

Based on the Analysis of Yanghe Liquors SCP

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Abstract: *The liquor industry, as a traditional sector in China, has a long history. Suqian City, known as the "Capital of Liquor," is also a pillar industry for its liquor sector. Through brand marketing and technological innovation, Suqian Yanghe Liquor has achieved rapid growth in a short period. In response to the current market development status of the liquor industry, this study analyzes the market structure, behavior, and performance of Suqians liquor market using the SCP paradigm. It finds that the overall market concentration of Suqians liquor industry is relatively low. By exploring the current state of Suqians liquor industry and proposing countermeasures, it suggests: enhancing brand marketing to boost brand influence; strengthening talent cultivation to enhance innovation momentum; controlling product quality to improve the industrial chain; identifying consumer groups to broaden sales markets.*

Keywords: Liquor industry, Scp analysis, Market behavior.

1. Introduction to the Development History of Yanghe Distillery

Jiangsu Yanghe Distillery was founded in July 1949. In 2006, the company underwent restructuring and successfully listed on the stock market in 2009. Following its listing, the company embarked on a path of mergers and acquisitions, acquiring wholly-owned stakes in Shuanggou Liquor, Guizhou Guijiu, and Hou Gongfang Yingbin Liquor, continuously enriching its product range. To date, the company has become the only enterprise in the liquor industry to own two renowned Chinese liquors—Yanghe and Shuanggou—as well as two time-honored Chinese brands and six China Famous Trademarks, with its overall brand influence steadily growing.

Before 2001, due to the invasion of Sichuan and Anhui wines, Jiangsu wine missed the opportunity to raise prices, leading to a decline in production and sales. Yanghe Daqu lagged behind its peers in price increases and began to change its strategy by learning from Wuliangyees buyout model, implementing unified sales and procurement. From 2002 to 2012, as Jiangsus economy gained momentum, the "Jiangsu Wine Revitalization" policy was implemented, gradually reviving Jiangsu wine. Yanghe Co., Ltd. launched the Blue Classic series, pioneering a deep distribution model in the industry, which extended into the "1+1" model. From 2013 to 2018, Jiangsu wine followed industry adjustments with minimal impact, recovering first. Yanghe Co., Ltd. initiated e-commerce layouts and acquired Guijiu. Since 2019, with the improvement of economic levels within Jiangsu Province and a solid consumer base, Jiangsu wines market share has continued to grow. Yanghe Co., Ltd. implemented the "Dual Famous Wines, Dual Brands" strategy, building a new type of manufacturer-consumer relationship characterized by "one main merchant, multiple merchants in support," and adopted a quota system.

In 2003, both within and outside the province focused on Hai Zhi Lan. After 2008, the province led with high-end products like Meng Zhi Lan, while outside the province mainly promoted Hai Zhi Lan and Tian Zhi Lan, gradually introducing the Meng Zhi Lan series. In 2020, after the initial upgrade of the old M6 and M3 models, both within and outside the province gradually focused on Meng Zhi Lan, using the Meng series to lead overall development, with plans

to make M6+ a billion-yuan product. Yanghe Co., Ltd. mainly produces three categories of products: Yanghe Daqu, Blue Classic, and the Meng Zhi Lan series. Before 2003, Yanghe Daqu was the core product of Yanghe. After 2003, the Blue Classic series was launched, and within a few years, it propelled Yanghes growth. In 2003, the company had a scale of 200 million yuan, and by 2006, it surpassed 1 billion yuan; in 2010, Yanghe Co., Ltd. achieved a revenue of 7.619 billion yuan, officially becoming the third-largest Chinese liquor company, trailing only Kweichow Moutai and Wuliangye.

2. SCP Paradigm

The SCP paradigm was first proposed by Bain of the Harvard School (1951), and Schiller developed the SCP three-stage paradigm on the basis of Bain. The SCP paradigm holds that there is a direct relationship between market structure, market behavior and market performance.

