

Analysis of the Development and Trend of Liquor Industry in China

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ABSTRACT

The liquor industry has distinct development characteristics, the number of enterprises above the designated size is decreasing. The concentration trend of the industry is obvious and the volume of production and sales is showing a declining trend year by year, which reflects the change of market supply and demand and consumption demand. On the other hand, the product sales revenue and profit level have gradually increased, which shows the process of the wine industry from quantitative change to qualitative change, and also reflects consumers' pursuit of healthy and rational consumption demands. Therefore, the liquor industry is analyzed and the existing trends are analyzed in this paper. The official business expenses and user preferences restrict the sustainable development of the liquor industry. The future will be an opportunity for the development of new liquor. The increasing market demand brings innovating requirements to alcohol producers and shows a new trend of future development of liquor. Therefore, the results about how the wine industries develop in the future within the new pattern and analysts' possible changes in wine industries illustrate have been concluded. The new wine industries could substitute a large number of markets of traditional wine aggressively in the middle and low-end market. Differently, the development of high-end markets for wine compared seen further stable than common markets.

Keywords: *Liquor industry, Differentiated competition, Official consumption*

1. INTRODUCTION

1.1. Background

The wine industry is important in China's food industry and a national business with a long history and culture. It is also a transnational industry that is in line with the world economy. According to the statistics from the China Wine Industry Association [1], from 2015 to 2019, the number of wine companies above the designated size decreased by 427; production and sales decreased by 16.863 million kiloliters. However, compared to 2014, the cumulative increase of unit product sales income over five years was 31.3%, and profit had achieved an increase of 67.95 billion yuan, which indicates a growth of 72.6%. Besides, the increase of unit product profit was as high as 132.0%, with the smooth operation of China's overall economy and steady development in quality aspects. Therefore, under the

influence of both external and internal effects, the general trend of high-quality development of China's wine industry has been set.

1.2. Related research

Novák and Timár researched the trend of the world wine market shows that the high-quality wine market will expand significantly. In the past few decades, although the beverage market has experienced structural transformation, there are several reasons for wine exporters to maintain fractionation sales. The demand for imported wine continued to rise [2]. Anderson et, al. explore Rice wine is common in Asia. However, the growth of income and the swing of preference for this traditional European product have greatly changed the consumption situation. However, the expansion of supply could not keep up with the growth of Chinese demand, so wine imports initially increased significantly. These imported products are not only of low quality. By 2009,

the average import price in Asia was almost higher than the world average, while the unit value of Chinese imported wine was higher than the global average in 2009 [3]. In the twentieth century, the first mock exam was that agricultural trade would take place between economically relatively small economies, which had sufficient agricultural land, and those economies with dense populations and few agricultural lands per capita developed this pattern. Producers were found to be production areas with comparative advantages and low wages. The manufacturing cost did not rise significantly until the later stage of development. Therefore, the state controls the alcohol sales of alcoholics by intervening in the market. One of the main policy tools used by global governments is taxation. From the perspective of economics, consumers of rational decision-makers should be fully aware of all the benefits and costs related to alcohol consumption. However, due to the extensive abuse scale of alcohol consumption, serious market failure and price mechanism appear when external cost transactions are generated internally. The main purpose of this study is to show that the same amount of alcohol sold in different types of alcoholic beverages is related to different harmful behavior probabilities and different degrees of negative externalities [4].

Miller et al. researched the Queensland Government responded to the community's concerns around alcohol-fuelled violence and other harm by implementing a broad-based multi-faceted policy in 2016, this is not the first multi-faceted policy concerning alcohol problems that a Queensland Government has introduced, this is the first time earlier last-drinks legislation has been implemented at a statewide level, rather than within a few key entertainment districts. Most components of the policy are consistent across the state, with some applicable only to designated Safe Night Precincts (SNPs). There are currently 15 SNPs (key entertainment areas that are managed by local boards) across Queensland [5]. Ryan Kelly shows the relationship between alcohol drinking and violence through the analysis of the effects of alcohol drinking on the brain. Research has shown that any amount of alcohol consumption disrupts normal brain function. It weakens our brain mechanisms that normally restrain impulsive behaviors such as aggression and can lead to misjudging situations and overreacting. For example, when a person is intoxicated, a small disagreement may quickly escalate to a physical fight because the drunk individual may feel unnecessarily threatened. Ryan Kelly also finds there are also various problems associated with increases in blood alcohol content (BAC) levels including poor reaction time, divided attention, and lowered alertness and sensory processing. These effects may cause individuals to act on violent thoughts because of an inaccurate assessment of future risks and consequences. Drinking alcohol can also reduce one's ability to recognize warning signs in potentially violent situations, which can

