

Analysis on the investment value of high-end Baijiu stocks

Liu Bin

*School of Digital Economics, Dongguan City University, Dongguan, China
liubin@dgcu.edu.cn*

Abstract: *Baijiu is a Chinese alcoholic beverage made from grain, it is a strong distilled spirit, usually with a high alcohol content. With the improvement of domestic consumption level, consumers' requirements for Baijiu drinking are also getting higher and higher. The concept of "drink less, drink better" makes consumers begin to pay attention to the quality of Baijiu, and tend to choose high-end Baijiu. After thousands of years of Baijiu culture and years of consumer reputation, high-end Baijiu occupies a very favorable position in the fierce industry competition. Through the analysis of Porter five force model, high-end Baijiu enterprises are in a strong position. In the A-share market, high-end Baijiu stocks are stocks with good fundamentals, which are worth buying and holding within a reasonable valuation range for a long time.*

Keywords: *High-end Baijiu Stocks; Porter Five Force Model; Value Investment*

1. The commonality of Baijiu products

1.1 *The consumption of Baijiu products is addictive, and it is difficult to be replaced*

Baijiu has an obvious addiction, among the Chinese consumers, there are often many people drink to a certain extent after being unable to control themselves, drink more and more. In addition, due to the particularity of Baijiu, it is difficult to replace Baijiu, and the substitution of products is very limited. Baijiu industry is a sustainable industry. On the one hand, because the Baijiu has strong Chinese culture, traditional culture has been very popular, which makes the price of Baijiu hardly fall too much. On the other hand, because the Baijiu has obvious addiction, making it maintains a certain weight in the consumer market, also ensure the sustainability of the Baijiu industry.

1.2 *Baijiu has no shelf life, and there will be no inventory decline*

Baijiu products have no shelf life, and "Baijiu is the fragrance of old". No matter how long the storage, it will not deteriorate, the longer the storage time, the greater the value, so the storage of Baijiu will not appear the problem of inventory decline. The storage requirement of Baijiu is to keep at room temperature, to avoid the influence of moisture and sunlight, it is best to seal and avoid multiple opening, so as to preserve in the best state, to ensure that its value belongs to.

1.3 *Baijiu is a fast moving consumer goods, easy to upgrade and exercise the right to raise prices*

The quality upgrading of Baijiu can be achieved by constantly improving the quality of products, introducing new raw materials, and adopting modern technological process. For example, we can improve the blending ratio of old Baijiu, improve and perfect the brewing process, so that it can have a better taste. And some special raw materials can be added to innovate to meet the diversified needs of current consumers, so that the quality of Baijiu can be improved. In addition, the quality of Baijiu can also be improved by improving the packaging. Add exquisite appearance design to meet the consumers' requirements for appearance and quality. Therefore, through quality upgrading can effectively improve the quality of Baijiu, promote the product upgrading of enterprises and the disguised price increase, so as to improve the commercial profits of listed companies.^[1]

1.4 The upstream materials of Baijiu are all bulk commodities such as grain, and the cost is controllable

The upstream materials of Baijiu mainly use grain crops, such as wheat, sorghum, corn, etc., which are bulk commodities. Almost all countries and regions have strict regulations on shelf life limit, which makes the cost more controllable. For example, the price fluctuation of wheat will not be too violent, and the stability of the price can be greatly guaranteed. Baijiu industry also has the characteristics of high gross profit margin and high net profit margin. On the one hand, due to the unique taste and high price of Baijiu, the product itself has a certain premium. On the other hand, compared to other industries, the cost of Baijiu upstream material ratio relative Baijiu itself price is low, but also considering such as advertising, sales staff and management salary costs.

