

# Analysis of the Development and Prospects of the Baijiu Industry

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**Abstract.** Baijiu is one of the important representatives of Chinese liquor culture. It plays an irreplaceable role in banquets and is often used as a gift in Chinese society. Baijiu production and the number of baijiu companies in the past ten years show that the market is saturated and shrinking. On the other hand, comparing the revenue and profits between listed baijiu companies and the entire industry, it can be found that the baijiu industry has obvious monopoly characteristics and structural prosperity. These two phenomena can be divided into political and economic reasons. Politically, the Chinese government promulgated restrictions on government spending and family planning policies, which directly reduced the consumption group of baijiu, leading to the shrinkage of the baijiu industry. Economically, China's rapid development has increased people's disposable income, and people began to care more about their health and pursue high-end baijiu, leading to a monopoly. To broaden the market, the baijiu industry can consider e-commerce channels and international expansion.

**Keywords:** Shrinkage; monopoly; e-commerce; international expansion.

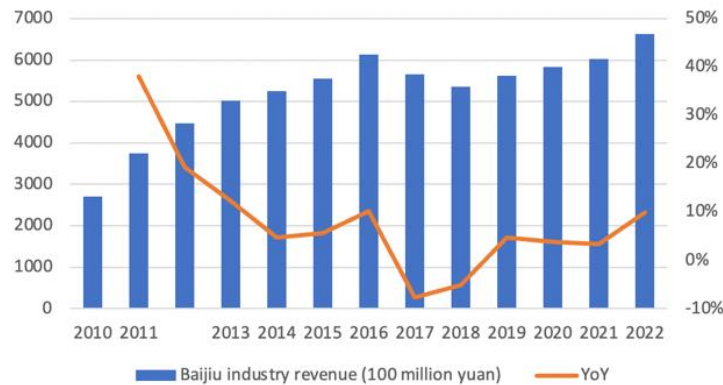
## 1. Introduction

Baijiu is one of the unique brewing cultures of Chinese tradition. With its profound historical background and unique brewing process, Chinese baijiu has always been popular. In recent years, with the rapid development of China's economy and the improvement of consumption levels, the baijiu market has entered a new stage of development. There are currently 20 listed companies in the baijiu industry, among which leading companies are Kweichow Moutai, Wuliangye, Yanghe, Shanxi FenJiu, and Luzhou Laojiao. In 2022, the revenue of a Kweichow Moutai company accounted for 18% of the entire baijiu market. The sales of the top five baijiu companies have already accounted for 47.7% of the market, almost forming a monopoly on the industry. And this trend of monopoly is becoming more noticeable. In 2022, Kweichow Moutai's revenue was 124.1 billion yuan, a year-on-year increase of 17%, and its profit was 62.7 billion yuan, a year-on-year increase of 20% [1]. On the contrary, the baijiu industry is shrinking, the annual production of baijiu is reduced, and small and medium-sized companies are withdrawing from the market. This investigation aims to confirm and analyze the reasons for this phenomenon and fully understand the current market conditions, consumption trends, and competition patterns. Through in-depth research and analysis, this study tries to reveal the key factors and provide valuable references and suggestions for enterprises and investors. In addition, this study will also analyze the development direction of the baijiu industry, explore potential new businesses, and put forward corresponding strategic recommendations.

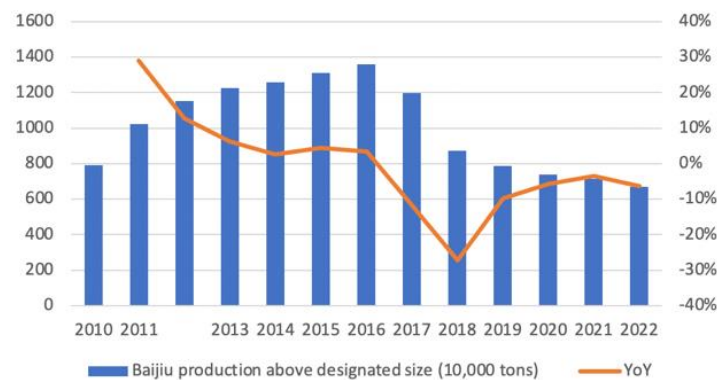
## 2. Overview of the Baijiu Industry in Recent Years

According to the revenue and profit of the baijiu industry from 2010 to 2022 in Fig. 1, it is found that the revenue growth of the baijiu industry is very slow and not optimistic, and it declined during 2016-2018. Although the revenue in 2022 surpassed the peak in 2016, inflation and rising baijiu prices have yet to be considered. According to Fig. 2 and Fig. 3, baijiu companies above the designated size are decreasing yearly, from a peak of 1,593 in 2017 to 963 in 2022. The data shows that 165 out of 963 entrepreneurs lost money, and the loss expanded from 13.47% at the end of 2021 to 17.05% in 2022 [2]. And since 2013, the annual growth rate of baijiu production has slowed, and the growth rate has been lower than 10% yearly. Since 2016, baijiu production has declined, and the growth rate has

