

The Comparative Analysis of Maotai Profitability

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Abstract. Maotai is a well-known liquor brand in China, and its profitability has been the focus of market attention. However, there are few in-depth studies and analyses on Maotai's profitability. This paper focuses on Maotai's profitability from financial indicators, operating performance, and market environment. Maotai, as a leading enterprise in China's liquor industry, has always been at a high level of profitability, and analyzing the profitability of Maotai's liquor industry can play a demonstration role and drive the development of China's liquor industry. At the same time, it provides solutions to the existing problems of the Maotai liquor industry and provides specific reference for the future development of the Maotai liquor industry. As well as the development of the domestic economy and the expanding influence of the Maotai brand, the profitability of Maotai will be further improved.

Keywords: Profitability, financial indicators, liquor industry.

1. Introduction

After the "Jiangxiang Latte" became a hit on the Internet, another new product of "Maotai+" - a wine-centered chocolate in collaboration with Dove - was launched. Maotai's diversified crossover is not just a simple brand connection but a step towards the ecological goal of in-depth integration. Maotai's decision will promote the development of multi-industry integration of wine tourism and recreation industry, contributing to the development of wine tourism integration for Maotai's high-quality development and modernization [1]. At the same time, high-end liquor and beer market competition is also increasingly fierce. As one of China's most recognizable liquor brands, its profitability greatly concerns the market and investors. However, although Maotai's profitability is recognized in the industry, its influencing factors and internal mechanisms still need to be studied in depth. The importance of profitability is indisputable, will have a direct and essential impact on the survival and development of enterprises, is the core business objective, but also the most natural and objective embodiment of business performance. For listed companies, only with solid profitability can they better attract investors' attention and obtain financial support, thus promoting their healthy development [2]. This study adopts the literature review method, comparative analysis method, case study method, and a combination of qualitative and quantitative methods: A detailed understanding and description of the company's basic situation, industry background, and market environment are provided. The profitability of Maotai is analyzed in depth using the financial indicator analysis method. The income statement method and cash flow statement method are applied to analyze Maotai's operating performance. The profitability of Maotai is comprehensively assessed in light of the market environment and competitive landscape. By collecting and analyzing historical data, it can gain an in-depth understanding of Maotai's profitability and the various factors that affect its profitability. Through an in-depth study of Maotai's profitability, it can provide valuable references and forecasts for Maotai's future development and hope to provide some reference for the improvement of the profitability of the whole Maotai and even the liquor industry.

2. Basic Information of Maotai

Guizhou Maotai Company Limited was established in 1999. It is a joint-stock company initiated by eight companies, including Kweichow Maotai Winery Limited Liability Company and Kweichow Maotai Winery Technology Development Company, and approved by Guizhou Provincial People's Government under the document No. 291 of Guizhou Government Huanzhi in 1999, with a registered

capital of 185 million yuan, and was listed in 2001 on the Stock Exchange of China (SSE). Over the years, Maotai has become one of the world's three most famous wines, creating a unique product development model in China. It has formed three series of more than 200 specifications of "low degree," "high, medium, low grade," and "superb" varieties, which are all-rounded in the market, thus occupying the high point of the liquor market and becoming the leading brand of the liquor industry in China—the leading brand in the liquor industry in China [3].

3. Analysis of Maotai's Profitability

3.1. Maotai's Profitability Analysis in the Last Five Years

Table 1. Financial Indicators of Profitability of Kweichow Maotai over the Years

	2022	2021	2020	2019	2018
Revenues	127553.96	109464.28	97993.24	88854.34	77199.38(MM)
Operating Profit Margin	67.77%	67.39%	67.83%	66.48%	66.50%
Net Profit Margin	49.17%	47.92%	47.65%	46.38%	45.60%
ROE	32.41%	29.90%	31.41%	33.09%	34.43%
ROA	24.62%	22.37%	23.53%	24.01%	23.89%
Free Cash Flow	31392.05	60619.89	49579.30	42061.75	39778.48(MM)
Gross Profit Margin	92%	91.63%	91.57%	91.47%	91.37%

As can be seen from Table 1, from 771,938 million yuan in 2018 to 127,553,396 million yuan in 2022, Guizhou Maotai's operating income has increased by about 65%, with a compound annual growth rate of 13.3%, demonstrating a solid growth trend. Operating income is the revenue generated from the company's main business, which is an essential indicator of the company's scale of operation and market share.