1.5 The Baijiu industry is often paid first and delivered later, with few accounts receivable and good cash flow

Baijiu is the mode of payment before delivery, so there is almost no accounts receivable of the enterprise, which will make the cash flow of the enterprise more secure and guaranteed. In addition, the transactions in the Baijiu industry are also relatively concentrated, so large orders can often be placed, which can save costs, improve cash liquidity, and provide more possibilities and opportunities for the development of enterprises. Moreover, due to the obvious seasonality of Baijiu sales, the sales will surge in a specific period of each year, so that the sales revenue and cash flow will greatly increase compared with the regular period of each year, thus bringing more profits to the enterprise. In addition, through in-depth analysis of the market situation, Baijiu enterprises can effectively control the procurement cost with effective procurement mode, regional procurement and other ways, so that the cash flow of enterprises is more smooth, they can grasp the market opportunities and risks more quickly, and achieve sustainable development of enterprises.

2. The personality of high-end Baijiu products

2.1 High-end Baijiu has collection value, can resist inflation, and has financial attributes

High-end baijiu is collectible because it has no shelf life and becomes more fragrant with age, its value will increase over time, and it is also very resistant to inflation. Even in the case of economic recession, the price of Baijiu can still remain stable. In addition, since the value of baijiu can continue to grow, it can be said that it has financial properties, and the owner can obtain more income from it. This characteristic also makes high-end Baijiu become a financial tool favored by investors, and it is often sought after by people who like to collect and invest in high-end Baijiu.

2.2 High-end Baijiu has strong social attributes and emotional value

The social attributes and emotional value of high-end Baijiu are its unique advantages, which can make up for the gap between guests in dining and social occasions, enabling them to establish emotional connections more quickly. In traditional culture, people drink Baijiu as a gift to comfort and reward it, such as weddings, parties, festivals and other important banquets. Baijiu is also a "scene food" that expresses people's emotions. The alcohol in Baijiu triggers activity in the scene, releasing a breath of unprecedented pleasure.

2.3 High-end Baijiu is mixed with old liquor and has requirements for cellar age and liquor age, with strong barriers to entry

High-end Baijiu is generally using the process of old liquor blending, with a high entry barrier, it requires that the deployment of old liquor must have a higher cellar age or liquor age, a relatively long aging period is also necessary, to ensure that its taste and aroma can be maintained to a certain extent. In addition, high-end Baijiu also requires deep conditioning, which requires that the added raw materials are relatively coordinated. In its brewing, different technologies such as multiple mixing and distillation of steam at low temperature are usually used to ensure the stability and excellent taste of the final product. ^[2]Therefore, high-end Baijiu has a strong barrier to entry.

2.4 High-end Baijiu enterprises can smooth performance by lowering inventory through distributors and society

High-end Baijiu can mainly restrain inventory through distributors and social pressure, so as to avoid big fluctuations in performance and smooth cyclical fluctuations, so as to ensure the stability of enterprise sales. Furthermore, the production cost and pricing of Baijiu can also be taken as measures to avoid unnecessary inventory overstock, so as to save the workload and cost of enterprises and improve the economic benefits of enterprises. In the economic downturn, high-end Baijiu enterprises can take credit sales, return guarantee, distribution guarantee, etc., to convey the stable supply willingness to distributors, reduce the inventory pressure. High-end Baijiu can timely reflect the market changes in the distribution channel, and grasp the market opportunities and risks with a flexible sales strategy.

2.5 High-end Baijiu brand has profound cultural heritage, long inheritance and high brand recognition

High-end Baijiu brands have a profound and lasting culture, which is one of the key factors that they can stand out in the industry. High-end Baijiu brands have always had a high reputation, and their products have won the recognition of the market, consumers and the media after years of development. It is the accumulated cultural heritage and the accumulated awareness of the brand that make it easier for it to reach a consensus on the price, grade, taste and other aspects, greatly reducing consumers' time and cognitive costs. The cultural heritage of high-end Baijiu brands usually includes the development history, purpose and achievements of the brand. It not only represents the development track of the brand, but also explains its contribution to consumers and the market, so that the brand can be recognized by more consumers and retailers. In addition, high-end Baijiu brands will also maintain their brand image by constantly launching innovative products, carefully designing packaging and advocating culture, in order to increase their market share.^[3]

