

The A Study on the Changes in Financial Performance of Shanxi Xinghuacun Fen Wine After Digital Transformation

Yuting Ye *, Xuefei Guo

Sichuan University of Science & Engineering, Zigong Sichuan, 643002, China

* Corresponding author: Yuting Ye (Email: 731772890@qq.com)

Abstract: With the continuous development of internet technology, various industries are actively engaging in digital transformation to enhance their competitiveness. Many traditional liquor industries in China are also undergoing digital construction to optimize and adjust their management models and business structures. Taking Shanxi Xinghuacun Fen Wine as an example, this paper studies the changes in financial performance after digital transformation through financial indicators, aiming to make enterprises recognize the impact of digital transformation on their financial performance and continuously improve their digital transformation efforts.

Keywords: Digital Transformation; Financial Indicators; Financial Performance.

1. Introduction

Digital transformation has become a hot research topic among scholars. It is worth studying how outstanding enterprises leverage digital transformation to positively impact their financial performance. Shanxi Xinghuacun Fen Wine, a leader in China's liquor industry, swiftly adjusted after experiencing a decade of prosperity in the liquor sector and embarked on a digital transformation journey in 2017, achieving remarkable results. Therefore, analyzing the impact of Shanxi Xinghuacun Fen Wine's digital transformation on its financial performance serves as a demonstrative case.

2. Concepts Related to Digital Transformation and Financial Performance Analysis

2.1. Concepts Related to Digital Transformation

Digital transformation refers to the systematic and holistic transformation undertaken by enterprises or organizations in the context of the global digital revolution, in order to adapt to the demands of survival, development, and market evolution in the digital economy. Its main content encompasses three levels: conversion, integration, and reconstruction. Conversion involves utilizing new-generation information and communication technologies to collect real-time data on various aspects of an enterprise's business operations, production, and management in the physical world, converting all business activities into data, information, and knowledge that computers can read, store, and compute. Integration refers to the incorporation of digital technologies into products, services, and processes, thereby changing the business outcomes for customers as well as the delivery methods of commercial and public services. Reconstruction, based on the first two levels, involves innovating and reshaping traditional management, business, and commercial models to achieve business success, growth, and development for the enterprise.

2.2. Concept of Financial Performance

Financial performance of an enterprise is a benchmark for measuring the contribution and effectiveness of the finance department in achieving the enterprise's strategic goals during regular operational activities. It constitutes a key component of the enterprise's financial management system and comprehensively reflects the actual performance of the enterprise in terms of cost control efficiency, asset operation and management, fund raising and allocation, as well as return on equity. The financial performance of an enterprise is mainly manifested through the following aspects:

Profitability: This primarily examines the enterprise's economic value added (EVA) and sales growth rate. EVA reflects the enterprise's net income from capital and capital appreciation, while sales growth rate measures the enterprise's growth potential.

Operating capability: This indicator reflects the efficiency level of an enterprise's asset management, with core evaluation parameters including inventory turnover rate, accounts receivable turnover rate, and fixed asset turnover rate. These indicators provide insights into the effective utilization of the enterprise's assets.

Solvency: This indicator serves as a benchmark for measuring an enterprise's economic strength and financial condition, as well as an important basis for assessing its operational stability. Key evaluation indicators include debt-to-asset ratio, current ratio, and quick ratio, which collectively reflect the enterprise's debt-bearing capacity and short-term solvency.

Development capability: This refers to the ability of an enterprise to withstand adverse effects when facing various uncertainties in the business process. Assessing this capability involves considering both operational risk and financial risk, measuring the enterprise's adaptability and resilience in uncertain environments.

The research and analysis of an enterprise's financial performance help it gain a deeper understanding of its financial situation, identify potential issues, and formulate corresponding improvement strategies. By optimizing

financial performance, enterprises can enhance their competitiveness and market position, achieving long-term stable development.

3. Analysis of Digital Transformation of Shanxi Xinghuacun Fen Wine

3.1. Overview and Development History of Shanxi Xinghuacun Fen Wine

Shanxi Xinghuacun Fen Wine Group, a company with profound history and rich cultural heritage, is located in Xinghuacun, Fenyang City, Shanxi Province, the birthplace of Chinese wine culture. The group specializes in brewing the famous Chinese liquors Fen Wine and Zhuyeqing Wine, and its business scope also covers tourism, trade, catering, and other fields. It is a large first-class enterprise certified by the state. In 2017, Shanxi ushered in a year of reform, and as one of the two core reform enterprises, Fen Wine Group received seven policy supports from the Shanxi State-owned Assets Supervision and Administration Commission, which greatly expanded the enterprise's autonomy. At the same time, Fen Wine Group embarked on a comprehensive and in-depth path of digital transformation.

