

The Impact of Digital Transformation on Corporate Financial Performance: A Case Study of Luzhou Laojiao

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Abstract: With the development of the Internet and big data, the global economy is tending to the deep integration of digital economy and real economy. The state attaches great importance to the digital development strategy and has issued a number of policies to support the digital transformation of enterprises. Therefore, digital transformation has become a necessary means for enterprises to cope with internal and external adverse environmental changes and improve their survival and development. This paper selects Luzhou Laojiao, which has great development potential in the liquor industry, as the research object to sort out the background and path of its digital transformation, and then selects relevant indicators from four aspects of profitability, debt paying ability, operating ability and growth ability for analysis. This paper analyzes the impact of Luzhou Laojiao's digital transformation on its financial performance, and provides reference for other enterprises in the same industry undergoing digital transformation.

Keywords: Digital transformation, Financial Performance, Liquor industry.

1. Introduction

With the development of society, scientific and technological achievements are constantly changing people's lives. For example, the emergence of digital technologies such as the Internet, big data, artificial intelligence and cloud computing has prompted corresponding changes in people's lives and the development of enterprises. The arrival of digitalization and the proposal of the 20th National Congress of the Communist Party of China, focusing on the slogan of building digital China, give many enterprises the opportunity and opportunity to carry out digital transformation. Reasonable digital transformation can effectively improve enterprise management ability, improve enterprise performance and reduce business risks. Therefore, in order to adapt to the development of the digital economy era, Chinese enterprises need to actively explore the road of digital transformation and upgrading. As a traditional manufacturing industry with Chinese characteristics, liquor represents Chinese traditional culture and a special business model, and its impact of digital transformation is particularly worthy of attention. This paper selects Luzhou Laojiao as the research object, studies the impact of digital transformation on enterprise financial performance in combination with specific cases, and provides some enlightenment for enterprises in the same industry.

Listed on the Shenzhen Stock Exchange in 1994, Luzhou Laojiao has a 700-year tradition of brewing technology, and its technology was included in the "first batch of national Intangible Cultural Heritage List" in 2006. In addition, its "1573 National Treasure Cellar Pool Group" became the first "National key cultural relic protection unit" in the industry in 1996. Luzhou Laojiao takes the production and sales of series of wines as its main business, which is always in the forefront of the industry, and was selected as one of the world's top 50 most valuable liquor brands in 2022.

2. Background and Path of Digital Transformation of Luzhou Laojiao

2.1. Background of Digital Transformation of Liquor Enterprises

First of all, with the wide application of the new generation of digital technology in China, China attaches great importance to the development of digital economy and puts forward relevant policies to support and encourage the integration of digital technology and industry. The outbreak of COVID-19 has made digital transformation and upgrading an inevitable choice for enterprises to adapt to the changes of The Times. In addition, with the arrival of the digital era, the consumption structure of liquor is constantly changing and upgrading, and the main consumer groups have also changed from the post-1960s and post-70s generation to the post-80s and post-90s generation and other young groups in the Internet era. They pay attention to brand, quality and personalized products, and like to learn about product information from various channels [1]. However, the wine, foreign wine and beer on the market conform to its personality, which makes the consumption power of this new generation of baijiu decline. How to mobilize and give play to the consumption enthusiasm of the new generation of consumer groups has also become one of the reasons for the digital transformation of liquor enterprises. Finally, due to the unique production characteristics of the liquor industry, it needs strict control over raw materials, production environment and production process, resulting in high costs. In view of the integrated application of big data, artificial intelligence, blockchain and other technologies, it can effectively improve the production efficiency and product quality of liquor enterprises, reduce costs, and promote the digital transformation of liquor enterprises.

2.2. Luzhou Laojiao Digital Transformation Path

2.2.1. Intelligent production

In 2016, Luzhou Laojiao invested 11.8 billion yuan to build an area of more than 3,500 acres of Huangiron wine ecological park in Huangiron Town, Luzhou City. The park mainly uses science and technology to realize the information, automation and intelligence of the brewing process. The relevant process parameters in the artificial brewing process are collected and transmitted to each machine, which is used as standardized data to monitor all kinds of deviations in the automatic production of products in real time, so that the traditional process is satisfied with high efficiency and low loss. In 2022, the production capacity of the whole Huang Double Ecological Park will reach 100,000 tons of wine production scale, and the production capacity and quality of Luzhou Laojiao products supported by digital technology have been further improved. In addition, in the same year, Luzhou Laojiao subsequently carried out the technical transformation project of improving ecological supporting facilities and the transformation project of intelligent packaging center, with the purpose of realizing the automatic packaging function of products.

2.2.2. Digital channels

In order to promote the upgrade of channel management system, Luzhou Laojiao actively builds the project of "one thing, one code". The project refers to the input of raw material information, quality inspection report, production process and other relevant data into the system, which is used as the exclusive QR code for each bottle of wine. Consumers can easily obtain the basic information of products by scanning the code, which prevents fake and inferior products in the market to a certain extent and improves the trust between consumers and manufacturers. One thing one code gives unique information to each product, so that enterprises can accurately trace and track products, and realize information sharing. In 2022, Luzhou Laojiao accelerated the transformation of the digital system of products and upgraded to the situation of "five codes in one", so as to realize the comprehensive digitalization of goods circulation and channel relations. The so-called "five codes in one" refers to the capture of the mutual connection between the five codes of bottle body code, box code, box code, lid code and tray code to ensure the inquiry and tracking of products, so as to strengthen the monitoring and management of channel information and sales status. The transformation and upgrading of the system has become a model of digital transformation in the liquor industry.