make an individual an easy target for perpetrators. It is said alcohol may also lead to feelings of sadness, irritability, anger, or aggression and may increase the risk of making poor decisions based on intense moods. This could be anything from verbal outbursts to physical aggression toward others or even aggression toward yourself such as suicide.^{4,7} One study found that although alcohol abuse was a means of easing psychological stress, the impact it has on biological, psychological, social, and environmental factors makes suicide more likely not less [6]. Violent crime rates declined 16% from 2005 to 2017. Crime rates were positively related to distance to the border, total alcohol outlet density, percent outlets that are bars and pubs, percent population Black, percent population Hispanic, percent population 30 - 49 years of age, percent population the U.S. born, percent 150% below federal poverty level, percent high school graduate, and percent houses vacant. Violent crimes were negatively related to percent total outlets that are off-premise, percent population male, percent with higher than 2017 adjusted median income, percent owner-occupied houses, and lower population density. In conclusion, several population-level characteristics including ethnic composition, community socioeconomic stability, and alcohol availability are associated with violent crime rates [7].

The question of whether alcohol consumption affects violent crime is a crucial one and may lead to a demand for alcohol availability regulation. In this study, we explore the effects of a state-level ban on late-night off-premise alcohol sales on recorded violent crime incidents. We study the ban that was in effect from 2010 to 2017 in the German state Baden-Württemberg. The results show that that the policy reduced both late-night simple assault and aggravated assault, but had no significant effect on late-night rape or robbery [8]. In addition, individuals who reported a higher proportion of SAM months had more negative alcohol-related consequences. At the within-person level, participants experienced more alcohol-related consequences in months when SAM was reported compared to months of alcohol-only and months of concurrent alcohol and marijuana use without simultaneous use. Compared to alcohol-only, SAM was associated with more depressive symptoms and poorer general health at the between-person level and with more depressive symptoms at the monthly within-person level; however, SAM differed substantially from using neither alcohol nor marijuana or CAM for these outcomes at either the between- or within-person level. SAM use may indicate risk for negative alcohol-related consequences, both within months of SAM use and across more extended periods. Individuals who engage in SAM may experience worse mental and physical health than individuals who use alcohol exclusively [9]. With the acceleration of economic integration, the development of Internet platforms, big

data technology, and the elimination of the "liquor production line" from the restricted category, the development of the Sichuan liquor industry is bound to usher in a new trend. This paper analyzes the current situation of Sichuan liquor industry development, and then based on Porter diamond theory, analyzes the competitiveness of the Sichuan liquor industry, on this basis, combined with the Haken synergy theory, constructs an evaluation model to measure the competitiveness of Sichuan liquor industry. This will lay a foundation for the evaluation of the competitiveness of the Sichuan liquor industry and the path to enhance the competitiveness of the Sichuan liquor industry in the future, to promote the high-quality and sustainable development of the Sichuan liquor industry. At the same time, it also provides a reference for other regions or China's liquor industry competitiveness evaluation [10]. Peng and Guo interpret the Porter diamond model situation of the Sichuan liquor industry because of the new stage and new environment of liquor industry development and apply the diamond model to analyze the competitiveness of the Sichuan liquor industry. Based on the analysis of Haken synergy theory, a new competitiveness evaluation model, namely the new diamond model, is proposed for the Sichuan liquor industry. The competitiveness of the Sichuan liquor industry and the acquisition of the competitiveness promotion path in the future, which can be used as a reference for the next research, and also for the evaluation of the competitiveness of other regions' liquor industry [11].

2. DEVELOPMENT STATUS

2.1. Basic Situation

Although beer ranks first in China's wine market sales, accounting for 76%, and liquor sales were less than 18%, in terms of revenue, liquor ranks the NO.1 due to the high average unit price (accounted for 66 percent) [2]. Currently, there are 19 public limited companies in liquor, and all these businesses are divided into four competitive echelons based on the registered capital, with

standards of above 3 billion, between 1-3 billion, above 0.5 billion but lower than 1 billion, and under 0.5 billion respectively. According to the China Wine Industry Association, in the past year, the cumulative sales revenue of Chinese liquor enterprises above the designated size have reached 583.6 billion yuan. Among them, Kweichow Moutai ranked the industry leader with a revenue of 97.99 billion yuan that accounted for 16.79% of the revenue, followed by Wuliangye with a market share of 9.82% [12].

