

The Successful Strategy of Kweichow Moutai in the Chinese Market

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ABSTRACT

The current Chinese alcohol market has been paid more and more attention because of the growing youth population and surging disposable incomes. Kweichow Moutai is one of the most powerful Baijiu brands in China, which occurs in more than 60% of China's Baijiu market. Exploring and evaluating the factors that affect the position of Moutai is important as helps it maintain its advantages. This research aimed to identify the factors that influence the unique brand value of Moutai by using qualitative analysis. The relationship between Marketing mix theory and Brand loyalty had been evaluated as explore the unique brand value of Moutai. Meanwhile, the strengths, weaknesses, opportunities, and threats (SWOT analysis) had also been identified to analyse the internal and external environment of Moutai. This research concluded that accurate brand positioning and strong brand value are the advantages of Moutai, which lead to the dominant position in China alcohol market. Furthermore, there were still some recommendations that have been given to help Moutai maintain its position within the changing wants and needs of consumers.

Keywords: Kweichow Moutai, Customer loyalty, Marketing mix 4C model, SWOT analysis

1. INTRODUCTION

1.1 Background

Within the environment that the growing global youth population and surging disposable incomes, the demand for the Alcoholic Drinks market is also growing. According to Statista, the revenue in the Alcoholic Drinks market amounts to the US was \$1441,248 million in 2021. Among that, China is the biggest consumer of alcoholic drinks in the world with a consumption of US\$311,827 million in 2021 [1]. Based on that, the Chinese alcohol drinks market has been paid more and more attention in recent years.

The development of the alcohol market in China was driven by the income level of Chinese consumers rises. Spirits make up the bulk of the market. In recent years, the rise of e-commerce platforms has made it easier for Western spirits brands to enter the Chinese liquor market. Western spirits are increasingly influencing Chinese consumers' alcohol choices and the Western liquor culture is becoming increasingly popular among the younger generation. However, with comparing the sales data of the seven kinds of different spirits are on sale in

China, which includes the Chinese Baijiu, Whisky, Brandy, Vodka, Rum, Gin, and Tequila, the local Baijiu still dominates the Chinese Baijiu market as it accounted for 65% of the Alcohol market [1]. Therefore, During the period that the consumption patterns in China are undergoing a meaningful change, more factors affect the consumers' behaviours. The reasons that keep Moutai maintaining more than 60% of China's Baijiu market are essential to be explored [2].

1.2 Research Gap

Even though Moutai has its unique position in China alcohol Market, more and more competitors have entranced the market to gain market share through the existing company's market share, which has brought a huge challenge to Moutai company. Based on that, to ensure the factors that make Moutai maintain the first position in the China Alcohol market has become a research gap. Previous research on Moutai has focused more on the uniqueness of the technology of itself. As some researchers believe that the reason Moutai take the first position in China Alcohol Market comes from a unique geographical climate with complicated

processing [2]. The customer experience based on Chinese Alcohol culture and also the unique brand value of China has not been deeply studied, which caused the research gap. The research gap tends to result in its inability to maintain Moutai's edge in the face of increasingly fierce competition since the advantages of Moutai in the China Alcohol market have not been identified accurately.

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1.3 Structure of the Paper

This research paper aims to find out the key for brands to do offline selling and physical marketing, and the importance of the real economy by using quantitative analysis. Factors that influence the unique brand value of Moutai need to be identified. The relationship between Marketing mix theory and Brand loyalty is also been evaluated to further explain the research question. Considering the Customer's needs and wants, Cost and Value to satisfy consumer's needs and wants, convenience to buy, and communication with the consumer as four dimensions of the 4Cs theory to evaluate the marketing mix strategies of Moutai company. Furthermore, the internal and external environment of Moutai was analyzed using the SWOT analysis. Based on the four characteristics of strengths, weaknesses, opportunities, and threats, it helps to gain a deeper understanding of Moutai's unique brand values. Through the analysis about the Moutai company and also the China Alcohol drink market.

2. LITERATURE REVIEW

2.1 Definition

Borden described marketing as an art, and he believed that the theory helps to explain market orientation is the key for applying managerial thinking in all its functional areas in this dynamic world [3]. The concept of the marketing mix is used as a tool by marketers. It is simply consisting of four factors: product, price, place, and promotion. Brand loyalty is a rational behavior pointed out by Jacoby in 1973, Knox and Walker measured the

degree of loyalty by six parts, consumer involvement, the sources of involvement, involvement itself, commitment, brand support, and brand commitment [4, 5].

However, theory concepts have some slight changes since the first day of publication, they have appeared in literature, and they are still changing.