The operating margin reflects the profitability of the company's main business, and the higher its value, the stronger the profitability of the company's main business. From 2018 to 2022, Guizhou Maotai's operating margin increased from 66.48% to 67.77%, showing a slight upward trend overall. This means that for every 100 yuan of operating income the company earns, about 67 yuan or more drives profit, which shows the company's paramount business profitability is firm. Guizhou Maotai Company's sales profit has always been relatively stable, with good operation. Guizhou Company's sales are in the upper-middle level of the whole industry, mainly because Guizhou Maotai Company avoids enormous amounts of accounts receivable, which makes the accounts receivable account for a tiny percentage of the total profits accounted for a tiny share, which resulted in a high sales margin. Net profit margin reflects the profitability level of all the company's activities (including principal and non-main business), and the higher its value, the stronger the company's overall profitability [4]. Meanwhile, Guizhou Maotai's net profit margin has been increasing yearly, indicating that the proportion of net profit to total revenue is rising, showing that company's overall profitability is improving. This comes from the strong profitability of the leading business, effective tax planning, good investment returns, or effective management of non-main companies.

The data provided shows that Guizhou Maotai's ROE fluctuates between 2018 and 2022 but generally shows a downward trend, from 34.43% in 2018 to 32.41% in 2022. Nevertheless, the value is still relatively high, indicating Guizhou Maotai's strong profitability and efficient capital operation. The higher the ROE, the more efficiently the company utilizes its shareholders' equity and the more profitable it is. A higher ROE means that the company's management is excellently utilizing shareholders' capital and can generate more profit. Guizhou Maotai's ROE may have declined because the company expanded its investments and expenditures, which led to an increase in shareholders' equity, thus lowering the ROE. Alternatively, the company's net profit growth did not keep pace with the change in shareholders' equity, which could also have led to a decline in the ROE. Although Guizhou Maotai's ROE has declined, it is still high in absolute terms, showing good profitability and capital operation efficiency.

Return on Assets reflects the profit generated per unit of assets; therefore, a higher ROA indicates that the company is more efficient in utilizing its assets. From the data provided, it can be seen that Guizhou Maotai's ROA has mainly remained stable. This means Guizhou Maotai's efficiency in utilizing its assets to generate profits remains unchanged. Maintaining a stable ROA is a positive sign because it means the company can manage its assets efficiently and generate profits. In the case of Guizhou Maotai, a stable ROA may indicate consistency and predictability in managing its assets and making a profit. Meanwhile, Guizhou Maotai's total profit is rising, and the company's overall profitability is increasing.

Free cash flow measures a company's cash flows from operating activities, less capital expenditures necessary to maintain or expand its asset base. It reflects the company's remaining cash available for distribution to investors (including creditors and shareholders). Free cash flow is a crucial indicator for assessing a company's financial health, paying down debt, paying dividends, buying back stock, or investing in expansion [5]. From the data provided, it can be seen that Guizhou Maotai's free cash flow shows an overall upward trend. An increase in free cash flow usually reflects either enhanced cash flow from operating activities or more reasonable control of capital expenditures, which reflects an improvement in the company's operating conditions. Specifically, a company's enhanced cash flow from operating activities may be due to increased sales revenues or improved operating efficiency. At the same time, controlled capital expenditures may be due to the company's more prudent investment decisions. In the case of Guizhou Maotai, the increase in its free cash flow may reflect the company's improved profitability and effective control of capital expenditures. This indicates that the company is doing well and has sufficient cash flow to meet its operational needs and provide good returns to its investors.

From the data provided, it can be seen that Guizhou Maotai's gross profit margin has shown a steady upward trend overall between 2018 and 2022, rising from 91.51% to 93.12%. The increase in gross profit margin means the company has done a better job controlling direct production costs. Meanwhile, Guizhou Maotai has a famous brand, excellent quality, focuses on building brand awareness and advocacy and enjoys a good reputation at home and abroad. Maotai adopts the marketing strategy of starvation to control the market supply and demand, which makes the product more advantageous to be sold at a higher price [6]. The increase in Guizhou Maotai's gross profit margin is due to the increase in its price and the reduction in production costs. Guizhou Maotai's ability to consistently increase its gross profit margin indicates the company has substantial market pricing power. However, the productivity of its products has mostly stayed the same in recent years, but the demand for its products is increasing.

3.2. Comparative Analysis of Maotai with Wuliangye and Tsingtao Beer

Table 2. Comparison of Profitability Figures of Three Companies

	Maotai	Wuliangye	Tsingtao Beer
Revenues	127553.96	73968.64	32171.57(MM)
Operating Profit Margin	67.77%	47.43%	13.27%
Net Profit Margin	49.17%	36.08%	11.53%
ROE	32.41%	25.05%	15.30%
ROA	24.62%	18.51%	7.66%
Free Cash Flow	31392.05	22650.60	3098.63(MM)
Gross Profit Margin	92%	75.42%	36.85%

As can be seen from Table 2, it can be found that Maotai is higher than the other two companies. The increased revenue indicates its sales scale and market share are more significant than the other two. Secondly, Guizhou Maotai also has the highest gross profit margin, which indicates that Guizhou Maotai's product pricing strategy and cost control are very effective, and it can make higher profits on each unit of product sold. Meanwhile, Guizhou Maotai's operating and net profit margins are much higher than the other two companies. This means Guizhou Maotai can retain a higher profit after

deducting operating costs and other expenses, showing its strong profitability and reasonable cost control. The high ROE and ROA indicate that Guizhou Maotai's capital utilization is both efficient and profitable. Finally, Guizhou Maotai has the most significant free cash flow, suggesting that it has more cash available for debt repayment, dividend payment, share repurchase, or investment. This reflects the company's good cash flow management and healthy financial position.

