

A Study of the Operation Strategies of Kweichow Moutai Co., Ltd.

Yuyao Shen

Wuhan University, Wuhan, 430000, China

Abstract: Moutai known as the “national liquor” band of China has a long history. In recent years, the competition among liquor-making enterprises tends to be intense, and a series of policy adjustment has restricted the development of liquor industry to some extent. So the liquor-making enterprises have to shift their operation idea so that they can survive in such fierce market competition. This paper made a thorough understanding of the entire liquor industry and the macro and micro economic environment of Kweichow Moutai Co., Ltd., integrated with the data of the annual reports of the company over the years, and used SWOT analysis, Michael Porter’s Five Forces Model, core competence analysis to expound the experience and strategies of Kweichow Moutai, respectively.

Keywords: Moutai; operation strategies; core competence

1. Introduction

Established on November 20th 1999, Kweichow Moutai Co., Ltd. (hereinafter referred to as “the Company”) was initiated by China Kweichow Moutai Winery (Group) Co., Ltd and jointly set up with other seven units, and now Moutai Group is the controlling shareholder. Based in Moutai town by the Chishui River in northern Guizhou Province, the Company is specialized in the production and sales of Moutai liquor and Moutai series wines. Its leading product Kweichow Moutai liquor is not only the founder and typical representative of Chinese Daqu Jiang-aroma liquor but also a green food, an organic food, and a national geographical indication product, all which make it a business card of China around the world.^[1]

On August 27th 2001, the Company’s stock started to be listed for transaction in Shanghai Stock Exchange. Since its listing, till June 25th 2021, the accumulative total of cash bonus reached 121.355 billion yuan, which was 60.8 times of the net amount raised in IPO. In the year of 2020, the Company achieved a total operating revenue of 97.993 billion yuan, and net profit of 46.697 billion yuan. In the first half of 2021, the Company achieved a total operating revenue of 50.722 billion yuan, and net profit of 24.654 billion yuan. As of the end of the first half of 2021, the Company had owned a total asset of 212.869 billion yuan, and net profit of 161.738 billion yuan. In 2021, Kweichow Moutai was ranked the 11th in BrandZ Most Valuable Global Brands with a brand value of 109.33 billion dollars, and became the most valuable liquor brand in the world.^[2]

2. SWOT Analysis of Kweichow Moutai’s operation strategies



Figure 1: SWOT Analysis Model

The paper used the SWOT analysis model to make a multi-dimension analysis on both the internal strengths and weaknesses and the external opportunities and threats faced by Moutai company during its development (As shown in figure 1).

2.1 Strengths

A representative of Jiang-aroma liquor. Moutai owns unique style and quality, and high brand awareness and fine reputation. From the market competition over the years, it has built a good brand image and prestige.

Technical uniqueness and resource scarcity. Moutai liquor is particular in its production and blending technique, which cooperates with unique territory and climate to form a technical barrier insurmountable to the imitators. These are good protection to the quality and production technique of Moutai liquor, resulting in its unique competition strength. Furthermore, the territory and climate of Moutai town is also a natural barrier without which Moutai liquor can't be created.

Market strength. Due to capacity limitation, Moutai liquor is always in the seller's market, and the company strongly controls the price of products. It has become a normality for them to improve performance by raising prices. Since Moutai is leading in the liquor industry, its price changes have already become a weather vane of the industry.

Addictive feature. Liquor as a kind of addictive is highly attractive to a fixed group. Its unique taste attracts a fixed consumer group, which is beneficial to the steady rise in performance.

Luxury feature. As the society develops, Moutai liquor has been endowed with more contents, such as a symbol of position, status, etc. Though the company has been refuting the statement of luxury, it is a fact that Moutai has become a luxury.

Cultural feature. In the history of Moutai, the ties between Moutai and Chinese leaders can go back a long way. In some important events like state banquet, Moutai liquor is always served in the banquet and sent to foreign leaders as a national gift by Chinese leader, giving birth to the famous "Moutai diplomacy".

2.2 Weaknesses

China's economic slowdown has extended the adjustment period for the liquor industry. In recent years, China's economic growth has slowed, and annual double-digit growth rates have become a thing of the past. In implementing supply-side reforms, expanding domestic demand, boosting consumption, and promoting economic growth pattern are facing greater pressure in areas such as White wine is a non-essential. The overall development of the industry is strongly constrained by the macroeconomic environment. With the economic downturn, the liquor industry has also bid farewell to the era of irrational high growth.

Because of particular technique, the liquor produced could only be delivered after storing for 5 years, leading to slow growth of capacity.

The state-owned enterprises have the common weakness - low efficiency.

The executives are low efficient in capital management and use, leaving a great amount of fund idle all year round.

The operation idea of the executives fails to follow the change of time, lacking in modern feature.

The bureaucratic executives have been fully exposed in the fault of disclosure of annual report.

2.3 Opportunities

With the social development and consumption upgrading, it provides a space for the development of Moutai's luxury positioning.

The emphasis and support of governments at all levels guarantees the development of Moutai.

