

SWOT Analysis of Guizhou Moutai

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ABSTRACT

Since Moutai's listing in China, its share price has generally risen and the market capitalization is firmly at the forefront of the Chinese liquor industry. However, with the development of the company, there are also some problems and threats coming to it. To keep this rising trend and stay on top of the liquor industry, the company must make some plans or strategies to solve those problems. This paper will analyze the situation of Guizhou Maotai in the development process through SWOT analysis method.

Keywords: Guizhou Moutai, SWOT analysis, Marketing strategies.

1. INTRODUCTION

Maotai Group is involved in industries including Baijiu, wine, health wine, real estate, hotels, etc. The main product is Guizhou Maotai. Guizhou Maotai has a long history and profound cultural connotations. It is a typical representative of Chinese Baijiu. It is in a leading position in the Chinese Baijiu industry and has a great influence on the trend of the Baijiu industry. Although Guizhou Maotai has a good reputation at home and abroad and has achieved extraordinary performance in the Baijiu market, it is also facing competition from companies in the same industry such as Wuliangye, Guojiao 1573, Luzhou Laojiao, Jiannanchun, Yanghe and other brands. To gain competitiveness in the fierce high-end Baijiu competition market, Maotai must accurately recognize its own development status and formulate appropriate development strategies accordingly.

The thesis researches on the development of Maotai, which is of practical and far-reaching significance for summarizing the success or failure experience of development and promoting the development of Maotai enterprise to a higher level. At the same time, it is also very important for China's Baijiu industry to seek advanced development strategies under the new global economic situation. Therefore, the research on the development status of Guizhou Maotai in this thesis has important theoretical and practical significance.

This thesis takes the current situation of Guizhou Maotai as the research object and uses SWOT analysis to analyze the advantages, disadvantages, and opportunities

and threats faced by Maotai in the external environment, and puts forward corresponding suggestions, hoping to provide reference for the business strategy of other Chinese Baijiu brands.

2. SWOT

2.1. Introduction of the SWOT Analysis

The SWOT analysis is a method that comprehensively considers various factors of the internal conditions and external environment of the enterprise and conducts a systematic evaluation to select the best business strategy. S refers to the internal strengths of the company (Strengths); W refers to the internal weaknesses (Weakness) of the company; O refers to the opportunities in the external environment of the company (Opportunities); T refers to the threats in the external environment of the company (Threats). [1]

2.2. The SWOT analysis of Maotai Group

2.2.1. Strengths Analysis

Guizhou Moutai has a good brand advantage. Maotai is a typical representative liquor in China and it is also a national identity. Guizhou Moutai has great high brand awareness and reputation because it has been dedicated to philanthropy and supporting local government infrastructure development. Moreover, it valued highly on Talent cultivation and technological development. The most important thing is that the company has always adhered to a high cash dividend strategy and has become a leading company in China's capital market with high

dividends. With the rapid growth of overall demand in the liquor industry, liquor companies have begun to pay attention to patent applications. It can be concluded that the number of patent applications in the liquor industry is on the rise, and the technological development of the wine industry is relatively mature.

As shown in picture 1, the total dividends of Guizhou Maotai are in a trend of continuous growth, and the dividend payout rate has exceeded 50% since 2015. In 2018, the dividend paid by Guizhou Maotai was 2.8 times that of Wuliangye, LuzhouLaojiao 8 times, the annual total dividend growth rate is far much higher than other listed companies in the same industry. 2018 Guizhou Futai Board

"Listed companies rich returns list" the 14th, reflecting Kweichow Moutai is developing healthily. This sends a positive message to the market interest, attracts more new investors.