2.1 Application of SCP Paradigm in Liquor Industry

Wang Dianru and Li Xianshi (2006) conducted an in-depth analysis of the concentration, product differentiation, and entry-exit barriers in Chinas liquor market structure. Zhang Juan and Tan Liyong (2007) argued that maintaining business progress through imitation of popular brands would lead to a low level of overall differentiation in the liquor industry. Lu Xiaoyi (2016) believed that the low concentration in Chinas liquor industry is due to relatively low entry barriers and a large number of liquor companies with diverse brands [1][2][3].

2.2 Market Structure Analysis

The liquor industry, as a traditional sector in China, carries profound cultural heritage. With the continuous strengthening of consumption upgrade trends, the liquor industry is also undergoing constant transformation. In recent years, the number of liquor enterprises has been increasing. Different regions have varying resource endowments and distinct consumption structures, leading to significant regional differentiation in liquor enterprises. The low entry barriers for liquor companies also contribute to an unstable market structure in the liquor industry. There is considerable diversity in liquor products, which manifests in different consumer preferences, diverse alcohol content levels, and varied product

aromas. Demand for liquor varies across different regions and groups. Consumers with different purchasing power levels choose different tiers of liquor. To cater to these diverse needs, liquor companies offer mid-to-low-end and high-end liquors. High-end liquors generally cost over a thousand yuan, mid-range liquors typically range from several hundred yuan, while low-end liquors vary from tens to hundreds of yuan. To appeal to younger consumers, the alcohol content of liquor has been continuously adjusted, broadening its target audience. Currently, strong-aroma liquors are the largest segment in the liquor industry, while soy-sauce-aroma liquors have gained widespread popularity in recent years, with rapid growth in market sales.

2.3 Market Performance Analysis

Baijiu industry expert Cai Xuefei told the China Business Journal: "The entire Chinese baijiu industry continues to maintain a steady and progressive trend, showing double-digit growth in both scale and profit. The industry's differentiation trend is intensifying, with leading brands gaining stronger momentum, increasing industrial concentration, and market saturation becoming more pronounced. The entire Chinese baijiu industry is entering a phase of substitution-driven growth." In terms of revenue scale, Yanghe, Fenjiu, and Luzhou Laojiao achieved revenues of 33.126 billion yuan, 31.928 billion yuan, and 30.233 billion yuan respectively, further expanding the 30 billion club. Data shows that in the first quarter of 2024, the combined revenue of 20 listed baijiu companies reached 150.866 billion yuan, up 15% from the same period last year; combined net profit attributable to shareholders was 61.987 billion yuan, up 16% year-on-year. Data indicates that mid-to-high-end baijiu remains the main driver of growth for baijiu companies, while overall, revenue growth in high-end baijiu has slowed down [4].

In 2023, Yanghe Co., Ltd. achieved a revenue of 33.126 billion yuan, a year-on-year increase of 10.04%; net profit reached 10.016 billion yuan, up 6.8% year-on-year. For Yanghe Co., Ltd., the performance growth in 2023 can be attributed to improved marketing efficiency, particularly its focus on digital marketing and continuous optimization of consumer digital strategies, which guide repeat purchases and boost product sales. However, marketing is just one aspect of Yanghe's efforts to empower itself with digital intelligence. As a pioneer in the digitalization and intelligence of the liquor industry, Yanghe has promoted comprehensive development in production intelligence, marketing connectivity, and management integration. It has built a transparent factory that is digital, intelligent, and integrated, providing strong momentum for corporate development through smart transformation and digital change. By leveraging new technologies such as big data, artificial intelligence, and the Internet of Things, Yanghe has achieved intelligent brewing and green production chains. In its intelligent brewing workshops, the entire production process from the removal of mash to the addition of koji is automated, ensuring that the mash never touches the ground, making the quality of the original liquor more controllable, doubling production efficiency, reducing energy consumption by 41%, and decreasing water usage by 33%.

