4].

With the development of mechanics and information and to further satisfy costumers' demands and lower the original cost, many enterprises concentrate on supply chain management more and more, which also means the competition of supply chain has become more and more fierce.

(2) Upstream Suppliers of Kweichow Moutai.

Kweichow Moutai's upstream suppliers mainly include packing materials such as wine bottles, bottle caps, food crops and baijiu making machines [5].

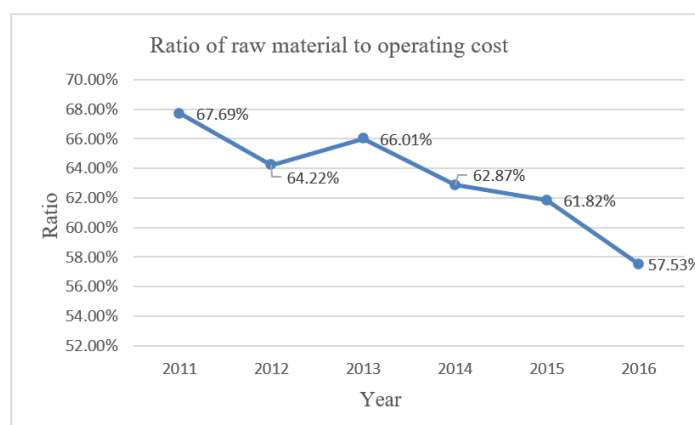


Fig. 4 The ratio of raw material to operating cost

From Fig. 4, we can see that raw material is the major operating cost, which takes approximately 60%.

Kweichow Moutai uses red sorghum which is planted in Renhuai county, Kweichow province, due to the special demand of location and climate in the Moutai making process. As a result, Moutai has reached a long-term acquisition agreement that pays more money than the market money with a local farmer. It helps Moutai construct a supply system that promises the stability of raw materials price and the long-term supply of Renhuai red sorghum. Because of the long-term agreement, Moutai also decreased the expenses needed for the negotiation with farmers. Besides, Moutai also has cooperation with the local government, which is helpful for their huge scale.

Moutai's high expenses on raw materials benefit Moutai's supply chain management and raw materials' quality and farmers. For the local red sorghum plantation base, Moutai uses a model of "company +basement +specialized cooperatives +farmers". For the farmers in the plantation base, Moutai gives them free seeds and biological agents. The basement Moutai constructed promotes the plantation scale, decreases farmers' costs, and works out farmers' operating problems.

So it becomes a win-win strategy. Farmers and local government are willing to cooperate with Moutai, while Moutai has stable and reliable suppliers that also benefit the company in many aspects.

(3) Downstream Buyers.

For downstream buyers, Moutai uses "dealer +supermarkets +e-commerce" strategy and makes its products cover a huge range of the markets.

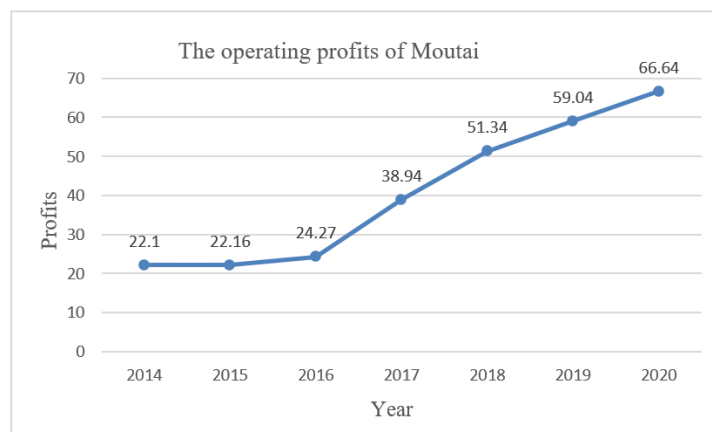


Fig. 5 Operating profits of Moutai (units: billion yuan)

From Fig. 5, we can see that Moutai's operating profits continue increasing, which shows that the company operates well. As a guarantee of the long-lasting operation of a company, Moutai's cash flow also works well, which is the consequence of its way of receiving money.

If costumers' demands are greater than Moutai's sale, Moutai can attain received deposit from dealers in advance. However, if costumers' demands are smaller than Moutai's sales, Moutai has to sell products on credit.

