

Financial Analysis of Wuliangye Group based on Harvard Analytical Framework

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Abstract

The liquor industry is a traditional industry in China, with a history of development of several thousand years. Yibin Wuliangye Group, founded in 1997, has been established for more than twenty years and stands out among many liquor companies by virtue of its strong development strength. Based on the Harvard analysis framework, this paper analyzes Wuliangye Group from four aspects: strategic Analysis, accounting analysis, financial analysis, and outlook Analysis to fully understand and evaluate the business situation of the company and make some predictions on the future development direction.

Keywords

Wuliangye; Harvard Analytical Framework; Financial Analysis.

1. Introduction

As a traditional industry in China, liquor industry has played a very important role in the history of China. In China, liquor has gone through a golden decade, the scale and revenue of liquor enterprises have developed at a high speed. With the convening of the 18th Party Congress in 2012, the anti-corruption work, the policy of limiting alcohol, limiting the use of alcohol for hospitality, and opposing wastefulness, which had a very serious impact on the liquor industry, liquor enterprises were greatly affected, they have seen a decline in sales. Wuliangye, Guizhou Maotai and other liquor companies actively make corresponding adjustments in response to various policies and market changes. After 2015, the liquor industry gradually returned to spring, and by 2020, the liquor industry has stepped into a new stage of development. Faced with a new round of opportunities and challenges, how to meet the challenges and seize the opportunities is the key to liquor companies to achieve the next step of transformation.

This paper selects Sichuan Yibin Wuliangye Co. Ltd. and uses a Harvard analysis framework to analyze its industry corporate strategy, accounting quality, financial reporting, and Wuliangye Co.'s outlook forecast to discover Wuliangye Group 's strengths and problems by collecting and organizing its annual reports from 2017-2021, to comprehensively understand and evaluate the company's operations, to provide advice for its future development, to provide external investors It provides a reference for external investors and provides experience for similar companies to draw on.

2. Harvard Analyzing Framework Financial Analysis

2.1. Strategic Analysis

2.1.1. Macro Environment Analysis - PEST

The survival and development of any enterprise is inseparably related to the macro environment it faces. PEST analysis refers to the analysis of the macro environment of an enterprise, and only by responding to the changes in the macro environment can an enterprise reduce business risks and seize opportunities.

2.1.1.1 Political Environment Analysis

As an important part of China's national economy, the liquor industry has been receiving attention from the state and local governments, but since 2012, when the state introduced a series of policies restricting the use of alcohol for hospitality, the industry has begun to change from rapid development to deep adjustment. In 2020, the policy will no longer include liquor in the restricted light industry. With the liberalization of policies and the influence of the popular wine culture and traditional consumption concepts, the liquor industry will continue to maintain a stable growth trend in the long term.

2.1.1.2 Economic Environment Analysis

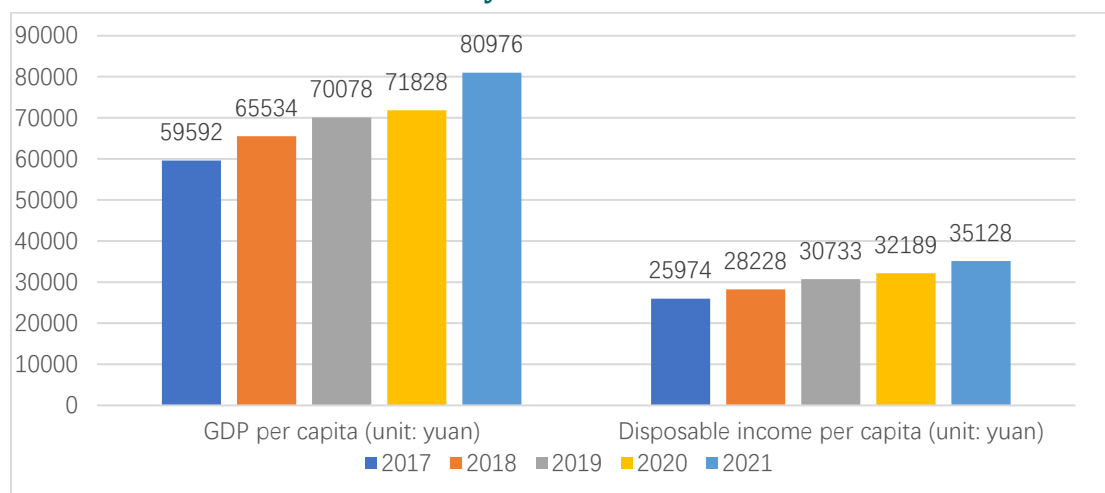


Figure 1. Chart of GDP per capita and disposable income per capita in China, 2017-2021

In recent years, China's macroeconomic development has gained momentum, and in 2021, China's GDP reached RMB 1,143,669.7 billion, an increase of 12.8% compared to the same period in 2020. In 2021, China's GDP per capita reached 80,976 yuan, an increase of 12.7% compared with the same period in 2020; China's per capita disposable income was 35,128 yuan, a year-on-year growth rate of 9.1%. The national economy is running steadily and steadily, which is a good basis for the industry development of the liquor industry, and the growth of the national per capita disposable income has laid the foundation for the long-term development of the liquor industry.