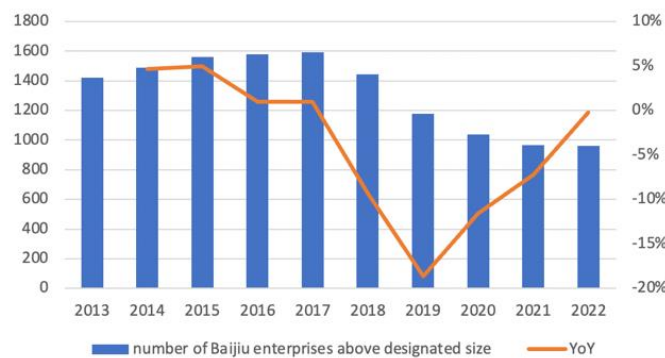
been negative, reflecting the lower consumer demand for baijiu. Overall, the baijiu industry has shrunk.



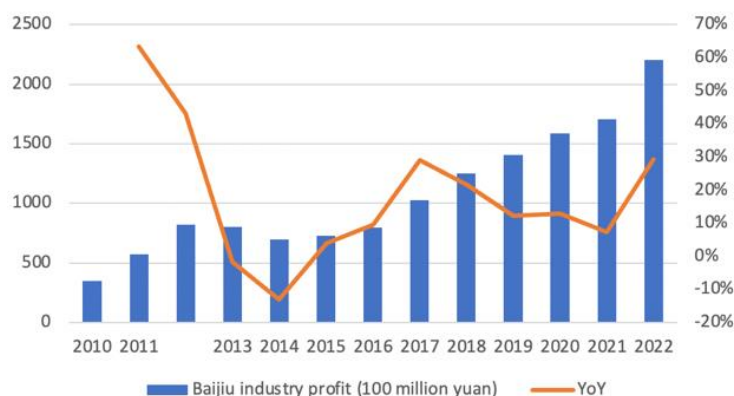
**Fig. 1** Revenue and profit of the Baijiu industry from 2010 to 2022



**Fig. 2** Baijiu production above designated size from 2010 to 2022



**Fig. 3** Number of Baijiu enterprises above designated size from 2010 to 2022



**Fig. 4** Profit trend of the Baijiu industry from 2010 to 2022

On the other hand, as Fig. 4 shows, the profit trend of the baijiu industry is different from the revenue trend, and it keeps increasing. Since 2014, profits have maintained a growth rate of more than 10% every year, with the highest growth rates reaching 30% in 2017 and 2022. According to Fig. 5 comparing the revenue and profits between the industry and listed baijiu companies, it can be found that the proportion of revenue and profits of listed companies is increasing year by year and exceed 50% of the industry by 2022. Although the volume of the baijiu industry is shrinking, large companies are still developing steadily, which shows that the baijiu industry is now polarized and gradually concentrating on the head. The Matthew effect is becoming obvious, and small and medium-sized enterprises are constantly squeezed out. The backward and outdated baijiu production capacity was eliminated. Overall, the monopoly characteristics of the baijiu industry are apparent.