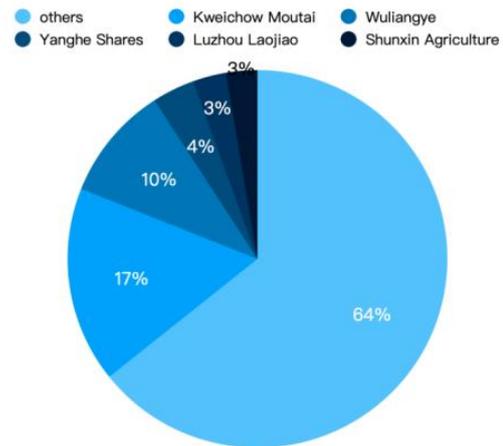


Figure 1 China's liquor industry market share in 2020

From the perspective of market concentration, at present, the competition structure of China's liquor industry is still in a state of monopolistic competition, and there is no real industry oligarch, thus market concentration is low.

2.2. Market Share of Kweichow Moutai

Kweichow Moutai liquor business' operational capacity can be accounted for 96.77% and its market share has reached 16.79%. There is no doubt that it is a leading enterprise in China's liquor industry [13]. Kweichow Moutai was listed on August 27, 2001, the price was 31.39 yuan per share when it first went public. As of 3 pm on October 21, 2021, the unit price of Moutai stock is 1844 yuan.



Figure 2 2001-2021 stock price of Moutai

As shown in Figure 2, it is clear that the lowest stock price of Kweichow Moutai was 5.11 yuan per share on September 30, 2003, and the highest price was on May 31, 2021, which was 2218 yuan per share. The average share price is 340.91 yuan.

2.3 Reasons for Increasing Share Prices of Kweichow Moutai

The factors that lead to high stock prices of Kweichow Moutai can be concluded into four sections. Firstly, it is because of the scarcity of Moutai. Moutai is produced in Guizhou and is a high-end liquor in China. It has different raw materials and production processes from other quotations, and it takes at least 5 years for raw materials to finish products then be sold into the market. This explains why the output of Moutai is always relatively low (the annual output is approximately 60 million bottles), thus the prices naturally go up. Secondly, with great improvement in living standards, purchasing ability followed closely. As Moutai is the leader in the liquor market also is a kind of normal good, thus consumers will choose to buy. Coupled with the influence of Chinese wine culture, it will promote the sales of wine products. Therefore, prices will be inflated. Besides, Moutai still has great growth potential. According to the company's financial report[14], it can be known that Kweichow Moutai's sales and profits are considerable, and the company's performance is excellent. As a result, investors will buy more shares and the stock price will rise. Last but not the least, the brand effect also plays a great role in inflating prices. Moutai is known as the national wine. It is not also a kind of liquor but also contains extremely much wine culture, entrusting the feelings of hundreds of millions of people. Thence, no matter how expensive Moutai is, it still has permanent buyers due to the high brand influence.

3. CHANGE IN CONSUMER ATTITUDES

3.1. Difference in consumer attitudes

On November 6, 2020, the Hurun Research Institute released the "2020 China Old Wine White Paper"[15]. This report showed that the concept of Chinese liquor consumption has gone through the process of having no chance to drink alcohol, alcohol available, drinking good wine, drinking famous wine, and then reaching the demands at the current stage of "Drinking valuable wine"(valuable wine indicates the wine has been stored for a long time in cellars). More than half of the Chinese high-net-worth drinkers interviewed believe that the wine should not only be stored for a long period, but also possess a very long history, and the brand must be well-known. This could also be used to explain why Kweichow Moutai, Wuliangye, and other famous liquor businesses could gain much higher revenue than other competitors.

3.2. Influence brought by changing purchasing concept

Behind the popularity of old wine is the consumer market's pursuit of the scarcity value of high-quality liquor. Long-time-stored wines can provide consumers a multidimensional experience for all social, cultural, health and investment value. According to the "China Old Wine Market Index" report [16], released by the China Liquor Industry Association, the size of the old wine market has been expanding in recent years. It is estimated that by 2021, the market size of old wine will exceed 100 billion.