2.1.1.3 Socio-cultural Environment Analysis

As we all know, Chinese wine culture has a long and rich history, and liquor is not only a part of our consumer culture, but also an important part of our traditional culture. In our daily life, liquor has become a necessity for our social life, especially for political and business social life. Therefore, the traditional wine culture and habits inherited for thousands of years make China's rigid demand for liquor is still great, which is a favorable social factor for the liquor industry to continuously expand its market share and continuous development.

2.1.1.4 Technical Environment Analysis

The liquor industry is a traditional industry in China, hand brewing as China's traditional brewing technology has been inherited for thousands of years under, but the traditional brewing technology has low efficiency, insufficient utilization of raw materials and other shortcomings. With the continuous development of technology, China's winemaking technology winemaking technology has gradually developed into now with solid hair cellar technology, liquid process and solid-liquid combination of liquid sour wine technology, which is good to make up for the problems that exist in manual winemaking. The development of

science and technology has made China's brewing level in the forefront of the world, laying the foundation for the development of China's liquor industry.

2.1.2. Internal Environment Analysis – SWOT

2.1.2.1 Advantage Analysis

Wuliangye Group is located in Yibin City, Sichuan Province, at the core of the "Golden Triangle of Chinese liquor", which has a unique geographical advantage. The climate here is suitable for the survival of brewing microorganisms and has the best fermentation environment, which makes the brewed wine more fragrant. Secondly, the quality advantage, the company deeply implements the moral concept of "making food is making conscience", forming a unique quality culture that all staffs pay attention to the products. The concept of survival by quality and growth for consumers is deeply rooted in every employee's heart. Over the years, Wuliangye Group has been strict in all production processes and has established a scientific quality testing system. The quality of its Wuliangye Group series of wines is excellent and widely recognized by consumers. Then comes the brand advantage. Wuliangye Group ranked second in the "Top 10 Brands in Asia's Food and Beverage Industry 2019" and rose first in the ranking, and its brand image is deeply rooted in people's hearts.

2.1.2.2 Disadvantage Analysis

Wuliangye's high-end brand is not competitive enough, and the frequency of its appearance on the tables of high-end consumers is far less than that of Guizhou Maotai, which has a more prominent competitive advantage in the field of high-end liquor. Therefore, for Wuliangye Group, the key to compete with Guizhou Maotai Group will be how to improve the brand influence of Wuliangye and increase the market position of premium liquor. Secondly, since Wuliangye's corporate brand positioning is not clear enough, the company has a number of low-end and mid-range brands in addition to its premium liquor products. These sub-brands have a strong correlation with each other, which can easily lead to internal competition as substitutes.

2.1.2.3 Opportunity Analysis

With the continuous development of the national economy, China's GDP per capita and disposable income per capita have shown a steady rise. With the improvement of people's living standard and the increase of social purchasing power, the consumption of liquor has gradually increased, providing a market base for the development and growth of China's liquor industry. With the rapid spread of Internet information technology, e-commerce has gradually replaced the traditional marketing model, extending traditional offline sales to online sales, broadening the sales channels of the liquor industry, improving the operational efficiency of liquor, reducing the cost of sales and increasing profitability. With the global economic integration, the promotion of "One Belt, One Road" and the improvement of China's comprehensive national strength, Chinese national brands are constantly going abroad to participate in the competition in the international market, and liquor, as a product with Chinese characteristics, will certainly receive more attention in the international market. Wuliangye Group, as the leading company in China's liquor industry, will usher in a broader international market.

2.1.2.4 Threat Analysis

As the liquor industry is a restricted development industry, it is deeply influenced by taxation policies and industrial policies, and the tax burden of the liquor industry is high, with consumption tax accounting for a significant portion of the tax burden, which places a certain burden on enterprises and negatively affects their overall profits. With the objective policy changes in 2012, the period of rapid growth in the liquor industry has been gone since the introduction of policies such as the "liquor restriction order", and the slow growth of the industry is the most important threat to the development of liquor companies.