2.2 Development of Theories

The elements of the marketing mix have different versions, from 4Ps to 7Ps to 4Cs. In 1960, McCarthy was the first to suggest the 4Ps framework. Product is the physical merchandise that companies made to meet consumer needs. Price is the money that consumers are willing and able to spend on goods or services to fulfill their needs and desire. The place is the market location of where to sell the product, and making it available to customers is crucial. Promotion is a way of communication between buyers and sellers, it conveys information about the product. Promotion is also a marketing strategy to influence and persuade consumers [6].

Booms and Bitner's modified the model to include two more elements: process and physical evidence. The final 7Ps were defined by Muala & Qurneh in 2012, extended with the factor of people [7]. The people element can be defined as those people who deliver goods and services that can affect consumer decisions. For example, attitude, behavior, and the response of a waiter are factors influencing consumer experience in the restaurant. The process is the service action that helps to meet consumer demands [8]. Physical evidence focuses on conditions in the place of business including the surrounding area.

Brunner's 4C concept postulated in 1989, compromised consumer, cost, convenience, and communication [9]. The 4C marketing strategies are related to customers' attributes.

Lin et al. stated that the most important element is Customers [10]. Instead of focusing on the product itself, vendors are now paying attention to selling only what the customer specifically wants to buy. In other words, provide what the consumers want.

Cost is the amount that goes into the production of a good or service. Cost of production is the total value of all inputs, including land, labor, capital, and enterprise.

Convenience is the accessibility of consumers to purchase the product. A simple scenario is that, nowadays, consumers are switching from buying offline to shopping online, it is more convenient for consumers to buy goods and services, which results in fewer people would go to physical stores.

Communication works toward creating a meaningful and stable relationship with the customers, finding out the

consumers' lifestyles and habits. An advertisement is a form of communication, which helps a marketer understand their market better and increase sales and customer loyalty.

Copeland gave the first attribution to the idea of brand loyalty in 1923, then in 1964, Tucker stated that brand loyalty is conceived to be simply biased choice behaviour regarding the branded product [11, 12]. Empen et al. described brand loyalty as the lack of consumers switching to alternative brands over certain price ranges [13]. Baltas and Doyle had done a survey in 2001, which was about random utility models in marketing research. The approach is also found suitable for evaluating loyalty since the different price levels of consumers switching to another brand are correlated with the random coefficient model [9]. And the experimental approach and the definition of loyalty are consistent and used in theoretical models. Also, marketing mix variables can be incorporated into the model and the effects of advertising can be adequately controlled.

2.3 Important Results

From the literature review, McCarthy's 4Ps model and Muala & Qurneh's 7Ps concepts are all focused on the organization side. The 4Ps marketing mix is based on the value chain and it is a traditional model. While 7Ps model added factors that considered consumer perspectives but lean on the company as the character. On the other hand, Brunner's 4Cs strategy is consumer-oriented, analyzing the marketing based on consumer needs, desires, and lifestyles. The 4Cs marketing mix strategy is more appropriate to apply for the study of the market and consumer behaviors.

In 2003, Quester and Lin Lim stated that brand loyalty implies both a consistent pattern of purchase of a specific brand over time and a favorable attitude towards a brand [14]. Building long-term relationships with customers in business-to-business markets has attracted enterprises' attention [15]. After analyzing 23 brands, Empen et al. observed that loyalty strength and the frequency of promotions are negatively correlated, which means that more promotion campaigns might lead to a fall in consumer loyalty [13].

2.4 Conclusion

To conclude, marketing mix theory and brand loyalty are the theorems applied to this research of analyzing how Moutai stands out in the Chinese Baijiu market. A marketing mix is a set of controllable marketing tools that a company uses to create a desired response in the targeted market. And brand loyalty is the positive relationship between consumers and the brand.

Brunner's 4Cs model of the marketing mix is extended based on McCarthy's 4Ps concept and Muala & Qurneh's 7Ps concept, Brunner focused on the consumer rather than the organization [7, 9]. The four elements of

4Cs are consumer, cost, convenience and communication. Brand loyalty is the positive association consumers attach to a particular brand. According to the article written by Houlihan and Harvey, factors such as expectation, consumer experience, personal relationship, rewards, reputation and community outreach could affect consumer loyalty [16].

From the survey conducted by Empen et al. in 2015, they found that the relationship between frequency of promotion and strength of consumer loyalty is negative. In other words, if the marketer increases the frequency of promotion campaigns, the strength of brand loyalty would fall as a result [13].