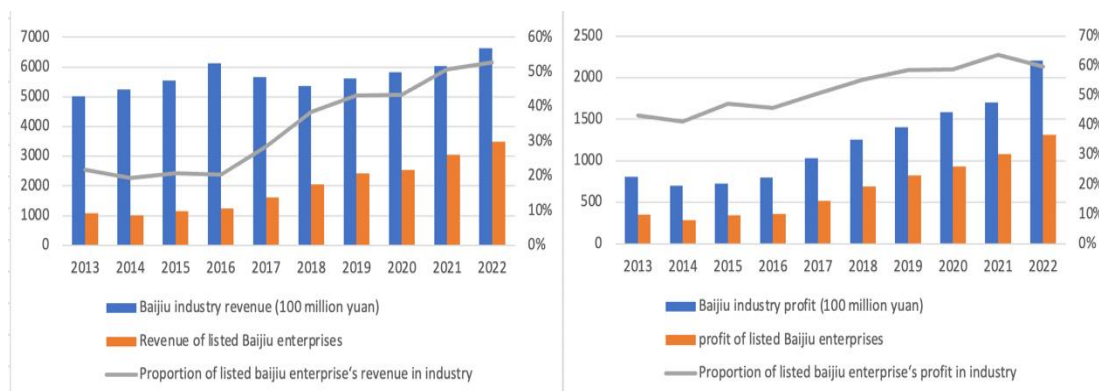


Fig. 5 Revenue and profits between the industry and listed baijiu companies

### 3. Reasons for the Shrinkage of the Baijiu Industry

#### 3.1. Policies Change

In 2013, the Chinese government introduced restrictions on three public expenditures, aiming to reduce the official reception expenses, official vehicle purchase, operation and maintenance expenses, and official travel expenses of government agencies, civil servants, and enterprises and institutions. In the past, the official reception of government agencies was one of the important sources of consumption in the baijiu market. However, with the implementation of the restrictions on public funds, the demand for government agencies to purchase baijiu has dropped significantly, causing the baijiu industry to be greatly impacted. In addition, government agencies, enterprises, and institutions often seemed to use high-end baijiu as a gift choice. However, the promulgation of the policy of restricting public funds has limited the possibility of civil servants accepting expensive baijiu, negatively impacting the baijiu gift market. On the second day after the policy was enacted, the baijiu plate fell across the board. Kweichow Moutai and Wuliangye fell sharply more than 6% [3]. Another example of policy instability is the outbreak of Covid-19 in 2019. To curb the spread of the epidemic, the Chinese government adopted measures such as blockade and travel restrictions, which directly led to restrictions on sales of baijiu. The three-year anti-epidemic policy has led to fewer gatherings between friends and less business occasions, which means that the demand for baijiu, a highly social alcohol, has also decreased. And due to the consideration of the health and safety of employees, some baijiu production companies have suspended or reduced production. At the same time, transportation and supply chains have also been disrupted, which lead to increased logistics costs and unstable product supply.

#### 3.2. Consumer Preferences Change and Population Decline

People aged 40 to 50 who were born around 1980 used to be the main consumers of baijiu [4]. However, they started to give up high-alcohol baijiu because of health problems caused by aging. According to the survey, young Chinese people are more inclined to beer, wine, and other low-alcohol

alcohol at parties, because they are more inclined to be slightly drunk or half drunk. More than 70 percent of people prefer 5% to 15% alcohol, of which 39.6 percent of young people prefer about 10% alcohol. Only 1.1 percent preferred a drink of 40% alcohol or above [5]. The high concentration of baijiu did not match their preferences. Some baijiu companies are trying to cater to the younger market. Since 2018, traditional baijiu companies have created at least 200 youth baijiu. Kweichow Moutai also launched its baijiu ice cream in 2022. Although the baijiu product is gradually becoming younger, it still cannot offset the third and more important factor, the decline of the Chinese population. China's shrinking population has resulted in a shortage of young people. There were three baby booms in China between 1950 and 1980, and the annual birth population reached more than 20 million. After family planning became China's national policy in 1982, the number of births per year plummeted. Although China ended its one-child policy in 2015, China's population is still experiencing negative growth, and the fertility rate continues to slump. By the end of 2022, China's population decreased by 850,000 compared with the end of the previous year, the first negative growth in 61 years [2]. This has led to China's rapid aging and the reduction of potential consumption in the future. It is almost impossible for new baijiu consumers to make up for the loss of old consumer groups. To sum up, the demand for baijiu is continuing to decline due to policy change, consumer preferences change, and population decline.

#### **4. Reasons for the Baijiu Industry Monopoly**

Among the five companies with the highest market value in the baijiu industry, Kweichow Moutai, Wuliangye, and Luzhou Laojiao mainly sell high-end baijiu, and Shanxi Fenjiu and Yanghe mainly sell sub-high-end baijiu. The main reason for the monopoly is that consumers began to pursue high-end and sub-high-end baijiu. In 2022, the revenue and profit of high-end baijiu reached 223.2 billion yuan and 99.8 billion yuan, respectively, with a year-on-year growth rate of 15.6% and 19.1%. The revenue and profit of sub-high-end baijiu were 77.1 billion yuan and 21.4 billion yuan, respectively, with year-on-year growth rates of 21.9% and 32.6%. Although there is also high growth in the middle and low end, most of their growth is very low or negative. 2020 Chinese Old Wine White Paper reported that the concept of Chinese baijiu consumption has gone through the process of having no chance to drink alcohol, alcohol available, drinking good alcohol, drinking famous alcohol, and then reaching the demands of the current stage of Drinking valuable alcohol [3]. This also explains why Kweichow Moutai and Wuliangye maintain their leading positions in the industry and have high profits. According to Red Star Capital Bureau statistics, the market share of high-end, sub-high-end, mid-end, and low-end baijiu in 2021 is 16%, 20%, 46%, and 18%. Their estimated market share in 2026 is 21%, 27%, 41%, and 11%, respectively [4]. The demand for low-end baijiu is declining, and it is being replaced by high-end and sub-high-end baijiu.