中国白酒市场规模 (亿元)



2.4 Market Behavior Analysis

2.4.1 Advertising behavior

The liquor industry in Suqian City has a long history and rich heritage. Large liquor companies promote their products by associating with various industries. Most liquor enterprises choose to place advertisements on television media. High-profile endorsers, influential TV platforms, and highly creative film placements can attract a large amount of attention, leaving an impression on viewers about the product and brand, thus achieving the purpose of marketing. Yanghe Distillery organizes tours and other activities to promote its products, and more companies also organize such visits, deepening consumers' understanding of the products through experiential activities. Companies like Yanghe Distillery and Yuzhen Liquor have launched advertisements with their unique characteristics, allowing consumers to learn about the products through TV, videos, and websites. This greatly promotes the companies and enhances brand awareness.

2.4.2 Pricing behavior

The Chinese liquor market is continuously expanding, gradually showing trends of premiumization, youthfulness, and branding. As the age of mass consumers matures, the age range of liquor consumers is shifting towards those born after 1985, with a younger consumer base set to dominate the industry. Due to the continuous premiumization of the liquor market, brand strength has become a driving force for product consumption. Small and medium-sized brands are also enhancing their brand power to achieve higher growth. Competition within the industry, especially among small and medium-sized enterprises, is becoming more intense, leading to differentiated competition that drives brands to introduce diverse products, promoting overall diversification in the liquor industry. Different positioning of liquors results in significant price differences; low-end liquors are used for daily household consumption and can meet basic consumer needs, while high-end liquors are often used in gatherings and social settings, with higher prices and greater price elasticity. Companies typically adjust their prices based on market conditions, offering lower prices or bundled sales to attract consumers.

2.4.3 Corporate mergers and acquisitions

Corporate mergers and acquisitions are a strategic choice for achieving scale expansion, resource integration, and

enhancing market advantages. By collaborating with other liquor companies or enterprises in related industrial chains, companies can seek out those with complementary resources, specific technological advantages, brand influence, or market channels, which helps improve their market competitiveness. After its listing, Suqian Yanghe Distillery embarked on a path of corporate M&A expansion. The joint efforts of Yanghe and Shuanggou Liquor create resource sharing and complementary strengths, building regional competitive advantages and securing advantageous positions in the liquor industry. This also enhances brand influence and the core competitiveness of products.

2.4.4 Innovative behavior

Twenty years ago, Yanghe Co., Ltd. activated the market mechanism through appropriate mixed reform; launched Yanghe Blue Classic as a high-end tool; and reformed the distribution system. Finally, it broke out strongly and grew into the third largest liquor company in China, along with MoutaiWuliangye. In recent years, Yanghe Co., Ltd. has emerged as a dark horse in the history of baijiu industry through a series of innovations, including brand marketing and taste adjustments. The company's baijiu flavors and brewing techniques continue to innovate and upgrade, making it a representative of "soft and smooth" baijiu. Unlike other baijius, Yanghe baijiu offers unique sensations of softness, comfort, and smoothness, catering to the needs of younger consumers and broadening its audience base. In terms of production processes, Yanghe has transformed traditional semi-mechanized production methods into intelligent ones, advancing the intelligent operation of the entire business chain from qu-making, raw material pre-treatment, distillation, to storage. Through the Management Execution System (MES system), the entire production process is managed, controlled, and analyzed for big data on processes. This central control room transforms production into something knowable, visible, and controllable, achieving high-quality, efficient smart brewing. The introduction of advanced technology has also promoted continuous research and development in baijiu itself.

3. Countermeasures and Suggestions

3.1 Strengthen Brand Marketing and Enhance Brand Influence

A good brand represents the technological level, innovation capability, and quality standards of an industry. Strengthening brand building can drive the upgrading and improvement of the industry. As one of the representatives of Chinese traditional culture, baijiu has a large consumer base and a long history in the market. Brand marketing for the baijiu industry can further expand its audience and deepen brand influence. In terms of packaging design, innovation and elegance can attract consumers' attention, enhancing the products' aesthetic appeal and recognizability. For different groups, designing packaging that aligns with their diverse aesthetics and creating brand IP collaborations can attract young consumers. Regarding brand storytelling, uncovering the legendary stories or cultural connotations behind the brand can create a unique image, making it easier for consumers to resonate emotionally. In terms of brand awareness, increasing brand

recognition through advertising, sponsorships, and other promotional activities can help expand market share. Currently, e-commerce is developing rapidly, and leveraging internet promotion, combining online live streaming with offline marketing can help increase market share.