Going abroad and internationalizing is the next major opportunity of Moutai.

2.4 Threats

Ecological environment threat. Through the experiments at different places, it proves that Moutai liquor can only be produced in the unique ecological environment of Moutai town, including microorganism, geology, water source, climate, temperature, humidity, etc. Therefore, if the natural and ecological environment where Moutai liquor is made is destroyed, it will inevitably bring great influence to the production and operation of the company.

Raw material risk. The raw materials used are quality glutinous sorghum and wheat in Huai ren and surrounding area. In case of some changes in natural and geographic environments (such as yield and quality changes), these will threaten the price of raw materials and company performance.

Change of consumption idea. As the wine and brandy enter the Chinese market, people's consumption idea of liquor has been varied to certain extent, and a part of market share of liquor has been occupied.

Impact of the policy of combating corruption and building a clean government. As the society proceeds, the consumption and gifts paid by public funds is not advocated or even objected, and this will produce certain effect on Moutai.

"Guizhou Moutai" and some related trade marks are not owned by the company. If they are not allowed to be used any more, this will greatly affect the running of the company. Of course, there is a little chance for this to happen.

3. Micheal Porter's Five Forces Model

The Five Forces model, proposed by Michael Porter in the early 1980s^[3], posits that there are five forces in an industry that determine the size and degree of competition, and that these five forces combine to influence the attractiveness of the industry and the competitive strategy decisions of existing firms (As shown in figure 2). The five forces are the competitive ability of existing competitors in the same industry, the ability of potential competitors to enter, the substitution ability of substitutes, the bargaining power of suppliers, and the bargaining power of purchasers. The Porter's Five Forces model brings together a large number of different factors in a simple model as a way to analyze the basic competitive dynamics of an industry. Competitive strategy in a sense stems from a firm's deep understanding of the laws of competition that determine an industry's attractiveness. In any industry, whether domestic or international, producing products or providing services, the laws of competition will be reflected in these five competitive forces. Therefore, Porter's five forces model is a strategic analysis tool often utilized by companies when developing competitive strategies.



Figure 2: Micheal Porter's Five Forces Model

From the perspective of suppliers, the main suppliers of Moutai are all agricultural product suppliers who provide sorghum, wheat and water. Their competition state is close to perfect competition, that's to say, they hardly have any negotiation ability, or saying, Moutai company has a strong negotiation ability against them. Besides, the package, glass bottle and outer packing are provided by the affiliated companies of Moutai, who also have no advantages to bargain.^[4]

From the perspective of buyers, at present, Moutai liquor's demand exceed supply, and this situation will last for a long time, so the seller is dominating the market, and the consumers have no bargaining ability at the face of Moutai liquor. On account of numerous and disperse consumers as well as the addiction and spirit consumption attribute of Moutai, Moutai liquor has a powerful position to consumers, resulting in the situation that supply determines demand. In the well-development market

economy today, there is few product belonging to seller's market, so Moutai liquor has a touch of Chinese planned economy. In other words, in current industry condition, the industry chain of Kweichow Moutai is shorter but with powerful position.

Threat from potential competitors. The liquor industry is declining as a whole, and there's few new comers, so there is no direct threat to Moutai. Liquor is a domestic industry, thus, it is also difficult for foreign hard liquors to threaten Moutai. At least, it can be proved that there is no effective new comers to form direct threat against Moutai.

Challenge of substitutes. At present, there are mainly beer, grape wine, yellow rice wine, and liquor in the Chinese alcoholic drink market. Among them, the first three can hardly substitute liquor. Because of age, stratum, and usage scenario, they have already differentiated so much that they can hardly substitute with each other.

Competition ability of current horizontal competitors. Presently, the competitive situation of liquor is clear, and the distinction of high-end, second high-end, middle class and common liquors are clear. Whether Wuliangye, Luzhou Laojiao or Langjiu, even though they have direct influence on Moutai, their level and position is stable in the industry.

In general, the business mode of Moutai is almost perfect from the analysis of Five Forces Competition Model.

However, is there really no risk of investing Moutai? From a short term, the conduct of executives is a challenge. Moutai is now a good ship, but we can see its captain changes frequently and its sailors have no right to speak. Maybe, the captains are not completely pursuing for economic benefit. Of course, the high valuation of Moutai is also a challenge.

For a long term, there maybe two risks in the operation of Moutai: on the one hand, the young people will consider more about health or change their taste after entering the middle age, which may cause a substantial decline in the demand of Moutai. On the other hand, the original Chinese society full of interpersonal communication is decaying to certain extent, making people's need of giving gifts to reduce. China is evolving from a society full of acquaintances to a society full of strangers, and shifting from an identity society to a contractual society. Under such background, the interpersonal relationship becomes more simple, commercial activities more contracting, and black case work less. It should be noted that these two risks could only be perceived after a long time.