3. Porter five forces analysis on high-end Baijiu industry

3.1 Threats of new entrants

High-end Baijiu industry has high requirements on production technology, in order to ensure the taste of Baijiu, the production of Baijiu has very strict requirements on water source and climate. Baijiu industry is not a large-scale mechanical production, under the restriction of production technical barriers, the Chinese Baijiu industry market has formed a pattern that Moutai, Wuliangye and other famous brand monopolize the high-grade Baijiu market for a long time. High-end Baijiu has a unique cultural heritage, and consumers generally have a high degree of recognition of Baijiu culture and high brand loyalty, so the Baijiu industry has brand barriers. The main high-end Baijiu such as Moutai and Wuliangye all have a long brewing history. Each Baijiu brand has a long growth cycle, so the likelihood of new entrants producing high-end Baijiu is very low. Although Baijiu can be made in many places in China, due to the special cultural factors in China, it needs long-term hard work to establish influence in the minds of consumers, and it is very difficult for new entrants to establish a reputation among consumers. After years of deep cultivation and operation, leading enterprises such as Kweichow Moutai and Wuliangye have occupied a high share in the high-end market of Chinese Baijiu, and they already have a relatively comprehensive distribution channel, while it is even more difficult for new entrants to spend a lot of manpower, material and financial resources to establish new distribution channels to seize the market. Therefore, for the high-end Baijiu industry, there are strong barriers to entry for potential entrants in terms of technology, environment and capital investment.^[4]

3.2 Bargaining power of suppliers

For the Baijiu industry, the main production costs include product packaging and grain purchase, so the suppliers of liquor industry are mainly product packaging manufacturers and grain suppliers. In China's Baijiu industry market, packaging production enterprises and grain suppliers are generally small and extremely dispersed, so for famous Baijiu enterprises, these suppliers' bargaining power is weak. For high-end Baijiu producers, their Baijiu products have high added value, and the ratio of cost to selling price and sales revenue is usually very low. In this case, the bargaining power of suppliers is even weaker. In general, high-end Baijiu enterprises have a strong advantage in bargaining with suppliers.

3.3 Customer's bargaining power

The bargaining power of customers reflects the process of distribution and sale of the firm's final products. For customers, they definitely want to obtain high-quality products at the lowest price and have the best performance-price ratio. Compared with enterprises, they want customers to buy products at a higher price. The bargaining power of customers is mainly affected by several aspects, mainly including the degree of mastery of product information, the size of enterprise business scale, the degree of differentiation of enterprise products and so on. Compared with the low-end Baijiu market, its production enterprises are widely distributed and produce a variety of products, which are also affected by beer, red wine and other substitutes. Meanwhile, the consumer group of low-end Baijiu has a higher price preference, so the bargaining power of consumers in China's low-end Baijiu market is relatively strong. However, for the high-end Baijiu market, because high-end Baijiu enterprises have mastered specific resource advantages, the high concentration of high-end Baijiu enterprise brand and market leads to the scarcity of high-end Baijiu resources, as well as the social attribute and emotional value of high-end Baijiu consumption, which determines that high-end Baijiu enterprises have greater control over the price. Therefore, for the high-end Baijiu market, the bargaining power of customers is weak.