In the early stages of digital transformation, Fen Wine Group began cooperating with the international giant IBM. From September 2017 to March 2018, Fen Wine Group and IBM successfully deployed the SAP S/4HANA platform. Fen Wine, together with Huawei Cloud, took the lead in completing the construction of a big data platform and data management system, establishing a comprehensive group data service platform, a unified data management system, and an indicator management system. The establishment of a digital ecosystem has led to the rapid rise of online consumption and is also reshaping the relationship between enterprises and consumers, making production methods more flexible, organizational management more agile, and service methods more integrated.

In 2021, the digital construction of Fen Wine entered an accelerated stage. With the continuous expansion of Fen Wine's sales scale, the growing number of dealers, and the new challenge of managing over one million terminals, Fen Wine Group successively signed strategic cooperation agreements with China Resources and Huawei Technologies Co., Ltd., aiming to conduct deep cooperation in the fields of informatization, digitalization, and intelligence. This further promoted the digital transformation of Fen Wine and injected strong impetus into the high-quality development of the enterprise.

Currently, Fen Wine has successfully paved a dedicated path of digital development. By building a channel management business platform, it has achieved convenient and efficient processing of marketing orders, precise and reasonable allocation of logistics and distribution, and effective statistics and analysis of marketing data. At the same time, Fen Wine has also established a procurement collaboration platform to ensure full-process tracking of purchase orders. In addition, Fen Wine has completed the promotion and use of a full-process ERP system and constructed a new production, supply, and sales planning management mode. These initiatives have led to the deep integration of the internet and the Fen Wine industry, demonstrating Fen Wine's outstanding achievements in digital transformation.

3.2. Motivations for Digital Transformation of Shanxi Xinghuacun Fen Wine

3.2.1. Meeting Internal Development Needs and Enhancing Product Quality

After the "Golden Decade" of the baijiu industry ended, Shanxi Xinghuacun Fen Wine actively diversified its product matrix and refined its product lines, achieving comprehensive coverage across various price points. Starting in 2016, the company adhered to a product strategy of "focusing on both ends and driving the middle," which was adjusted in 2021 to emphasize equal importance on mid-range products. During these five years, the Panama Gold Medal series and the Old Bai Fen series, positioned in the mid-to-high price range, failed to replicate the success of the Qing Hua series and underperformed in the market. Therefore, to secure a place in the industry during this new phase, Shanxi Xinghuacun Fen Wine must focus on product quality, rather than just the diversity of its product matrix. By keeping pace with the times, introducing digital technology, achieving digital production, strictly controlling the entire production and operation process, and improving production techniques, the company can enhance product quality while reducing costs and increasing efficiency, thereby producing high-quality and popular liquors.

3.2.2. Eliminating Fake Liquor Chaos and Maintaining Brand Reputation

In 1998, a fake liquor incident in Shanxi sparked nationwide panic regarding Shanxi baijiu. Although this incident was unrelated to Shanxi Xinghuacun Fen Wine Company, the perpetrators of the toxic liquor scandal labeled their products with the origin "Xinghuacun," implicating Fen Wine. According to contingency theory, when facing unfavorable changes in the external environment, enterprises should focus more on their own situations and formulate adaptive solutions, rather than following "dogma." Therefore, to rectify the chaos of "developed liquors" and prevent the recurrence of fake liquor incidents, Shanxi Xinghuacun Fen Wine has strictly controlled its development liquor channels and rigorously reviewed sales qualifications in recent years. To completely eliminate the chaos of fake liquors and maintain brand reputation, Shanxi Xinghuacun Fen Wine must ensure product quality from the source. This requires the integration of digital technology into marketing channels to create a reliable product traceability system.

4. Financial Performance Analysis of Shanxi Xinghuacun Fen Wine

To reflect the changes in the financial performance of Shanxi Xinghuacun Fen Wine before and after its digital transformation, and to analyze whether the transformation has improved the company's financial performance, this paper employs financial indicator analysis. Financial indicators from the years 2015 to 2023 are selected to evaluate the company's solvency, operating efficiency, profitability, and growth capacity.