4. Core Competence Analysis

Along with the rise of the middle class and consumption upgrade, the consumption structure of high-end liquor has changed, with personal consumption and business consumption taking the lead and liquor consumption concentrating on high-end and famous liquor, thus ushering in a good opportunity for the development of high-end liquor.^[5] Guizhou Moutai, as a high-end liquor leader, has become the industry benchmark and price leader. According to Moutai's base wine production announcement of a forward target of 56,000 tons, it is simply projected that Moutai's corresponding saleable finished wine production in 2024 may reach 46,000 tons, an increase of 40% compared to 2018, and it is expected that Moutai's future tonnage price increase will mainly come from three aspects: 1) there is still expectation of price increase, 2) the proportion of direct sales continues to increase, 3) Moutai will also add more high value-added non-standard products, and it is expected that by 2024, Moutai's revenue from products of Moutai and above is expected to reach RMB140 billion, with a compound annual growth rate of 15%.

Moutai's core competitiveness is reflected in three dimensions.

4.1 Product History

Moutai has a long history and its leading position has been gradually established. With its unique national wine culture, special brewing process and monopoly position in the industry of soy sauce type liquor, Moutai has become the leading high-end liquor in China due to its scarcity. Since 1952, Moutai's base wine production has increased by 49,596.69 tons and its price has increased by 75,700%, which driving Moutai's sustained high growth in volume and price. Since its listing, Moutai's revenue compound growth rate reached 25.53% and profit compound growth rate reached 31.89%.

4.2 Current Competitive Advantages

The competition pattern of high-end liquor is excellent. Since the beginning of the year, the volume

and price of the three leading brands in Mou Wu Lu have risen together, and the high boom continues. The boom cycle of liquor is lengthening, benefiting from the increase in income levels and the concentration of the industry's structural growth, high-end liquor continues to maintain revenue and profit growth rates beyond the industry, and the concentration of leaders continues to improve. The high-end liquor competition pattern is excellent, with an expansion trend, and the market share of leading Moutai revenue increased from 46.58% in 2012 to 64.17% in 2018. Since the beginning of 2019, the supply of Moutai is tight, and the batch price has increased from about RMB1,700 at the beginning of the year to more than RMB2,000, which benefiting from the high batch price of Moutai, the batch price of Wuliangye and Laojiao has continued to rise, and the boom cycle of high-end liquor has continued with a rise in volume and price.

4.3 Strategic competitiveness for the future

1) Moutai's success is the success of the strategic system, the seven systems forged Moutai's core competitiveness. 2) Product structure optimization: the company has a complete product line, the non-standard products above the Poufei has reached more than 30% of the volume, the price band layout is perfect, the future benefit from the affluent class accounted for the increase in the proportion of products above the Poufei is expected to further increase. 3) The old liquor market is in the ascendant, adding a new consumer group in Moutai. The maturity of the old wine market makes Moutai's consumption scene more refined and graduated, and Moutai's consumer base is even larger than in the past. 4) Due to the tight supply of Moutai and high growth in channel profits, price increases are still expected in the future. 5) The company will increase the construction of directly managed stores and increase the proportion of directly managed increases. Two-wheel drive strategy is taking shape, the future series of liquor will be another growth pole. At present, the company's two-wheel drive strategy is gradually taking shape, in Moutai liquor steady growth at the same time, the series of liquor products in the last two years under the company's strong support also began to develop rapidly. In 2017, the company's series of liquor to achieve sales of RMB6.5 billion, the target for 2018 was more than RMB8 billion, the actual achievement of about RMB8.8 billion. In 2018, there was no increase in liquor series, mainly due to the improvement of the product structure, and the non-standard proportion increased. In 2019, the company's series liquor products will sprint for the RMB10 billion sales target without increasing the volume. In the future, series liquor products will become an important growth pole for the company and an important supplement to the company in the sub-premium and mid-range price band.

5. Conclusion

In conclusion, the new business environment and complex operating conditions have made enterprises begin to re-examine their strategic planning. With the increasing uncertainties in the business environment, enterprises increasingly need to have the ability to adapt to the environment, and cost management is an important way for enterprises to gain a foothold in the competitive environment. It is not enough for enterprises to rely on traditional management models alone to maintain long-term competitiveness, because traditional management lacks foresight, and only by relying on proper strategic planning can enterprises cope with the uncertainties in the environment, the Only by proper strategic planning can companies cope with uncertainty, unpredictability of the future and uneven development in the environment. This study will help further enhance Guizhou Maotai's competitiveness in the changing business environment and improve its international position, as well as set a benchmark for other similar companies to gain strategic competitive advantage by optimizing their business management strategies.

References

- [1] Information on: <https://www.china-moutai.com/>
- [2] Information on: <https://www.china-moutai.com/maotaijituan/zjmt/jyyj/index.html>
- [3] Grundy T. Rethinking and reinventing Michael Porter's five forces model [J]. *Strategic change*, 2006, 15(5): 213-229.
- [4] He Huayue. Five forces model analysis based on key indicators [J]. *Accountant*, 2015(03):27-28.
- [5] Tan Hong. Building the core competitiveness of China's traditional liquor industry based on regional characteristics [J]. *Enterprise Economy*, 2010(09):93-96.