3. METHOD

3.1 Research Design

This research has used a qualitative approach with the SWOT analysis. To determine and define the Strengths, Weaknesses, Opportunities, and Threats of the Moutai company, it is important to identify the event or trend of the internal and external situations that might positively or negatively impact. Based on that, the SWOT analysis as a methodology provides a strategic matrix that matches specific internal and external factors. Based on some research, SWOT analysis has been used as a methodology on paper since 1982. The increase in the number of papers in recent years shows the growing interest of researchers in SWOT analysis. According to research published in the Journal of Business Economics and Management, over 54% of all published papers are about SWOT papers from 2005 to 2009. The most frequent areas and levels in which SWOT has been applied in corporate, national and regional planning [17]. Corporations aim to maintain their market position in a competitive environment and they need to focus on their business as well as their competitors. Using SWOT analysis as a methodology is aiming to identify the advantages of Moutai in the Chinese liquor market through evaluating their position in the market and also analyzing the internal and external environments of organizations.

3.2 Moutai

This research focuses on collecting data from published papers and journals. In order to further evaluate the brand value of Moutai, it is important to access manuscripts, documents or records from libraries, and the internet. Also, some secondary data has been collected in this research by accessing the government agencies or research organizations. This research focuses on Kweichow Moutai and also the customers who have purchase experience of Kweichow Moutai.

Baijiu is a traditional Chinese liquor, which was distilled from fermented sorghum, with an alcohol

content ranging from 35% to 60% [18]. At present, there are dozens of liquor brands in the Chinese liquor market, the most popular of which is Kweichow Moutai. According to some researches, Moutai has more than 60% of China's Baijiu market. Moutai as the national liquor has taken a significant place in the Chinese alcohol industry, which is a type of Baijiu and only made in the town of Moutai in Kweichow province of China. Moutai is one of the world's three most famous alcohol drinks, along with Scotch whisky and French cognac. In 1951, Moutai has officially named the national liquor in China and it also acquired two gold medals at the Paris international exposition in 1985 and 1986. Moutai wine has been used on official occasions for banquets with foreign heads of state and visiting Chinese dignitaries. It is the only alcoholic beverage given as an official gift by Chinese embassies in foreign countries. Moutai currently sells over 200 tons to over 100 countries and regions worldwide [19]. Today, it remains one of the most popular liquors in China. In 2019, Moutai achieved revenue of 88.854 billion yuan, up 15.10% year on year. Operating profit reached 59.041 billion yuan, up 14.99% year on year. According to Interbrand, Moutai took 10th place in the list of China's Best Brands in 2021 with 757.64 billion yuan [20]. Furthermore, according to Kantar, a UK-based data analytics and branding company, Moutai is not only the third-ranked Chinese brand on the list, but its US\$109.3 billion brand value also puts it ahead of Coca-Cola as the world's most valuable food and beverage brand. It is ranked 11th on the overall list [21].

3.3 SWOT Analysis

Based on Literature reviews and other resources on the internet, the SWOT Analysis is formed through evaluating the strength, weaknesses, opportunities and threats of Moutai company and its impact on the Customers.

3.3.1 Strength

First of all, Moutai is a brand that has been on the market for many years and this has given it high brand recognition. Maintaining quality over the years has also given it a good reputation. In 2019, Moutai has been appraised as the Top Regarded Companies on Forbes Lists, which highly acknowledge the trustworthiness, social conduct, the strength of their products and services [22]. Considering the 4C model, good reputation and high recognition make the value of Moutai satisfy consumers' needs and wants accurately because people tend to have more reliability on a well-known brand, which brings a strength to the brand [23].

Also, Moutai has a large number of outlets in almost every state and it is supported by a strong distribution network. According to the China Economic News,

Moutai has and over 900 stores in China [24]. The strong distribution network ensures that the products of Moutai are easily and promptly available to a large number of customers, which leads to convenience to buy for all customers.

Furthermore, Moutai is a brand with a long history, which has rich experience in communicating with its customers. The two-way interactive information exchange between Moutai and its customers makes customers feel involved in the development and production of the company's products, thus generating customer loyalty.

3.3.2 Weakness

Even though Moutai has its unique brewing technology, it is still unable to compete with the industry leaders in terms of innovation since its limited products, which brings huge weakness to Moutai company as they could not cater to the changing needs and wants of customers. Also, the unique brewing techniques ensure the product quality of Moutai. However, the disadvantages of this method are long time, low efficiency, and complex operation process, which are higher than the average level of the industry. The long-time process leads to customer purchase inconvenience [25].