2.2. Accounting Analysis

Accounting analysis refers to determining whether corporate accounting correctly reflects the company's operating conditions on the basis of strategic analysis. Sichuan Huaxin Accounting Firm, as the auditor of Yibin Wuliangye Co., Ltd, has produced a standard unqualified opinion every year. It can be seen that the financial information disclosed in Wuliangye Group's annual reports can truly reflect the company's operating conditions, and the information reflected in the financial reports can be used as a reference basis for investors who are in a wait-and-see period.

2.3. Financial Analysis

2.3.1. Debt Servicing Capacity Analysis

Table 1. Wuliangye Group Debt Service Indicator Analysis 2017-2021

Debt service capacity indicators	2017 year	2018 year	2019 year	2020 year	2021 year
Current ratio	3.96	3.77	3.22	3.96	3.63
Speed ratio	3.30	3.20	2.76	3.44	3.22
Cash ratio	2.54	2.36	2.11	2.64	2.45
Asset-liability ratio(%)	22.91	24.36	28.48	22.95	25.24

Short-term solvency is closely related to the liquidity of an enterprise's assets. The stronger the liquidity of an enterprise's assets indicates the better its liquidity, and the stronger its short-term solvency. In the past five years, Wuliangye Group 's current ratio, quick ratio, and cash ratio have been relatively stable, showing a decreasing trend year by year during 2017-2019. Despite the decrease, Wuliangye Group 's short-term solvency index is still at a high level in the industry, and although the higher short-term solvency index indicates better liquidity and stronger short-term solvency, however, the high cash ratio implies that the use of corporate liquid assets is unreasonable, and a large amount of cash assets may lead to an increase in opportunity costs incurred by the company.

Long-term solvency is closely related to the financial security and stability of a company. When assessing the long-term solvency of an enterprise, we usually use the asset-liability ratio indicator to measure it. The gearing ratio is the ratio of liabilities to assets. Usually, the smaller the gearing ratio indicator, the stronger the long-term solvency of an enterprise, which is generally 60%. At this point, the company's asset and liability structure is more appropriate. From the table, we can see that Wuliangye Group 's gearing ratio has increased slightly in the first three years, but it is still well below 60%, indicating that Wuliangye Group has a strong long-term solvency, but a too-low gearing ratio also means that the company's policy is on the prudent side and does not make full use of financial leverage.

2.3.2. Profitability Analysis

Table 2. Wuliangye Group Profit Indicator Analysis 2017-2021

Profitability indicators	2017 year	2018 year	2019 year	2020 year	2021year
Gross sales margin(%)	72.01	73.8	74.46	74.16	75.35
Net sales margin(%)	33.41	35.07	36.37	36.48	37.02
Total return on assets(%)	15.16	17.88	18.94	18.99	19.64
Return on equity(%)	18.14	21.08	23.42	23.28	23.6

Profitability is the ability of a company to earn profits through production and operation. It is usually analyzed to evaluate the quality of operations and to further identify and correct possible problems in the management process of the business. Wuliangye Group 's profitability

is evaluated by analyzing gross profit from sales, net profit from sales, return on assets, and return on net assets. The higher these indicators are, the more profitable the business is. From the table below, it can be seen that Wuliangye Group 's profitability indicators have been on an upward trend in the past five years, which can be surmised that Wuliangye Group has found a development path that is suitable for today's social forms and in line with national policies during the deep adjustment period, so the company's profitability is also increasing. Only in 2020 its profitability decreases slightly, the reason for which may be closely related to the occurrence of the new coronary pneumonia epidemic, during which the sales of liquor will decrease as people gather in fewer activities. However, from a commercial point of view, its value is still large, indicating that the company has a better ability to profit from the use of its assets.

2.3.3. Operational Capability Analysis

Table 3. Wuliangye Group Operational Indicator Analysis 2017-2021

Operational capacity indicators	2017 year	2018 year	2019 year	2020 year	2021 year
Inventory turnover rate	0.85	0.94	1.01	1.1	1.2
Accounts receivable turnover rate	277.87	337.95	382.9	651.58	1252.9
Days of turnover of accounts receivable	1.31	1.08	0.95	0.56	0.29
Current asset turnover rate	0.51	0.57	0.57	0.58	0.59
Fixed asset turnover rate	5.62	7.58	8.8	9.56	11.52
Total assets turnover rate	0.45	0.51	0.52	0.52	0.53