Table 2 Deposit received of Moutai (units: billion yuan)

Year	2014	2015	2016	2017	2018	2019
Deposit received	1. 48	8. 26	17. 5	14. 43	13. 58	13. 74
Accounts payable	0. 71	0. 88	1. 04	0. 99	1. 18	1. 51

From Table 2, we can see that Moutai's deposit received is larger than accounts payable, which makes the company own more debts without interests. Moutai has increasing and stable cash incomes that support Moutai's investment and enlargement of capacity. At present, Moutai does not have to own different debts because it has developed an insidcapital circulation and appreciation system.

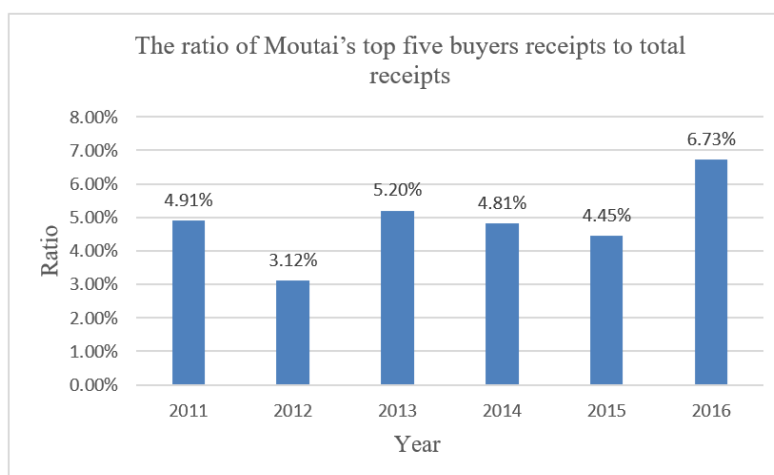


Fig. 6 The ratio of received money from Moutai's top five buyers to total received money

Fig. 6 above shows Moutai's receipts from its top five buyers, which is not a large proportion of Moutai's total receipts. Also, it confirms that Moutai has sporadic downstream buyers. Without the absolute first buyer, Moutai can decide its selling price totally on its own. It can sell all the products under control without outside threaten.

Moutai owns a high status in the market. It has an exclusive and high-quality product, which provides Moutai with a stable and high cash flow and helps Moutai forms an inside financing system.

Moutai has a perfect supply chain, from the raw materials of baijiu to the machines on the production line. Moutai has established a long-term relationship with suppliers, resulting in very low raw materials and production costs. At the same time, Moutai focuses on the high-end market, making Moutai have very high profits.

3. Moutai's financial performance

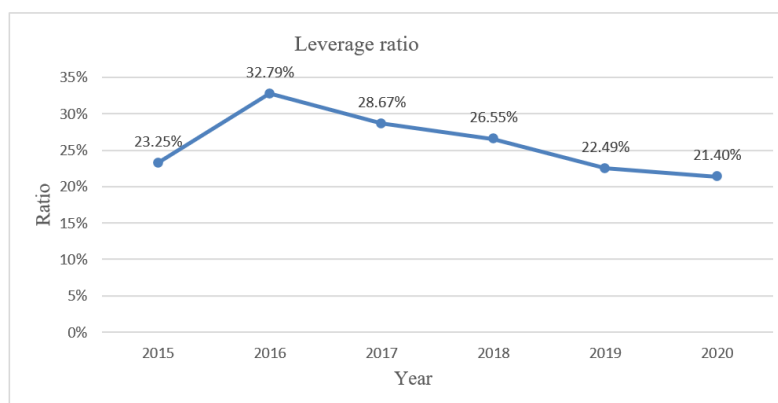


Fig. 7 Asset leverage ratio of Moutai

From Fig. 7, we can see that the leverage of Kweichow Moutai is declining steadily without much fluctuation, which shows that Moutai company has strong financial management ability and operation ability.

Baijiu enterprises are expanding their scale in the development process, which will require a large amount of capital [6]. However, under normal circumstances, the debt ratio of baijiu is very low. It does not use financial leverage well and often relies on interest-free debt to raise the required funds. In particular, state-owned enterprises such as Moutai do not need interest-paying debt. The OPM strategy itself also brings cash flow to the enterprise. Theoretically, the equity cost is greater than the debt cost.