4.1. Solvency Analysis

Solvency analysis is an important method for understanding a company's financial situation, revealing financial risks, and predicting fundraising prospects. In this paper, solvency is analyzed by examining indicators such as the current ratio and the debt-to-asset ratio.

Table 1. Solvency Indicators of Shanxi Xinghuacun Fen Wine Compared to Industry Averages

Year		Before Transformation		During Transformation		After Transformation				
		2015	2016	2017	2018	2019	2020	2021	2022	2023
Current Ratio (Times)	Shanxi Fen Wine	1.93	1.86	1.74	1.70	1.51	1.64	1.77	1.97	2.28
	Industry Average	2.9	2.53	2.72	2.82	2.85	3.11	2.88	3.14	3.44
Debt-to-Asset Ratio (%)	Shanxi Fen Wine	32.97	34.78	40.28	45.21	52.55	49.11	47.97	40.73	35.88
	Industry Average	27.30	31.56	30.11	29.94	29.89	27.57	29.69	27.33	25.14

Source: Choice Financial Terminal

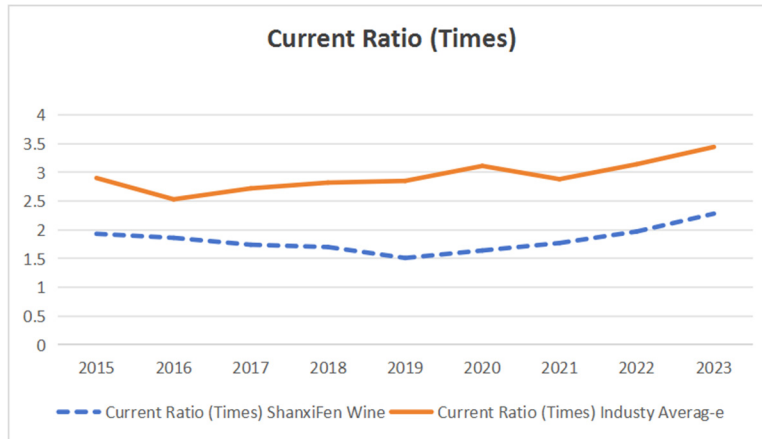


Figure 1. Line Chart of Shanxi Xinghuacun Fen Wine’s Current Ratio and Industry Average Change

The current ratio is used to measure a company's ability to convert its current assets into cash to repay short-term liabilities before they become due. As shown in Figure 1, Shanxi Xinghuacun Fen Wine's current ratio has been between 1 and 2 from 2015 to 2022, indicating that the company's current assets exceed its current liabilities. This means that the company has short-term solvency, i.e., it has sufficient current assets to meet short-term debt repayment needs. Specifically, Shanxi Xinghuacun Fen Wine's current ratio declined continuously from 2015 to 2019. This was particularly evident after 2017 when the company borrowed heavily to fund its digital transformation and the construction

of a large ERP system. Fortunately, as digital transformation matured from 2019 to 2023, the current ratio showed an upward trend. Overall, Shanxi Xinghuacun Fen Wine has strong short-term solvency. However, from 2015 to 2023, the company's current ratio has been consistently lower than the industry average, with a noticeable gap. This gap widened significantly during the early stages of digital transformation but gradually narrowed after 2019 as the transformation matured. Meanwhile, the entire liquor industry generally has high liquidity. Therefore, while pursuing digital transformation, Shanxi Xinghuacun Fen Wine must appropriately manage its debt to prevent risks.