4. The Factors Affecting Profitability

4.1. Market Share

Market share is the ratio of a company's sales or sales of a particular product to those of the same product type over time. Market share is one of the most essential concerns of a company and indicates whether the company can maintain a relatively stable market share over that period [7]. The higher the market share, the greater the company's competitive advantage. For a brand like Maotai, market share has a direct impact on its profitability. Companies with a significant market share usually have greater pricing power. Maotai, as the leading company in China's liquor market, has a high market share, which gives it greater control over the pricing of its products, which in turn affects its profitability. The higher the market share, the larger the scale of Maotai's production and sales, and the more economies of scale it can enjoy, such as discounts on bulk purchases of raw materials and improved production efficiency, all of which help to reduce costs and increase profits. Companies with a high market share usually have a more vital ability to resist risks. In the face of changing market conditions or economic downturns, Maotai can rely on its substantial market share and brand influence to better cope with risks and maintain stable profitability.

4.2. Cost Control

Cost control is one of the critical operational strategies of any business, and it has a direct and significant impact on profitability [8]. For Maotai, cost control is also significant. Kweichow Maotai has carried out strict checks from the purchasing process until the final sale of quality products and has set up many evaluation systems to motivate its employees to perform. Because of the interconnection and influence of each link, the quality management of the enterprise is effective in reducing the cost of the enterprise in the long run. At the same time, the financial department of the enterprise will, according to the performance of the staff, organize their lack of participation in cost management and increase the cost of the enterprise as a case of failure to enhance their sense of crisis and warn other employees, so that the staff consciously participate in cost management, and make concerted efforts to reduce the cost of the enterprise to contribute. Finally, Maotai will do its best to achieve the optimal allocation of resources to avoid causing a waste of resources and reduce enterprise costs [9].

4.3. Investment Strategy

Maotai focuses on maintaining a good cash flow position in its investment strategy. Maotai ensures effective utilization of funds through active management of funds. They focus on increasing the proportion of their funds and reducing the amount of borrowing, which reduces the cost of capital and increases profitability. Secondly, a company's sales strategy directly determines its profitability. For liquor enterprises, operating profit occupies the majority of total profit, and operating profit mainly comes from the sale of liquor [10]. Maotai focuses on market expansion and product innovation. Maotai not only operates stably in the domestic market but also actively expands its overseas market to increase the company's sales and market share continuously. Maotai has a long-term vision for investment decisions. They fully consider market prospects, risk-return ratios, and other factors when choosing investment projects, focusing on long-term returns. Maotai insists on investing within its strength and adjusts its investment portfolio promptly according to market changes to maintain the stability of investment returns. Finally, Maotai realizes resource sharing and

mutual benefits by establishing strategic partnerships with well-known enterprises, such as Luckin Coffee, and jointly carrying out joint marketing activities.

5. Conclusion

In conclusion, this paper analyzes Maotai's financial management strategy regarding financial operations, cost management, and investment. It is clear that Maotai's financial management strategies play an essential role in its business success, and it is predicted that Maotai will continue to maintain strong profitability in the future. However, there are some limitations of this study that need to be addressed by future scholars. First, the study used a qualitative approach to describe and analyze Maotai's financial management strategies. Future research could use quantitative methods to provide a more precise and detailed analysis. For example, researchers could use financial ratios or other statistical methods to measure the effectiveness of Maotai's financial management strategies. Second, the study focused on Maotai's current financial management strategies without considering their historical evolution. Future research could delve deeper into how Maotai's financial management strategies have evolved and what factors have influenced this process. Third, the study is based on secondary sources. Future scholars could conduct first-hand research, such as interviews with Maotai's financial managers, to obtain first-hand information and gain a deeper understanding of Maotai's financial management practices. In terms of research direction, future scholars can study the impact of external factors, such as economic conditions and government policies, on Maotai's financial management strategies. They could also explore how Maotai's financial management strategies affect other aspects of its business, such as marketing and human resource management. In addition, future research could explore how Maotai's financial management strategy contributes to sustainable development, an increasingly important issue in the business world.

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