Table 3 The profitability of Moutai (units: %)

Year	2016	2017	2018	2019	2020
Net profit margin on sales	46.14	49.82	51.37	51.47	52.18
Gross profit margin of sales	91.23	89.80	91.14	91.30	91.41
Return on net assets	24.44	32.95	34.46	33.12	31.41
Return on total assets	24.02	31.25	34.51	34.27	33.26

From Table 3, we can see that Moutai's gross profit margin of sales has remained stable at about 91% from 2016 to the end of 2020, except for a slight decline in 2017. It can be concluded that the gross profit margin of Kweichow Moutai company is quite large, which shows that the market share of Kweichow Moutai baijiu is high and the market demand is great. In addition, the net profit margin of Moutai company has been rising steadily year by year for five consecutive years. To some extent, the profitability of the company is gradually increasing [7].

Table 4 Turnover rate of Moutai

Year	2016	2017	2018	2019
Total asset turnover(day)	0. 4	0. 49	0. 52	0. 52
Turnover days of accounts receivable	0.001	0	0	0
Inventory turnover days	2039.35	1293.23	1257.35	1182.04

From Table 4, we can see that the turnover days of accounts receivable in Moutai from 2017 to 2019 are all 0, and the turnover days of accounts receivable in 2016 are 0. 001. If the accounts receivable turnover days are 0 or close to 0, it indicates that the enterprise rarely has a bad debt loss. The turnover rate of accounts receivable of the enterprise is close to infinity in value, and its asset liquidity is very high; moreover, the enterprise's inventory liquidity is also increasing. It can be seen from the Table 4 that the enterprise's inventory turnover days from 2016 to 2019 are decreasing. The inventory turnover days in 2019 were reduced to only more than half of that in 2016, indicating that the enterprise's inventory turnover rate is on the rise; Finally, in terms of the total asset turnover rate of the enterprise, its amount increased by 0.12 points from 2016 to 2019, reflecting the improvement of the total asset operation capacity of the enterprise [8]. To sum up, we find that Kweichow Moutai has good capital turnover conditions, high operating capacity and high management and financial level.

4. Discussion

4.1 Problems

(1) Government ban of baijiu and a new rule for corruption.

Dec. 2012, the Central Military Commission released the prohibition, which points out that government officers cannot have a feast, drink wine and take luxurious dishes. The prohibition exerts a huge impact on the baijiu industry, especially Moutai which is widely used as a symbol of high social status for public reception.

(2) Substitution's development such as beer, yellow rice wine, foreign wine.

According to open data of market surveys, beer output reaches 1500 tons per year, while baijiu has 400 tons per year [9]. Due to people's health awareness, many are willing to buy wine and yellow rice wine, which show the benefits of reliving heart rates, blood stasis and rheumatic arthritis. As a result, the limited output and fewer health benefits will hinder Moutai's progression in the long run.

(3) Low leverage.

From Fig. 7, we can figure out that Moutai's leverage is quite low, which is much lower than industry's average leverage 45%.

4.2 Solutions

(1) In terms of the Chinese baijiu industry, the profitability is stronger than that of the beer and red wine industry. The signs of recovery are obvious, but this does not mean that the development of the Chinese baijiu industry can rest easy.

To actively respond to the change of consumer demands and government governance, "the tip of the tongue against corruption", with the change of the consumption consciousness and life habits, Chinese baijiu consumption demands of the future will be eroded by wine and beer. Therefore, Chinese baijiu companies should pay attention to the development of new varieties of baijiu in order to ensure that after alcohol consumption patterns change, the company can still be in an invincible position. With the increasing perfection of the supervision of the Chinese baijiu industry, the feasibility of monopoly competition is greatly reduced, and the competition in the Chinese baijiu industry will be increasingly fierce in the future [10]. Therefore, Chinese baijiu companies should pay attention to building Chinese baijiu brands to form soft competitiveness. Chinese baijiu

enterprises should pay attention to the segmentation of the baijiu market to achieve full coverage of the market consumption level, improve its marketing coverage, reduce the company's business risk.

(2) The Chinese baijiu industry should create its characteristics from the taste of the baijiu and reflect the different values that different kinds of baijiu can bring to the market. Define brand positioning and sell products to target groups with valid promotion. How to reflect the product positioning will determine whether the enterprise can continue to sell products well.

(3) Moutai should improve the efficiency of the industrial chain. With the progress of the times, online trading has become a major economic pillar. In addition to paying attention to the integrity of the offline industrial chain as before, we should pay more attention to the online sales channels and further optimize the online network marketing channels by increasing exchanges and cooperation with online sales terminals.