Corporate operating capacity is an important indicator used to measure the efficiency of a company's use of assets. The faster the turnover rate of an enterprise's assets, the stronger the level of its assets' operation. As can be seen from the table, over the past five years, all turnover indicators have shown a steady upward trend. The continuous increase in inventory turnover indicates that Wuliangye Group 's inventory operating efficiency and liquidity are very good, and the company has good sales capacity. Wuliangye Group 's accounts receivable turnover is lower than Luzhou Laojiao and Yanghe in the liquor industry, but it is also increasing, indicating that Wuliangye Group is constantly adjusting its credit sales policy and strengthening the management of bills receivable. At the same time, Wuliangye Group 's fixed asset turnover ratio is growing at a good pace, which means that Wuliangye Group 's utilization efficiency of fixed assets is improving and there are no idle assets, which, combined with the analysis of short-term solvency, means that Wuliangye Group can also invest in fixed assets to expand its production scale. Finally, Wuliangye Group 's current asset turnover ratio and total asset turnover ratio have increased slightly over the five-year period, but the changes are not significant and are at a medium level in the industry, so the company still needs to improve its asset utilization efficiency.

2.3.4. Development Capacity Analysis

Table 4. Wuliangye Group Development Capacity Indicator Analysis 2017-2021

Outlook indicators	2017 year	2018 year	2019 year	2020 year	2021 year
Net profit growth rate (%)	42.93	39.19	29.84	14.73	17.18
Growth rate of main business revenue (%)	22.99	32.61	25.2	14.37	15.51

When wanting to measure the future development trend and potential of a company, i.e., the growth capacity of a company, the two indicators of main business growth rate and net profit growth rate are usually chosen for development capacity analysis. 2017 and 2018 net profit growth rate and main business revenue growth rate are maintained at a high level, indicating

that the company is in the process of development and growth, and 2019 the growth rate of the company has decreased, indicating that the company The development trend is slowing down, while the further decline in 2020 may be closely related to the prevention and control of the new coronary pneumonia epidemic, which has led to a significant decline in sales of liquor with the reduction of gathering activities. Overall, Wuliangye Group still has a strong capacity for growth.

2.4. Outlook Analysis

The analysis shows that although Yibin Wuliangye Group is not as strong as Maotai Group, the company still has great potential for development, and Wuliangye Group is actively promoting strategic transformation in recent years, which has been initially well reflected. If Wuliangye Group strengthens its capital control in the future development process, avoids idle capital and improves the efficiency of its assets, the company will have great potential for future development and has the strength to lead Chinese liquor and liquor culture to the world.

3. Conclusion

In summary, although Wuliangye Group is still facing fierce competition in the market, it has a lot of momentum and has great potential for future growth, and has the strength to lead Chinese liquor and liquor culture to the world. At the same time, a few suggestions were made for Wuliangye Group 's development.

3.1. Optimization of Capital Structure

Wuliangye Group has not obtained funds through short-term and long-term borrowings for five years, which indicates that the company's own capital can meet its development needs and has a strong ability to recover funds. However, a single capital structure is not conducive to better and faster development. Wuliangye Group can also adopt a combination of equity-based and debt-based financing methods to obtain funds in the future, among which debt-based financing can reduce the amount of corporate taxes and, to a certain extent, avoid dilution of equity.

3.2. Focus on Product Upgrades

Wuliangye's high-end brand value is not competitive enough, and there are too many mid- and low-end brands with unclear positioning. Therefore, in the future development of the company, on the one hand, we should continue to build the main brand and constantly innovate and develop new brewing technologies to improve the quality and taste of the wine, on the other hand, we should precisely build the middle and low-end brands and shut down the middle and low-end brands with low efficiency, poor plasticity and strong homogenization. The market will only become lifeless, and Wuliangye Group should meet the needs of different consumer groups to a greater extent.

3.3. Management Talent Team

Companies wanting to be invincible in the market competition must rely on strong talent power. In the critical period of industrial restructuring in the liquor industry, Wuliangye Group must recruit talents, reserve professional talents and form a diversified talent structure. In particular, the company urgently needs production management talents, skilled operation talents, product development talents and talents good at marketing. The number of administrative staff should be reduced appropriately, and a realistic incentive mechanism should be explored to improve the efficiency of corporate management.

3.4. Make the Most of Online Marketing

In the past, Wuliangye Group mainly relied on traditional advertising and promotion mode. Due to the booming development of the Internet industry, a new marketing mode mainly based on

the Internet is gradually emerging. In the future, Wuliangye Group should pay more attention to the online marketing of its products, for example, it can fully utilize new media such as Weibo and WeChat to strengthen the promotion of its products and the interaction with consumers. In addition, we should improve the product e-commerce sales model and fully apply the Internet of Things in warehousing and distribution, so that enterprises can easily grasp product inventory and improve the efficiency of distribution and transportation. Enterprise management in the use of big data analysis, accurate judgment of market conditions, risk avoidance, to make more scientific and reasonable decisions.

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