3.2 Strengthen Talent Training and Enhance Innovation Momentum

Technological innovation is a vital driving force for the continuous development of enterprises. Whether in production, brewing, or bottling, enhancing technological innovation can significantly boost capacity and efficiency. Advocating for industry-academia-research collaboration, enterprises should work together to build platforms and carriers, thereby effectively improving the product inspection and testing standards of the National Baijiu Quality Inspection Center. Talent is indispensable in industry development; it is essential to strengthen the cultivation of talent in the baijiu industry. This can be achieved through school-enterprise cooperation and alliances among baijiu companies, establishing good relationships with the industry, nurturing national-level baijiu judges, Chinese Master Distillers, and provincial-level baijiu judges, to build a scientifically structured and sustainably stable team of master tasters.

3.3 Control Product Quality and Improve the Industrial Chain

Due to the large number of liquor companies in our country, the brands vary greatly. Apart from some industry leaders, other liquor products have not shown significant differentiation. Driven by economic development, people's income levels are continuously rising, and consumption is no exception. When consuming liquor, people place more emphasis on "quality" than on "quantity." Therefore, to enhance competitiveness, it is essential for liquor companies to achieve technological innovation and product differentiation. For instance, to better meet consumer needs, product design should highlight unique features. Additionally, strengthening supervision and conducting special rectification campaigns for alcoholic beverages are also necessary. Through the urging of market regulatory authorities, counterfeit goods from alcohol production enterprises should be cracked down on. By promoting supervision and establishing a credit system, we can jointly encourage companies to form a credit system, helping them operate more standardly and fostering greater integrity in business operations, thereby further enhancing core competitiveness.

The distinctive regions of baijiu should deeply explore the development advantages and locational characteristics of their local baijiu industries. By integrating the unique ecological environment, skill inheritance, and cultural connotations of the region, they should identify key points to promote high-quality development in baijiu production areas. This involves promoting deep integration and coordinated development among baijiu brewing, tourism, and agriculture. Resources within the production area can be coordinated to guide the establishment of interconnected cooperation platforms, building a high-quality wine city with collaborative industrial chains, innovation chains, and supply chains.

3.4 Identify Consumer Groups and Expand Sales Markets

The liquor industry has different consumer markets in various regions, with varying preferences and demands for baijiu across different areas. For instance, the consumption ratio of baijiu is higher in northern regions, while southern regions tend to favor lighter wines, with distinct tastes and categories of baijiu being chosen. Furthermore, the baijiu consumer base includes people from different income levels. Surveys have found that the age distribution of Chinese baijiu consumers has seen an increase in those aged 21-30, with consumers aged 31-40 still being the core purchasing group, accounting for nearly half. People at different income levels also exhibit varying price sensitivity and purchasing power regarding baijiu. Identifying consumer groups and targeting their specific preferences can help broaden the baijiu market. Mass consumption is gradually becoming a driving force for the high-end baijiu market. The liquor industry should develop corresponding strategies for different consumer groups, and companies can innovate in cultural dissemination, advertising promotion, and product development to cultivate young consumer groups and retain target audiences.

4. Conclusions

By analyzing the market structure, market behavior, and market performance of the baijiu industry, it is found that there are many baijiu companies with low entry barriers, leading to intense competition in the baijiu market. Baijiu companies need to provide high-quality products and services, uphold traditional craftsmanship, lead with institutional culture, and drive innovation. They should prioritize quality, develop brand influence strategies, and enhance core competitiveness. Through scientific strategy formulation and effective implementation, Yanghe Co., Ltd. can improve its digital marketing capabilities, seize market opportunities, and achieve sustainable development.

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