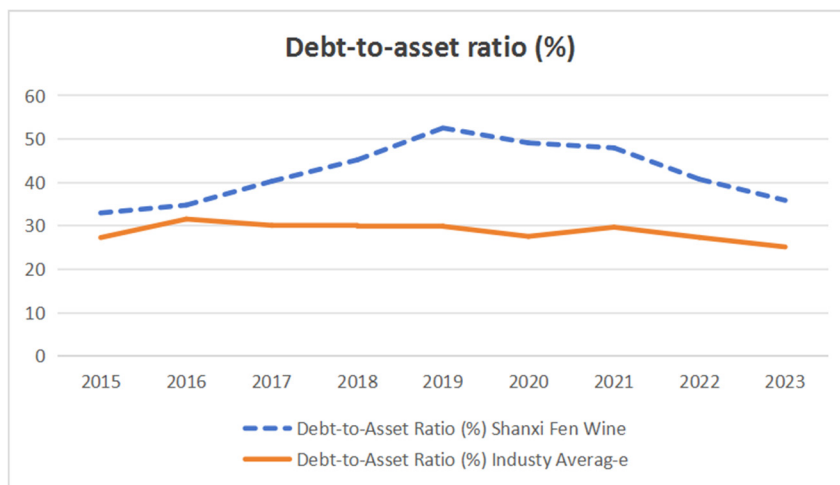


Figure 2. Line Chart of Shanxi Xinghuacun's Debt-to-Asset Ratio and Industry Average

The debt-to-asset ratio is a crucial indicator of a company's financial risk. A high debt-to-asset ratio suggests an increased risk of corporate losses or bankruptcy. As shown in Figure 2,

Shanxi Xinghuacun's debt-to-asset ratio has been on an upward trend from 2015 to 2019. However, the increase was relatively gradual before 2017, and it became more

pronounced after the company embarked on its digital transformation in 2017. This was due to the substantial funds required during the initial stages of digital transformation, resulting in a higher level of long-term external debt. From 2015 to 2023, Shanxi Xinghuacun's current ratio has consistently been higher than the industry average. After initiating digital transformation in 2017, the gap between Shanxi Xinghuacun's debt-to-asset ratio and the industry average widened significantly, reflecting the company's initial investment phase. However, starting from 2019, as the digital transformation matured, the gap gradually narrowed, indicating that Shanxi Xinghuacun has developed a stronger ability to repay its long-term debts after the digital

transformation.

4.2. Analysis of Operating Capability

An analysis of a company's operating capability helps it comprehensively understand its operating and financial conditions, identify market opportunities and issues, and provide a basis for management and investment decisions. Therefore, an analysis of operating capability is of great significance for the long-term development of a company. Operating capability can be reflected through various indicators. The following is an analysis of Shanxi Xinghuacun's total asset turnover ratio and inventory turnover ratio.

Table 2. Operating Capability Indicators of Shanxi Xinghuacun Fen Wine Co., Ltd.

Year		Before Transformation		During Transformation		After Transformation				
		2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Asset Turnover Ratio (times)	ShanxiFen Wine	0.66	0.62	0.74	0.90	0.85	0.78	0.80	0.79	0.79
	Industry Average	0.49	0.44	0.52	0.56	0.55	0.49	0.52	0.52	0.56
Inventory Turnover Ratio (times)	Shanxi Fen Wine	0.71	0.72	0.86	1.16	0.79	0.67	0.69	0.72	0.74
	Industry Average	0.57	0.55	0.6	0.61	0.64	0.59	0.61	0.57	0.55

Source: Choice Financial Terminal

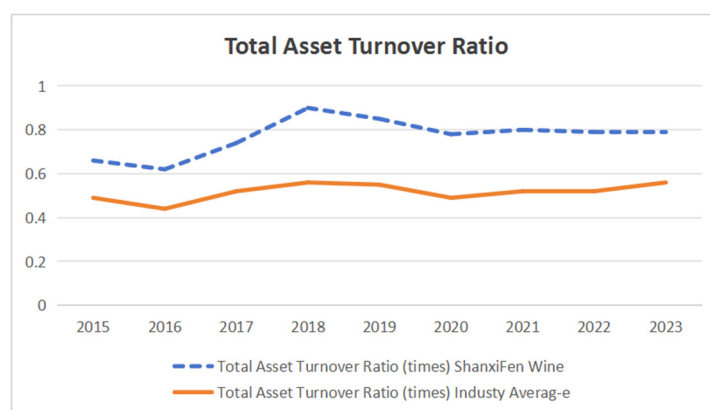


Figure 3. Line Chart of Changes in Total Asset Turnover Ratio of Shanxi Xinghuacun Fen Wine Co. Ltd. and Industry Average