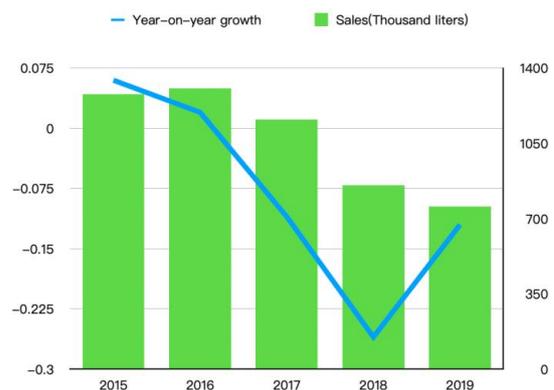


Figure 3 2015-2019 China's liquor sales and growth changes

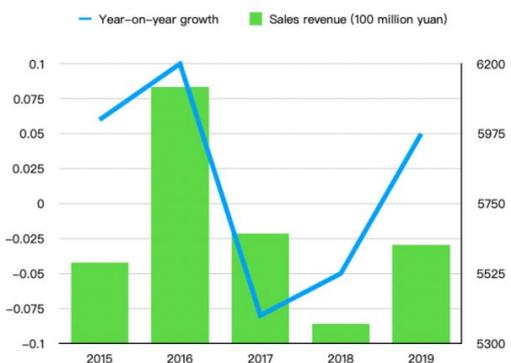


Figure 4 2015-2019 sales revenue and growth changes of liquor companies

3.3. Policy restrictions

In China, the most influential national policy on the liquor industry, especially the liquor industry, is the restriction of three-public consumption. Three public consumptions, which refers to the expenditure of government personnel going abroad on official business, the purchase and operation of official vehicles, and official entertainment, is one of the urgent problems to be solved in the field of public administration.

And the intention that the country limits three public consumption is very obvious also. On June 30, 2011, the Standing Committee of the National People's Congress

adopted a resolution approving the final accounts of the Central government for 2010. According to the Ministry of Finance, central administrative units, public institutions, and other units spent a total of 9.47 billion yuan on official overseas visits, official vehicles, and official hospitality in 2010. In the final accounts, a total of 88.71 billion yuan was spent by central administrative units (including public institutions managed following the Civil Service Law) to perform administrative duties and maintain their operations in 2010. In June 2012, the Ministry of Finance announced that in 2011, central administrative units, public institutions, and other units spent a total of 9.364 billion yuan on "spending on official overseas visits, official hospitality, and official hospitality".

The huge and complicated expenditure of the three public consumptions has become an expenditure that cannot be ignored by the state, and the corruption, bribery, unrestrained reimbursement of consumption by public officials, and even private use of public funds hidden behind the large expenditure are one of the important reasons for the state to take action. When the national expenditure is too large, it will cause a serious burden on the balance of payment of the country, and in serious cases, it may cause a current account deficit (GS greater than tax revenue). From this point of view, it is a wise decision to limit consumption on official occasions.

Three public consumption involves many aspects, here focuses on the wine industry, especially the impact of the liquor industry. Kweichow Moutai, the liquor industry leader, saw its annual net profit increase by 73.49% in 2011. Wuliangye's 2011 net profit growth also reached 40.9%. Behind the steady growth of first-line liquor enterprises, the growth rate of sub-high-end, middle, and high-end net profits is more obvious. In 2011, tuopaiShede net profit increased by 155.24% year on year, and Jiujiu's net profit increased by 142.53% year on year. A large part of the increase in the price of this liquor is due to unscrupulous public spending. The State Council issued a strict control of the three public expenditure documents, the next day there was an adjustment in the two cities, liquor plates fell across the board, including Guizhou Maotai, Wuliangye fell more than 6%.

The policy of restricting "three public consumption" directly hit the key of liquor sales, but in general, restricting "three public consumption" is only a fuse. The unreasonable increase of liquor price led to the prevalence of liquor storage and collection, and the accumulation of time also led to high social inventory. Restrictions on "three-public consumption" have only served as a trigger. During the decade of liquor's rapid development, the industry has accumulated a lot of debt, including sales channels, dealer services, marketing, and so on, which will be repaid sooner or later. Seeing that the policy has a great impact on the sales of high-end

wine, the high-level merchants of the inventory have smashed the goods, causing Moutai to drop to 900 yuan per bottle at a high price of more than 2,300 yuan. However, 900 yuan per bottle is not the bottom of Moutai, and the price rebounded briefly after the receiver reached out to take over, which is also a reflection of the market luck.

Liquor enterprises generally implement the policy of "payment before delivery". The increase and decrease of the prepaid accounts indicate the prospect of liquor enterprises. If the prepaid accounts drop significantly, it indicates that dealers are pessimistic about the next stage of sales, and liquor enterprises' usual "pressure on goods" approach will face pressure. The impact of restrictions on "public consumption" on Moutai Kweichow can be seen in the company's mid-year report, which showed an 80 percent year-on-year decline in advances.

Of course, some people in the industry are still optimistic about the future of the liquor industry. Although there will be a decline in one or two years, the future is still considerable according to the high profits of the liquor industry.