3.3.3 Opportunity

Within the changing environment are new trends in consumer behavior. More and more people use online channels and increase in the number of social media users worldwide. Moutai can earn revenue by opening online stores and also making it easier for customers to buy. With the rapid development of China's economy, the level of national income has increased substantially. As the middle and upper classes accumulate, Moutai can further satisfy consumer needs for high-end Baijiu through marketing.

3.3.4 Threaten

More and more entrants have entered the China market and gained market share through the existing company's market share, such as Whiskey, Scotch, Hennessy. They bring intense competition to the Moutai company. In addition, other Baijiu brands are targeting the younger generation, such as Jiang Xiao bai [26]. It brings threats to Moutai as the needs and wants of its consumers are catered by other brands and also drive away from its potential customers. The price of raw materials is rising, and the technology is irreplaceable, which leads to the price of Moutai keeps rising. The cost and value cannot satisfy consumers' needs and wants, which brings a new threat to Moutai company.

4. RESULTS

In general, Moutai is still dominating the Baijiu market, thus the whole alcohol market in China. From the SWOT analysis, Moutai is a brand that has been existing in the market for decades and has competitiveness when competing with other brands.

Consumers in favor of Moutai is not only because the unique favor and high quality of the liquor, but also the high level of acceptance and appreciation of the brand value. Moutai should focus more on the Gen Y and Z, as they are becoming the most powerful buyers. In addition, with the rapid development of online platforms and high usage of social media, Moutai could seek the trend as an opportunity to be proactive and operate official online accounts, also figure out adapting a new form of marketing strategy just for online sales channel.

As for weaknesses and threats, all Moutai has is its unique selling points. In other words, Moutai is not updating nor tailoring its products in line with consumer tastes. For instance, the packaging design is quite traditional and cannot attract young people's attention, the action might cause Moutai to lose its potential customers.

Despite the latent drawbacks, from the statistics investigating the market share of high-end Chinese Baijiu in 2015 and 2020, Moutai occupies more than half of the market segments in both years, which are 55.1% and 55%, respectively. The overall outcomes of SWOT and the market share data prove that the hypothesis is true [27].

5. DISCUSSION

To summarize, Moutai understands its strength and follows the rules to continue producing high-quality Baijiu, while there are also opportunities for Moutai to develop online markets. Moutai is facing rapidly changing consumer needs and an increasing price level in general. What Moutai could do is to promote its products and plant the brand value into consumers' minds, especially for the young generations and more female-centered. High-end is the market positioning, so there is no need for Moutai to lower the prices or engage in a sales campaign.

According to the study of You, Chinese people consider Moutai as a luxury good, a common phenomenon is that some consumers only purchase Moutai for social status and value recognition [28]. Suggestions are given from the research to improve market domination, such as cooperating with hotels or expanding the market abroad. However, this study is more focused on how Moutai achieved a high reputation and ranked No. 11 among 100 valuable companies worldwide.

6. CONCLUSION

In conclusion, this paper researches Kweichow Moutai and explores the advantages that Moutai has in the current China alcohol market through using qualitative methods. The SWOT analysis was applied to further evaluate the Moutai brand. With considering the result of SWOT analysis and literature research. It could generally tell that Moutai has advantages in current China's current alcohol market because of its unique brand value and accurate brand positioning. This result is also provided by evaluating the relationship between marketing mix theory and customers' loyalty to Moutai company.

Marketing mix theory and brand loyalty are the theories applied to this research of analyzing how Moutai stands out in the Chinese Baijiu market as Moutai formed the positive relationship between consumers and the brand. A SWOT analysis measures the rapidly changing market. Furthermore, even though that the unique advantages of Moutai have existed, some improvements could be archived since the rapidly changing market and different consumers demands. The rapid development of online platforms and the high usage of social media could be considered as Moutai to further maintain its position. Using social media and online platforms could help Moutai establish connections with young generations.

The findings of the research act as clues for other businesses in different areas which struggle to survive in the real economy without being active in social media. Although those companies might not have an attractive brand story to tell, sticking to producing high-quality products and constantly maintaining brand reputation are basics. Before any promotion or campaign activities, having the brand positioned in the right place of the market is crucial, since the products should be in line with the brand image.

Some limitations existed in this research. Lack of real feedback or data from customers tends to lead the assumption idealized and systematic. Also, the result is not reliable without quantitative analysis. Therefore, in future research, it is suggested to combine both qualitative methods with the qualitative method, which makes the data more accurate, which makes results more reliable. The limitation of this research is that only a qualitative method is applied, which is the analysis outcome produced by SWOT, so there are no real feedbacks or data from the consumer perspectives and the conclusion might be biased since it is ideal and systematic. Combining quantitative method with qualitative method is the future research improvement.

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