3.4 Threat of substitutes

For the Baijiu industry, the competition of Baijiu substitutes is more intense especially in recent years. With the input of foreign imported wine and the continuous penetration of imported wine, Chinese residents' consumption of some foreign wine gradually increases. According to the order of importance, the main substitutes of high-end Baijiu are foreign liquor (imported highly distilled liquor), red wine and beer in turn. First, it is well known that high-end Baijiu has always been the main drink in all kinds of drinking parties, and there is a lot of government consumption. However, in 2013, due to the influence of relevant policies, the demand for government consumption dropped dramatically, and then the consumption of business Baijiu continued to rise and take a dominant position. ^[5]Business consumption has high requirements for the brand and quality of Baijiu. Second, in recent years, the publicity of red wine has been increasing. Chinese residents have gradually increased their understanding of red wine, and consumers' acceptance of red wine has also been increasing, and their popularity has also been gradually increasing. However, because red wine is difficult to fully meet the needs of Chinese business consumption, the substitution of Baijiu is not obvious. Third, due to its low price and low degree, beer is more commonly consumed in friends' dinner parties and ordinary dinner parties, but beer is more inclined to personal consumption and is rarely used in business and government banquets, and beer is not an obvious substitute for Baijiu. To sum up, although the threat of alternative Baijiu is not very strong at present, with the change of consumption awareness of the young generation, the threat of wine and other health concepts will gradually increase.

3.5 Industry Rivalry

At present, the competition in Chinese Baijiu market is fierce, according to the Baijiu flavor type is divided into Luzhou-flavor type, Moutai-flavor type, etc., different flavors have different brands, and at the same time, there are many Baijiu enterprises at different prices.^[6] The competition in Chinese Baijiu market mainly focuses on the competition between different grades of products and the competition between different brands. In China's high-end Baijiu market, Kweichow Moutai and Wuliangye occupy half of the country, forming an oligopoly situation. From the industry data of the latest few years, the output and demand of the entire Baijiu industry are declining, but the industry concentration is increasing, and the share of the industry's leading enterprises is improving. For the middle and low-end Baijiu market, the number of Chinese Baijiu enterprises is huge, and the competition is more intense. However, for high-end Baijiu, in addition to Kweichow Moutai, the competition among other Baijiu companies is still relatively orderly, and they will not fight a price war.

4. Conclusion

In general, China's Baijiu industry has passed the period of incremental development of gold and entered the period of stable development, and the competition is also relatively fierce. However, from the above analysis of the commonality and personality of high-end Baijiu, it can be seen that the fundamentals of high-end Baijiu stocks are unique, scarce and good, so high-end Baijiu stocks have long-term investment value. For example, in the whole A-share market, Kweichow Moutai and

Wuliangye are the two high-end Baijiu stocks with the highest proportion of institutional investors. And good stocks also have to wait for the right price, so if the valuation is reasonable, investors can consider buying and holding for a long time, which is also very in line with the concept of value investment.

References

- [1] Gao Tianhong, Yang Fei. *Analysis and research on financial characteristics and financial risks of listed liquor listed enterprises* [J]. *Journal of Fujian School of Business*, 2019(05):72-79. DOI: 10.19473/j.cnki.1008-4940.2019.05.011.
- [2] Zeng Shaolun, Wang Qiang. *Research on the quality evaluation and high-quality development path of listed liquor companies* [J]. *Journal of Sichuan Light and Chemical Engineering University (Social Science Edition)*, 2020, 35 (02): 18-32.
- [3] Zhu Huiping. *Brand value evaluation method and case analysis of liquor enterprises* [J]. *Science and Technology Bulletin*, 2017, 33(06):257-261.DOI:10.13774/j.cnki.kjtb. 2017.06.058.
- [4] Guo Xu, Zhou Shanrong. *Analysis of the competitive environment of Chinese Maotai-flavor liquor industry based on the "Five-force model"* [J]. *China Brewing*, 2019, 38 (06): 212-217.
- [5] Li Ying, Han Yue. *Analysis of the influence of the "Eight Provisions" on the financial performance of middle and high-grade liquor enterprises* [J]. *Friends of Accounting*, 2017 (10): 90-93.
- [6] Zhang Zhigang, Zhang Biao, Zhao Shumin. *Evolution and development trend of liquor flavor in China* [J]. *China Brewing*, 2018, 37 (02): 15-18