Total Asset Turnover Ratio refers to the ratio of a company's net sales revenue to its average total assets over a certain period, also known as the number of total asset turnovers. It is an indicator that measures the proportion between the scale of asset investment and the level of sales, reflecting the company's ability to generate revenue through the operation of total assets and the speed of its overall assets flowing from input to output. As shown in Figure 3, the Total Asset Turnover Ratio has been increasing annually until 2018, when it started to decline, but still remained above the pre-transformation level. From 2015 to 2023, Shanxi Xinghuacun Fen Wine Co., Ltd.'s Total Asset Turnover Ratio has consistently surpassed the industry average, and since 2017, it has widened the gap even further. This indicates that the company initiated a digital transformation in 2017, adopting an integrated online and offline marketing model, which has opened up sales channels. The digital and intelligent transformation of the marketing model has significantly increased the company's sales revenue. According to statistics, in 2021, online sales revenue exceeded 950 million yuan, representing a 25.44% increase compared to the same period

in 2020. The decisive role was played by the powerful digital marketing transformation of Fen Wine Group.

Inventory turnover, also known as stock turnover, is a key indicator that measures the ratio between a company's cost of goods sold (COGS) and its average inventory balance over a specific period. This ratio aims to reveal the speed of inventory turnover and assess the liquidity of inventory as well as the reasonability of inventory capital. Specifically, inventory turnover is calculated by dividing the cost of goods sold by the inventory balance. As shown in Figure 4, the inventory turnover rate gradually increased in previous years and peaked in 2018. The outbreak of the COVID-19 pandemic at the end of 2019 impacted the entire industry, resulting in an inventory of 5.258 billion yuan for that year, an increase of approximately 2.1 billion yuan or 66.6% compared to the previous year, which led to a decline in the inventory turnover efficiency indicator. Prior to 2017, the company's inventory turnover rate was below the industry average, indicating poor inventory management capabilities at that time. In 2017, the company initiated a digital transformation by establishing a multi-level planning linkage

system platform, achieving efficient linkage between sales, production, and procurement, which significantly boosted the inventory turnover rate. Therefore, since the implementation of the "Smart Fenjiu" digital transformation strategy, Shanxi

Xinghuacun Fen Wine Factory Co., Ltd. has significantly improved its current asset management capabilities. After the digital transformation gradually matured, the inventory turnover rate resumed a gradual and steady increase.

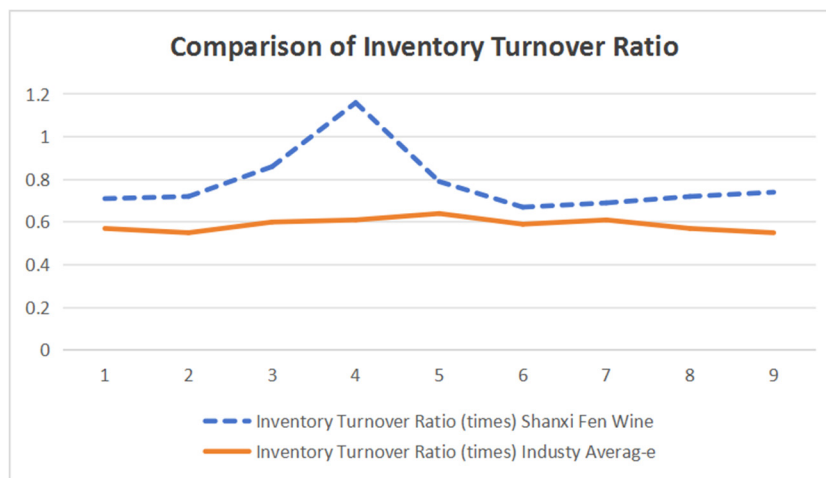


Figure 4. Line Chart of Changes in Inventory Turnover Ratio of Shanxi Xinghuacun Fen Wine Co., Ltd. and Industry Average

4.3. Profitability Analysis

Profitability analysis of a company not only assists external stakeholders such as investors, creditors, and government departments in making more informed decisions but also helps the company identify issues internally, improve

management, and enhance profitability. Therefore, profitability analysis is an indispensable part of corporate financial analysis. Indicators representing a company's profitability are mainly reflected in Return on Equity (ROE) and Net Profit Margin on Sales.

Table 3. Profitability Indicators of Shanxi Xinghuacun Fen Wine Factory Co., Ltd.