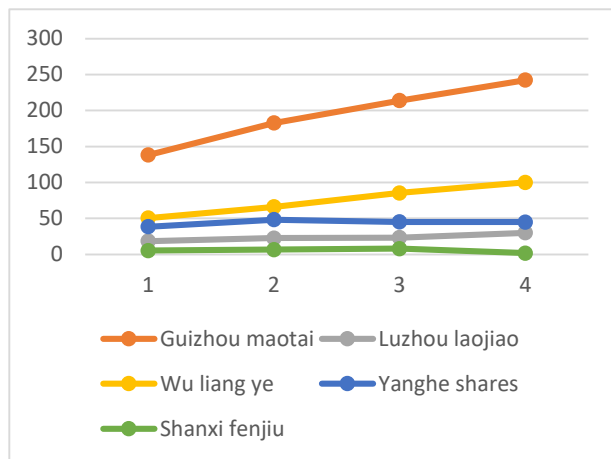


Figure 1 Total annual dividend of liquor industry in 2017-2020

Furthermore, Specifically, the company achieved sales revenue of 60.445 billion yuan of Moutai liquor, indicating that Moutai liquor is the most important industry of the company. The sales volume and profitability of Moutai liquor remain the first in the domestic liquor industry and the world liquor industry. The revenue of other and series wines reached 7 billion yuan, accounting for 10.43%, among which, Moutai Prince wine completed sales revenue of 3.78 billion yuan, continuing to maintain the company's second-largest single product status, Laimao wine and Han Sauce wine reached 1 billion yuan single product. The dual-wheel drive strategy is effective.

The operating income and profit of the enterprise in 2020 are 47.986 billion yuan, the operating income is 69.575 billion yuan, and the profit margin of the operating income is 68.87%; In 2019, the operating profit was 43.312 billion yuan, and the profit margin of operating income was 68.20%. Therefore, in 2020, compared with 2019, although the relative cost of

enterprises increased, the operating income also increased correspondingly, resulting in a decline in the total operating profit margin. Second, the operating net profit margin in 2020 was 51.53 percent, 0.4 percentage points higher than that in 2019. The profit margin of Cost and expense of Kweichow Moutai in 2020 increased by 0.75% and 22.34% compared with that in 2020 and 2019 respectively, which shows that the enterprise's ability to control cost and operation and management level is improving and saving expenses. In general, Kweichow Moutai has a good asset operation, strong profitability and rapid development. It is this and sufficient profits that make Kweichow Moutai a leader in the liquor industry.

2.2.2. Weakness Analysis

Guizhou Moutai has expanded its product range to a large extent, forming three series of low-grade, middle-grade, and top-grade products, with more than 70 specifications and varieties, making it into the market in an all-round way. Brand development is difficult, and it is best to extend the brand in the high-end consumer market. Low-end will be likely to damage the original product image. Once the failure of expansion will hurt the whole brand of the enterprise.

Resource shortage, limited production promotion, out of stock phenomenon is widespread. So one of the main reasons for the mellow brewing water is the Chishui River. The water quality in the upper reaches of the Chishui River, which is the only source of Maotai's brewing water, has declined due to deforestation and the rise of heavily polluting enterprises. If we want to ensure the quality of Moutai wine, the output is bound to decrease. The Maotai liquor production process is complicated. Each bottle of Moutai needs to go through a full year of the production cycle, which also needs to be separated and stored, mixed and stored for five years before the packaging leaves the factory. Such specialization in the flow process will result in a lot of storage of homemade semi-finished products every year, resulting in the output of Maotai cannot being greatly improved.

According to the 2018 financial report of Guizhou Maotai, monetary funds accounted for 70.11% of the total assets. The numbers are huge, but the annualized return on capital is very low. Cash yield is not proportional to cash increment. This means that enterprises have too much profitability and low cash assets, and corporate assets fail to be effectively used. In 2017, Guizhou Maotai's cash generation income of 80.965 billion yuan was only 39 million yuan. Its cash preservation and appreciation ability not only lagged behind Wuliangye but also lagged behind Luzhou Laojiao and Zhujiang Beer. Luzhou Laojiao's income of 7.6 billion yuan was 65 million yuan, while Zhujiang Beer's cash was only 1.926 billion yuan. Its revenue reached 107 million yuan.

Single industry and product Guizhou Moutai adopts a single business model, only in the liquor industry design, production and sales, and the products are relatively single, mainly Moutai and series of liquor. In the 2018 annual report, liquor accounted for 99.9 percent of industry revenue, while others accounted for 0.1 percent. In the composition of the main business, the proportion of Maotai liquor sales is 89.02%, while the proportion of series liquor is only 10.98%. Although Guizhou Maotai has also listed a series of liquor as an important development strategy, according to the current data, Moutai Group still focuses on the unified development strategy, which has the disadvantages of a single industry and single brand under the consensus of liquor products returning to public consumption.[2]