Moutai makes full use of the digital economy, builds Moutai e-commerce and Moutai cloud business platforms, uses communities and scenes to carry out marketing, and realizes precision marketing and intelligent marketing, which has greatly increased sales in recent years.

(4) Moutai should combine interest-bearing debt with interest-free debt. It could appropriately increase liabilities, reduce equity capital accordingly, make better use of financial leverage, and bring cash required for the development of the enterprise more reasonably. At the same time, it could also control the cost of capital and obtain funds through mergers and acquisitions of enterprises with the same characteristics and sufficient cash flow. Moutai can also use the way of issuing additional shares. It could combine its characteristics and better combine the interest-bearing liabilities with the interest-free liabilities.

5. Conclusion

In summary, Moutai has an excellent business model as the leader of the baijiu industry. It has a specific and beneficial brand position that targets high-end market and high-income people. Its brand position and its high-quality products have brought Moutai a good reputation initially, providing convenience for Moutai's sub-brand products' sales. Besides, Moutai takes full advantage of the OPM strategy. By analyzing Moutai's ratio of cash holding to current assets, stock turnover rate and the ratio of deposit received to current debts, and we find that Moutai utilizes its big scale and attains a large amount of cash through deposit received. The good use of the OPM strategy benefits Moutai by decreasing bad debts and increasing cash flow. Last, we analyze Moutai's special supply chain from two aspects, the upstream suppliers and the downstream buyers. Moutai spends a lot of cost on raw materials, which promises the long-term and stable supply of Renhuai red sorghum. It also cooperates with the local government to help establish a big scale plantation and offer welfare for local farmers. For the downstream buyers, Moutai has strong control over the prices of its products due to its leading position in the baijiu industry.

For financial performance, we analyze Moutai's leverage, profitability from 2016 to 2020 and turnover rates. Due to its state-owned character and good uses of the OPM strategy, Moutai has a small amount of liabilities. Also, the high gross profit margin of sales and net profit margin of sales indicate that Moutai has a high income and high market demands. Moreover, the profitability is still gradually increasing. Last, Moutai has few turnover days of accounts receivable, which means it has a nearly rarely bad debt loss and its asset liquidity, operating capacity and management are at a high level.

In the end, we propose three potential problems that are government ban, substitution and low leverage for Moutai. For the three problems, we give several feasible solutions. For the prohibition, we suggest Moutai promoting soft competitiveness and develop new varieties. For substitutions, we suggest Moutai creating its characters and value. Also, it can improve the efficiency of industry chain to increase sales online. For the low leverage, we suggest Moutai combining interest-bearing debts with interest-free debts to promote its liabilities to some extent.

References

- [1] Mengqiong Wang: Comparative Study of Moutai and Yanghe River Stock Investment Value Analysis of Liquor Enterprises Based on Brand Strategy (master, East China University of Science and Technology, China 2013). p. 14+23.
- [2] Shizhong Huang, OPM Strategy's Impact on Financial Resilience and Cash Flow. *Finance & Accounting*. Vol. (2006) No. 23, p. 15-18.
- [3] Hanxuan Pan, Analysis on OPM Strategic Model of baijiu Industry -- A Case Study of Kweichow Moutai. *Accountants*. Vol. (2008) No. 15, p. 26-27.
- [4] Na Yan, Research on Optimization of Supply Chain of Moutai -- from the Distributor Point of View. *Journal of Hei He University*. Vol. (2016) No. 5, p. 64-66.
- [5] Meiqi Wang: Study on Strategic Cost Management of Kweichow Moutai Based on Value Chain (master, Heilongjiang University, China 2021). p. 33.
- [6] Yidi Zhang: Financial Analysis and Evaluation of Kweichow Moutai. *Guangxi Quality Supervision Guide Periodical*. Vol. (2020) No. 10, p. 133-134.
- [7] Zeyang Li: Analysis on Investment Value of Kweichow Moutai. *Shangxun*. Vol. (2021) No. 22, p. 1-4.
- [8] Yangxu Bao, Peijin Li: Research on Financial Performance Behind the Rapid Rise of Stock Price of Kweichow Moutai Group Company. *Finance and Accounting for International Commerce*. Vol. (2021) No. 07, p. 68-72+77.
- [9] Yuzi Ren, The Winter of Wine Industry. *China Chain Store*. Vol. (2013) No. 9, p. 81-83.
- [10] Jindong Fan, Research on The Influence of Prohibition on Profitability of Liquor Enterprises. *Management*. Vol. (2016) No. 10, p. 122-123.