Year		Before Transformation		During Transformation		After Transformation				
		2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Equity (ROE) (%)	ShanxiFen Wine	12.52	13.24	19.04	25.08	27.42	35.09	42.04	44.74	43.06
	Industry Average	19.42	17.84	23.70	26.73	26.77	24.19	26.13	27.54	29.33
Net Profit Margin on Sales (%)	Shanxi Fen Wine	13.12	14.56	16.63	16.63	17.29	22.27	26.99	31.12	32.76
	Industry Average	29.55	28.76	32.98	34.97	35.41	37.01	36.91	38.17	38.96

Source: Choice Financial Terminal

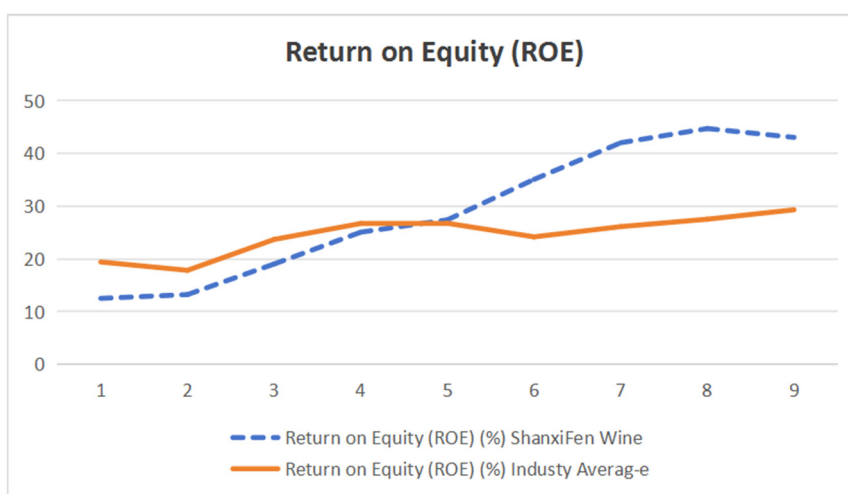


Figure 5. Trend Chart of Return on Equity (ROE) for Shanxi Xinghuacun Fen Wine Factory Co., Ltd. and Industry Average

Return on Equity (ROE), also known as Return on Shareholders' Equity, refers to the percentage relationship between a company's net profit and its average shareholders'

equity. The level of this indicator directly reflects the company's ability to generate net income using its own capital. A higher value indicates more substantial returns on

investment. As shown in Figure 5, the ROE of Shanxi Xinghuacun Fen Wine has been on an upward trend. Before 2018, its ROE was below the industry average, but since 2018, it has consistently surpassed the industry average. As a liquor company that was among the first in the industry to promote

digital transformation, Fen Wine Group's ROE has steadily increased since 2018, gradually widening the gap with the industry average. This indicates that digital transformation has significantly enhanced Shanxi Xinghuacun Fen Wine's profitability, achieving notable results within the industry.

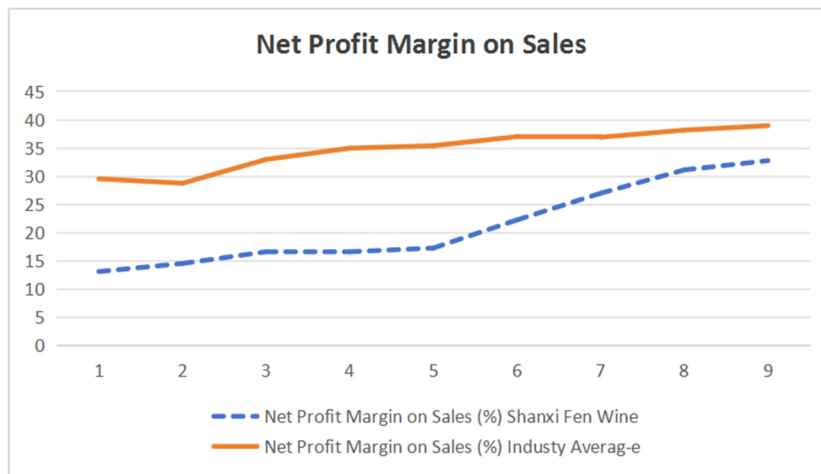


Figure 6. Trend Chart of Shanxi Xinghuacun Fen Wine's Net Profit Margin on Sales and Industry Average

Net profit margin is the ratio of net profit to sales revenue. As shown in Figure 6, the net profit margin of Shanxi Xinghuacun Fen Wine Co., Ltd. (hereinafter referred to as "Shanxi Xinghuacun") has been increasing annually, indicating that the company's profitability in the sales process is improving. Digital transformation has enabled Shanxi Xinghuacun to effectively control costs, achieve low-cost operations, and potentially increase revenue and gross margin

by optimizing product mix, raising prices, or other strategies.