2.2.3. Opportunity Analysis

2.2.3.1. National macropolicy support

In April 2021, China Alcoholic Drinks Association issued the “Guiding Opinions on the Development of Chinese Alcohol Industry during the 14th Five-year Plan period”. The guidelines put forward 14 main tasks, including quality expression, talent cultivation, cultural popularization, market cultivation and cultural heritage protection, which point out the direction for the development of Baijiu industry during the 14th Five-Year Plan period. In addition, in recent years, some Chinese provinces have issued various policies to encourage the development of alcohol industry. For example, Guizhou province issued the “Opinions on Promoting the Transformation and Upgrading of the Baijiu industry in 2020” to accelerate the construction of the Baijiu industry development system. In February 2021, Sichuan province issued “Several Measures to Promote the High-quality Development of Sichuan Baijiu Industry” and proposed to accelerate the high-quality development of liquor industry. From the perspective of national policies, the government will further increase the support for the Baijiu industry, and Guizhou Maotai should seize the great opportunities to achieve faster and higher quality development.[3]

2.2.3.2. Baijiu has a broad domestic and foreign market

As a kind of traditional drinks in China, Baijiu has stable consumer groups in the domestic. With the accumulation of history, some consumer groups have formed the dependence on Baijiu consumption. In addition, with the rise of China's international status, Chinese culture is becoming more and more known to foreigner. Lots of overseas Chinese also played a important role in publicity and promotion of Baijiu. As an important part of Chinese wine culture, Baijiu has been favored by more and more foreigners because of its

exquisite distillation technology and brewing skills. According to statistics, the overseas sales of Moutai accounted for more than 10 % of its total sales in 2020.

2.2.3.3. The upgrade of consumer demand

With the improvement of people's living standards, the demand for food has also been upgraded from basic goods to enjoyment goods. Consumers will choose products and brands according to their own value pursuit and spiritual ownership. As a national liquor, Guizhou Maotai is a symbol of status in the eyes of consumers. Moutai can meet the needs of the upgrading of public consumption and it has the value of collection. That's why Moutai is favored by more and more consumers.

2.2.3.4. Optimizing of the internal financial system of enterprises

After several years of strategic layout, Moutai has established its own financial departments include finance company, fund company, leasing company and Huagui Life Insurance company. It can be seen that Guizhou Maotai is establishing a more systematic financial network and its own capital pool. Under the market trend of all walks of life competing to get involved in finance, Guizhou Maotai has established a good foundation and needs to further explore a new driving mode of "industry plus finance" by combining traditional main business.

2.2.4. Threat analysis

2.2.4.1. The country's macro policies are restrictive

Although China's macro policies strongly support the transformation and upgrading of the Baijiu industry, while the state has adopted strict consumption tax and other policies to optimize the industrial structure, it also puts forward more important requirements on Baijiu companies. Guizhou Moutai as a national tax payer, is relatively influenced by policy guidance, and its performance is generally declining. In addition, the eight central regulations, the ban on drunk driving, the military prohibition of alcohol, and the strict thrift and anti-corrosion requirements have put the Baijiu industry under pressure as a whole to decline in demand.

2.2.4.2. Impacted by uncertain factors such as the epidemic

Affected by COVID-19, the Baijiu market is cold. In the short term, the sales of Guizhou Moutai are showing a steady and increasing trend. However, in the long run, the epidemic has caused great downward pressure on the economy of many countries. The supply and demand have both shrunk dramatically. The trend of consumption degradation has a great influence on the high-end liquor such as Guizhou Moutai. Therefore, it is necessary to

consider whether the global epidemic can be effectively controlled or the impact of other uncertain factors in order to maintain sustained economic growth.

2.2.4.3. *The consumption structure tends to be diversified*

Today's consumer groups are characterized by multi-level, diversified preferences and complex demand. Consumers' loyalty to the single Baijiu brand and even the Baijiu liquor category is greatly reduced. For example, the current young people prefer beer, wine, fruit wine and some non-alcoholic beverages, and have a low preference for liquor like Guizhou Moutai. Therefore, under the drive of a diversified consumer market, how to

find new positions and expand new groups is of the utmost importance.