4. FUTURE DEVELOPMENT

Compared with past times, further young consumers who prefer new products rather than common liquor are squeezing to the alcohol market. Relying on this increasing demand for alcoholic beverages, more alcoholic beverages have launched "new alcoholic beverages", including fruity liquor, fruit-flavored beer, and fruity flavored liquor. Compared with traditional high concentration drinks, these drinks with fruit flavor and low alcohol precision are more easily accepted by the market, especially among young people who have just come into contact with alcohol.

Taking fruit beer as an example, relevant reports show that this wine is most popular with young female consumers. Comparing the former mass consumers, the consumption characteristics of young women: consumption is not rational, and atmosphere and mood are the main factors. Female consumers often have purchase motivation under the influence of emotional factors, and pay great attention to the emotional factors reflected in commodity packaging, appearance, shape, and commodity packaging. Secondly, fruit beer has small precision, won't get drunk if you drink too much, and has an atmosphere. It is suitable for students, especially college students who are new to the society. The characteristics of consumption patterns of college students: advocating individuality and pursuing avant-garde. College students accept new things faster and eliminate old products faster. It is easy to form a new trend and abandon old things. Compared with traditional beer, fruity beer is relatively fresh. Young people are willing to try and accept it easily. According to the data,

the proportion of female consumers in this product has expanded from 55% to 90% in China from 2016 to 2019.

Not only depend on the market trends taken from consumers, but producers of alcoholic beverages are also willing to produce "new beverages", the cost of producing fruit beer is usually lower than that of the traditional beer industry. This new type of alcoholic beverage has a nonstrong bitter taste and strong sweet fruit taste, which comes from the addition of low alcohol essence and a large number of food additives. These low-cost additives enhance the market competitiveness of the new type of alcoholic beverage through unique flavor. At the same time, these additives also greatly reduce the production cost and increase the profits of businesses. This has also attracted a large number of wineries to increase the production of new wine. The consumption of fruit beer has been on the rise from 251000 kiloliters in 2018 to 317000 kiloliters in 2021. In China, more products are gradually pouring into the market of new fruit wine. At first, most of the merchants came from foreign wine enterprises, led by the brands of frilly, 1664, and Hoegaarden in Belgium, which occupied a large share of China's new wine market. With fruit-flavored wine gradually entering public life, more and more Chinese wine industries have also found this business opportunity. Therefore, more Chinese local brands have also begun to invest in the R & D and production of fruit alcoholic beverages, including Chinese brands such as Tsingtao beer and Yanjing Beer, which account for a high proportion of the international wine industry value. However, due to the late start of Chinese local brands, there are only more than 20 enterprises producing fruit beer, and most enterprises are mainly concentrated in a certain region due to their small scale, which has not yet formed a fully competitive market pattern. However, after more fruit beer manufacturers entered the Chinese market, they also found more problems that can be improved. For example, the nonportable glass beer of most foreign fruit beer has not been favored by customers who need to carry convenience because of its inconvenience. Therefore, some local liquor enterprises have carried out closer according to the requirements of local culture and launched fruit beer in plastic cans or cans, which has won the favor of more consumers. In addition, China's liquor enterprises, which account for a large share of liquor sales, are also closer to R & D and products. China's local flavor liquor is introduced to cater to the market demand. It is worth noting that the new wine products launched by both foreign and local enterprises mainly occupy the middle and low-end markets. It is difficult to find that new wine can be among the high-end wine market. It shows that there is still much room for improvement in the development of the new wine industry in the high-end market.

5. CONCLUSION

Chinese people like to drink, just like westerners' belief is the same pious and natural. Moreover, liquor has always been the most stable industry in the A-shares market and has gained far more revenue over other industries over the years. Besides, liquor culture is very important in China, which brings many opportunities to the industry. The analysis of this article has analyzed the leading effect, market scale, and user preferences of the liquor market. It is believed that traditional liquor has declined with the trend of consumption upgrading, and much new liquor has also appeared, which is popular among young people.

Therefore, liquor is between the necessities of life and the optional consumer goods and has its consumption scenario. Banquets, gifts, collection, and self drinking are all long-term needs. liquor's overall sales volume has been declining gradually, but due to the two factors of liquor industry's raise and liquor consumption high-end, liquor's overall revenue is steadily rising, and net profit is increasing year by year. Among them, high-end liquor benefits from high-end consumption structure and price increase of two factors, to achieve volume and price rise. liquor will still be a high-end liquor producer. Also, liquor will continue to benefit from the high-end liquor consumption structure.

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