4.4. Growth Capacity Analysis

Growth capacity refers to the potential growth ability of a company. This paper analyzes Shanxi Xinghuacun's total operating income, net profit attributable to shareholders, operating income growth rate, and net profit growth rate.

Table 4. Growth Capacity Indicators of Shanxi Xinghuacun

Year		Before Transformation		During Transformation		After Transformation				
		2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Operating Income (in billion)	ShanxiFen Wine	41.29	44.05	60.37	93.82	118.8	139.9	199.71	262.14	319.28
Net Profit Attributable to Shareholders (in billion)	ShanxiFen Wine	5.206	6.051	9.524	15.07	19.69	30.79	53.14	80.96	104.38
Year-on-year Growth Rate of Total Operating Income (%)	Shanxi Fen Wine	5.43	6.69	37.06	47.48	25.79	17.63	42.75	31.26	21.80
	Industry Average	22.61	20.15	25.52	44.46	22.08	-2.19	58.54	16.21	17.07

Source: Choice Financial Terminal

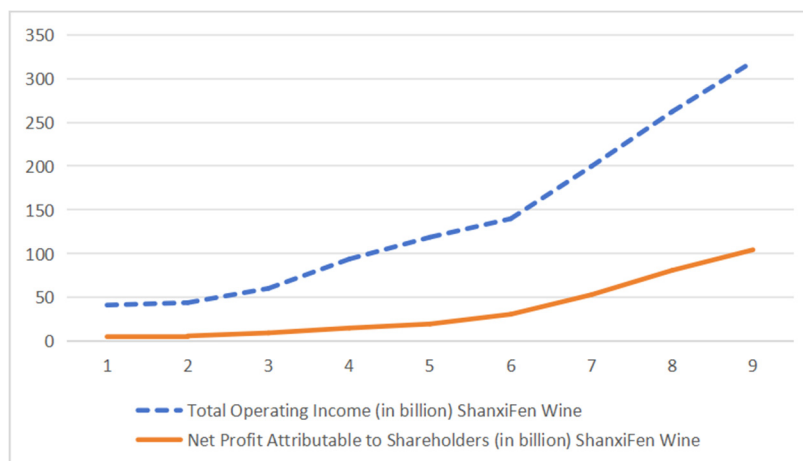


Figure 7. Line Chart of the Changes in Total Operating Income and Net Profit Attributable to Shareholders of Shanxi Xinghuacun Fen Wine

As shown in Figure 7, both the total operating income and net profit attributable to shareholders of Shanxi Xinghuacun Fen Wine have been increasing year by year. The total operating income began to rise rapidly in 2017, indicating that

digital initiatives such as the construction of smart workshops and online e-commerce sales have had a positive impact on its operating income.

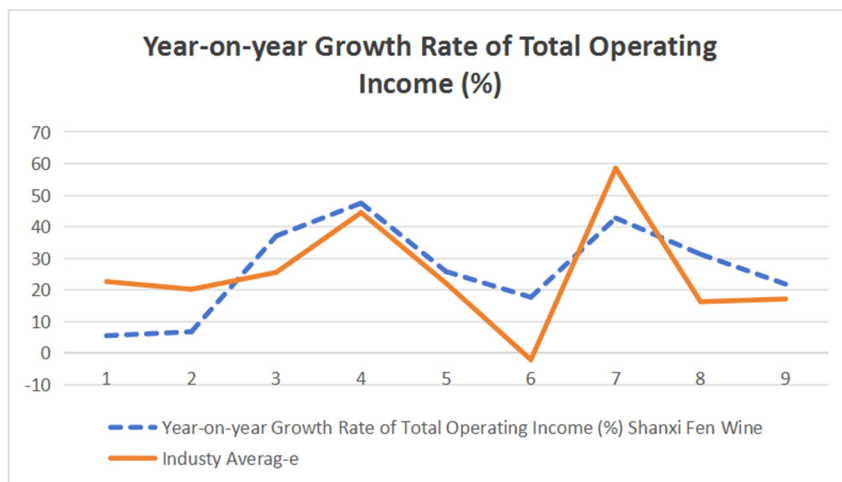


Figure 8. Line Chart of the Year-on-Year Growth Rate of Shanxi Xinghuacun Fen Wine's Total Operating Income and the Industry Average