##### **4.1. Increasing Disposable Income and Consumption**

In the first quarter of 2023, Chinese residents' per capita disposable income was 10,870 yuan, an increase of 5.1% year-on-year and an actual growth of 3.8% after deducting price factors. The per capita consumption expenditure was 6,738 yuan, a year-on-year increase of 5.4% and an actual increase of 4.0% [6]. High-end and sub-high-end baijiu are getting popular with the rise in consumers' disposable income and consumption. High-grade baijiu is often used for celebrating festivals, family gatherings, business banquets, and other occasions. The higher consumer spending means more social events and celebrations, increasing the demand for high-end baijiu on these occasions. Not only that, the development of the economy has also made people's demand for tourism higher. The integration of liquor and tourism is a trend. Liquor culture can enhance attractiveness by presenting its culture in physical form, tourism products, or tourism services [7]. Some tourists will buy high-end baijiu as souvenirs or gifts to take home during their travels. Tourism consumption and gift purchase have become essential growth points of high-end baijiu sales. At the same time, many people have the hobby of collecting high-end baijiu. For example, they like to collect Moutai of different years.

Because they feel it shows off their wealth and status. When consumers have higher incomes, they are also more willing to spend more money on this hobby. To sum up, improving China's economy and consumption level provides a good development opportunity for high-end baijiu.

#### **4.2. Pursue High-quality and Health**

Life is improving, and consumers are paying more attention to quality and health. High-end baijiu usually has high quality and unique taste, which can meet the needs of consumers seeking high quality and experience. The upgrading of consumer taste has made high-end baijiu a more favored choice. Kweichow Moutai is a representative of high-quality sauce-aroma baijiu. The brewing process makes its unique flavor. N-Propanol is the main component of the high total alcohol content, and its volatility intensifies the aroma and entrains other aroma components. Rich aroma, thick taste, and enduring aftertaste make Kweichow Moutai one of the most popular high-end wines [8]. Also, the Internet is developed, and under the high-speed information exchange, more people are aware of some low-end alcohol, such as mixed baijiu, harm to the human body. Therefore, high-end baijiu is sought after. Studies have found that, compared with ordinary alcohol, long-term moderate drinking of high-quality baijiu can enhance antioxidant capacity and protect the body. Because some ingredients in high-quality baijiu, such as acetic acid and lactic acid, have healthcare effects [9]. The pursuit of health further intensifies the differentiation of the industry and squeezes the living space of small and medium-sized enterprises that produce low-end baijiu. The baijiu industry is becoming more qualitative; people's concept is to drink less but drink well.

### **5. Future Trend**

In the case that the existing baijiu market is saturated, companies need to compete for new channels. Digital transformation and e-commerce channels are a new direction of development. Through digital transformation, baijiu companies can improve production efficiency, improve supply chain management. At the same time, they can develop e-commerce channels, expand online sales channels, and interact directly with more consumers. The 2022 White Paper on Digital Marketing of the baijiu Industry reported that in the first half of 2022, the number of wine anchors in China's Douyin increased by 209% year-on-year, and the live broadcast time increased by 242% year-on-year [4]. The current wine industry is booming in e-commerce channels and occupying online channels may be essential.

Global development is another direction of the baijiu market. Chinese baijiu is less popular globally than other alcohols. The main reason is that the alcohol concentration of Chinese baijiu is too high, which is usually difficult for people from different countries to accept. The current international mainstream alcohol, such as whiskey and Brando, generally have an alcohol concentration of around 40% vol [10]. At the same time, some developed countries have also made strict regulations on the alcohol concentration of imported wine. Japan requires the alcohol concentration of imported liquor to be below 35% vol; the United States has a similar requirement but not exceed 50% vol; Germany stipulates that the alcohol concentration of imported alcohol must not exceed 55% vol. Otherwise, no matter how good the quality is, it will not be allowed to be sold [10]. Therefore, if Chinese baijiu wants to go abroad and be accepted by consumers worldwide, companies must start producing low-alcohol baijiu. Some other successful, related cases can be seen in the international market. For example, the alcohol concentration of Korean soju Jinro is only about 20% vol, but it is one of the most popular liquors in the world [10]. Therefore, promoting baijiu to the world is acceptable, and baijiu companies need to think about how to successfully occupy a more prominent international market.

## 6. Conclusion

This study found that the shrinking of the baijiu industry but the increase in the concentration of the industry led to a slowdown in the revenue of the baijiu industry but an increase in profits. The industry's shrinkage is due to the reduction in demand for baijiu caused by policy changes, changes in consumer preferences, and population decline. The monopoly is because the main products of the leading baijiu industry are high-end and sub-high-end baijiu, which are sought after because consumers have increased disposable income and pay more attention to their health and the taste of baijiu. Companies must find new markets and opportunities in the case that the baijiu market is saturated. In the new era of Douyin and live streaming, e-commerce is a new channel that baijiu companies need to occupy. In another aspect, the baijiu industry can produce low-alcohol baijiu to cater to foreign markets.

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