2.2.4.4. *Increasing competition in the industry*

Guizhou Moutai is the leader of the liquor industry and has a great reputation and influence in the world. Therefore, many businesses counterfeit Guizhou Moutai. If this situation is not paid attention to, it will reduce consumers' trust in the brand, which will affect the future development of Guizhou Moutai. In addition, the demand for high-end Baijiu is reduced. More and more Baijiu enterprises have joined the competition in other wine markets. The competitiveness of Guizhou Moutai brand has been affected

Table 1 SWOT

S	W
1. Good brand advantage 2. High cash dividend strategy 3. Technology development	1. The failure of expansion 2. Resource shortage 3. Single industry and product
O	T
1. National macropolicy support 2. Baijiu has a broad domestic and foreign market 3. The upgrade of consumer demand 4. Optimizing of the internal financial system of enterprises	1. The country's macro policies are restrictive 2. Impacted by uncertain factors such as the epidemic 3. The consumption structure tends to be diversified 4. Increasing competition in the industry

3. DEVELOPMENT COUNTERMEASURES AND SUGGESTIONS

3.1. *Improve the quality and features of product*

Famous Chinese liquor brands represented by Guizhou Maotai are well-known both at home and abroad for their unique brewing process and distinctive taste. Guizhou Maotai should continue cultivate the brand Carefully , adhere to the unique brewing process and maintain high quality. Especially in the digital field, Guizhou Maotai should pay more attention to the iterative upgrading of high-tech equipment, increase the training of high-end technical personnel, and promote the high-quality development of enterprises and products. At the same time, Moutai need to strengthen food safety supervision and product quality monitoring to avoid safety problems.

3.2. *Improving the enterprise management mechanism*

A high level of enterprise management is an inexhaustible driving force for the long-term development of enterprises. If enterprise management fails to keep up with the development of enterprises, the future and prospects of enterprises will be seriously affected. In view of the problems existing in the internal

management of Kweichow Moutai, on the one hand, it should improve the allocation of human resources, consummate the rewards and punishment mechanism, further activate the enthusiasm of employees and give full play to their wisdom. On the other hand, Kweichow Moutai should strengthen its financial layout. After meeting the internal financial needs of the enterprise, it can try to develop banking and securities businesses to promote the formation of a new type of "bank" which can integrate corporate finance and financial nature.

3.3. *Develop and broden target customers*

All the time, Moutai selling in overseas markets is concentrated in the Chinese circle. People in some western countries have yet form the habits of drinking Moutai liquor. In the future, Moutai will continue to use "One Belt One road" strategic opportunity well, start with "the introduction of traditional Chinese wine culture", and "importing the mainstream of western wine culture". Moutai should accurately grasp the liquor standards system abroad, publicity of liquor concept. Let more people know about Chinese liquor and let more countries like to drink Maotai.

3.4. Enrich and expand marketing methods

Although Guizhou Maotai has established marketing companies overseas and developed marketers in some countries, its marketing methods are mostly propaganda and marketing of mainstream media. Social platforms and event marketing of Moutai aren't rich enough. It is suggested that Moutai should from 'Big data and Internet plus' to 'intelligent marketing', create a new path of cultural marketing for the expansion of overseas markets based on the collision of eastern and western cultures to event marketing based on various types of themes.

4. CONCLUSION

Guizhou Maotai has always been at the high end of the liquor industry, occupying a larger share of the Baijiu consumption market. From 2015 to 2016, Guizhou Maotai's various indicators were relatively low. Until 2017, the level of various indicators rebounded. Until 2021, Guizhou Maotai's various indicators are still growing. Although the COVID-19 in 2020 will have a certain impact on the sales of Guizhou Maotai, the overall development trend is still good. Combined with the SWOT analysis of Guizhou Maotai, it can be found that Guizhou Maotai has a very good brand effect, but still needs to pay attention to high-end products and strengthen the maintenance of the high-end consumer market. The follow-up impact of the COVID-19 is still uncertain. Guizhou Maotai still needs to pay attention to innovation investment to reduce bad risks. At the same time, after experiencing the COVID-19, it should start to consider how companies should respond if there is an emergency, and also consider more other uncertain factors that will bring, and then promote the sustainable and healthy development of the enterprise.

ACKNOWLEDGMENTS

I would like to give my sincere thanks to all those who have helped me with the thesis. Without their constant support and guidance, this thesis would never have been completed. First of all, I should express my gratitude to my supervisor, Prof. Frank Lichtenberg, for his guidance, instruction, encouragement, patience, and support. I would like to view the writing of this thesis as an academic experience during which Prof. Frank Lichtenberg, with his comprehensive knowledge and great patience in correcting my draft again and again, instructed me how to read and write, and more importantly how to think.

I am also indebted to all the teachers who have been instructing and encouraging me during my three year study. My sincere thanks are also given to my classmates, who shared with me the insightful opinions on this thesis. Finally, I'd like to express my love and gratitude to my family members. This work is dedicated to them.

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