Figure 8 shows that the year-on-year growth rate of Shanxi Xinghuacun Fen Wine's operating income peaked in 2018 and began to slow down from 2019 onwards. However, the operating income still maintained positive growth, and the operating profit growth rate for each year after 2018 was higher than the operating income growth rate, indicating that Shanxi Xinghuacun Fen Wine has shown strong development momentum in recent years. The baijiu industry was severely impacted by the COVID-19 pandemic at the end of 2019, resulting in a sharp decline in the total operating income growth rate. In contrast, Shanxi Xinghuacun Fen Wine Company experienced a relatively gentle decline and performed better than the industry average. This is attributed to the company's two-year digital transformation efforts, which have revolutionized its financial, procurement, inventory, sales, production, and other business management processes, significantly enhancing work efficiency. As a result, the company's cost expenses and period expenses have been effectively controlled, enabling its profitability to surpass the industry average.

4.5. Summary

Through the longitudinal and horizontal analysis of Shanxi Xinghuacun Fen Wine Company's financial indicators from 2015 to 2023, it is evident that the company's digital transformation initiatives have effectively enhanced its profitability, operational efficiency, solvency, and growth potential. Its performance within the industry ranks among the top, and its future development prospects are promising. Following the initiation of digital transformation, Xinghuacun Fen Wine's revenue began to experience a resurgence in growth. Particularly in recent years, the company's operating revenue has grown rapidly. For instance, in 2021, Xinghuacun Fen Wine achieved a revenue of RMB 19.971 billion, representing a year-on-year increase of 42.75%, and a net profit of RMB 5.314 billion, up 72.56% year on year. By 2022, the company further achieved high growth in revenue and net profit, reaching RMB 26.214 billion and RMB 8.096 billion respectively, with year-on-year growth rates of 31.26% and 52.36%. These remarkable growth figures are attributable to Xinghuacun Fen Wine's

comprehensive efforts in deepening its digital transformation. In summary, digital transformation has not only driven the company's revenue and net profit growth but also strengthened its market presence, improved operational efficiency, and enhanced brand influence. These changes collectively form an important foundation for Xinghuacun Fen Wine's sustained development and competitive advantage.

5. Conclusion and Outlook

This paper concludes that the digital transformation of Xinghuacun Fen Wine has positively impacted its financial performance, as evidenced by the analysis of changes in financial performance after the transformation. The transformation has not only improved profitability and optimized cost control but also enhanced the company's overall financial situation. This transformation has won Xinghuacun Fen Wine more customers and market share, laying a solid foundation for its future sustained development.

Xinghuacun Fen Wine is a leader in China's baijiu industry, and its successful digital transformation offers valuable experience and insights for the entire industry. As a traditional sector, the baijiu industry faces dual pressures from the market and technology, as well as the impact of new business models driven by emerging technologies. In the wave of digitalization and intelligence, baijiu companies should actively embrace modern technology, utilizing advanced analytical tools and precise control technologies to optimize and enhance traditional brewing processes. The digital transformation journey of Xinghuacun Fen Wine has proven the correctness of this path, and other baijiu companies should actively learn from its experience, strengthen technological innovation and investment, optimize production methods and marketing models, expand market channels and brand influence, in order to achieve high-quality development.

References

[1] Bao Jiayi. Research on Value Creation of Shanxi Xinghuacun Fen Wine Under the Digital and Intelligent Transformation [D]. Harbin University of Commerce, 2024.

- [2] Wang Shuying. Analysis of the Motivation and Effect of Introducing Strategic Investors in Shanxi Xinghuacun Fen Wine [D]. Yunnan University of Finance and Economics, 2023.
- [3] Wang Yijuan. Research on the Impact of Digital Transformation on the Operating Performance of Chinese Baijiu Enterprises [D]. Beijing Foreign Studies University, 2023.
- [4] Wu Shuaimi. Research on the Profit Model and Financial Evaluation of Shanxi Xinghuacun Fen Wine Under Digital Transformation [D]. Lanzhou University of Finance and Economics, 2020.
- [5] Dong Qifei. Development Strength and Profitability of Shanxi Xinghuacun Fen Wine Among Top Baijiu Enterprises: A Comparative Analysis Based on Financial Data [J]. Journal of Financial Management Research, 2023, (05): 54-57.