A Toast to Change
June 21, 2013
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In China, there is a distilled white liquor that is as revered as wine is in France. Known as China’s “national wine,” maotai, or “baijiu” in Chinese, has been celebrated for thousands of years. Having such a high-end branded white spirit on your banquet table is seen as a sort of status symbol or the hallmark of an auspicious occasion, such as a wedding or formal dinner.

As recently as last year, some bottles were commanding more than US$300 each, with prices rising partly from the strong demand related to government and business sector events. As a result of the high returns, even companies in industries unrelated to beverages—such as property, mining and technology firms—have invested much capital to acquire liquor makers, and many liquor producers have also laid out ambitious plans to ramp up capacity for these typically stiff (roughly 100-proof alcohol) sorghum-based drinks. Meanwhile, such publicly traded liquor brands became stock market darlings among China’s domestic A-share market investors. The firms were attractive for the high growth and healthy cash flows they demonstrated.

But in recent months, the industry has suffered, first from bad media attention following somewhat limited quality control issues, and second, from a widespread government mandate to cut back on extravagance in state-run affairs. While no one keeps data on exactly how much the government and military account for China’s white spirits sales, it is generally believed be quite significant. But now, high-ranking officials and executives from state-owned companies are shunning such liquors, and sales of the alcohol tumbled during the first quarter of 2013. At the same time, several top white liquor brands experienced a substantial pricing drop.

During a recent trip to China, I learned that some in the industry are using this slow period to transform themselves and rethink their target customer base. I have to agree with this sensible approach. After all, a heavy dependence on the government is neither sustainable nor prudent. This is the time for liquor makers, particularly in a growing economy, to turn challenges into opportunities. For instance, many have started to engage corporate clients and high net worth individuals, hoping to establish long-term relationships with this client base. Wholesale prices have generally remained firm, so for the time being, it is mainly just the beverage distributors that have seen their margins negatively impacted. Normally, distributors pay a deposit to liquor producers before taking on their products. The drop in retail pricing of China’s national wine has decreased the willingness of some distributors to pay in advance, but they have not shied away from the business altogether.

Given the bottoming out of retail prices and sales volume for China’s luxury white spirits market, current prices are ranging from about US$100 to US$200 a bottle—a level much more feasible for many consumers. I hope many in the industry seize the changes to transform and allow this product to be more attainable for smaller businesses and typical consumers. That would be something for which we may toast.

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