2.2.3. Digitalization of consumption

By building private domain traffic, constructing labeled consumer portraits and establishing a unified member platform, Luzhou Laojiao realizes the management of existing users and the expansion of new users, and finally realizes the digitalization of consumer management. Due to the introduction of the policy of restricting three public consumptions, the consumption demand of liquor market has shrunk greatly. Therefore, liquor enterprises should actively seek new users to increase market sales while managing existing users. Thanks to the support of digital technology, people are paying more and more attention to online shopping and information experience, which has led to the emergence of many new online retail platforms in the market, such as Taobao, Jingdong and Tmall. However, due to the fierce

market competition, enterprises need to pay a higher and higher price if they want to gain a more prominent position on such platforms. Therefore, in order to shorten the distance between the brand and customers and reduce the corresponding cost to obtain more and high-quality incremental, Luzhou Laojiao adopts the way of building private domain traffic to guide consumers to pay attention to its corporate official account and divert the real consumers who have purchased products to its private domain traffic pool. After building the enterprise's own user system, Luzhou Laojiao further grasps the relevant information of users and creates consumer portraits. For example: the consumer's age, gender, purchase time, purchase terminal and other information. Based on these digital consumption information, Luzhou Laojiao can know the shopping situation of consumers in real time, so as to better adjust the corporate strategy.

2.2.4. Digitizing Marketing

With development of the digital society, relying on traditional marketing methods have been unable to reach function to promote the development of enterprises. At present, the liquor industry keeps up with the development trend of new media and uses network platform resources to carry out live broadcast activities to narrow the distance with consumers and improve the brand penetration rate. Luzhou Laojiao relies on the customers and information resources of the third-party platform to carry out online marketing, and carries out the marketing mode combining "online + offline". In 2018, relying on Tencent's huge user base, Luzhou Laojiao established a three-in-one smart retail system of "data + content + operation", which improved the brand influence of the enterprise. Not only that, Luzhou Laojiao has carried out online communication activities such as ten thousand cloud sealing ceremony and home kitchen god competition to enhance brand influence. Constantly explore and create new marketing models such as live broadcast marketing and community marketing suitable for themselves [2].

3. The impact of Digital Transformation of Luzhou Laojiao on Financial Performance

In order to comply with the development trend of the digital economy era, digital transformation has become an inevitable trend for the stable development of enterprises. According to the article, it is found that Luzhou Laojiao began to carry out digital transformation in 2016, but began to realize digital operation mode in 2018. Therefore, taking 2018 as the cut-off point of Luzhou Laojiao's digital transformation, this paper selects the performance indicators of Luzhou Laojiao before and after 2018 and compares them with those of the same industry to analyze the impact of its digital transformation on financial performance.

3.1. Impact on Corporate Profitability

Net profit margin on sales can measure the ability of an enterprise to obtain sales revenue in a certain period and reflect the operation and management ability of an enterprise B. It can be seen from Figure 3-1 that from 2016 to 2022, the net profit margin on sales of Luzhou Laojiao continued to rise, and the upward trend was obvious in 2019, and even exceeded Wuliangye in 2021. Grew by 12% between 2018-2021. This is mainly because Luzhou Laojiao constantly adjusts the product structure, and because of the

successful development of automatic brewing equipment, the whole process of brewing production is fully automated production, resulting in higher per capita output and relatively low production cost, so that the profitability caused by sales revenue continues to increase. This shows that after Luzhou Laojiao began to implement comprehensive digital operation in 2018, its growth rate has been significantly improved, and the outbreak of COVID-19 in 2019 did not have a great negative impact on the business performance of Luzhou Laojiao, from which we can see the positive role of digital transformation in dealing with such emergencies.

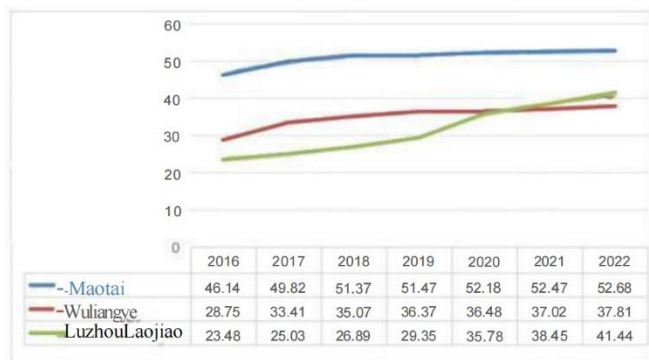


Figure 3-1. Comparative analysis of net profit margin on sales

Return on equity is one of the core indicators to measure the profitability of enterprises. It not only reflects the profitability of the enterprise, but also affects the operation, decision-making and long-term development of the enterprise in many aspects. It shows the efficiency of using shareholders' equity to create profits, and is a key data to evaluate the strength of corporate profitability. It can be seen from Figure 3-2 that from 2016 to 2018, the return on equity of Luzhou Laojiao gradually increased from 19.02% to 26.88%, and exceeded the return on equity of Wuliangye in

the same period. However, in 2018, Wuliangye and Luzhou Laojiao began to carry out digital transformation in the same year, resulting in the return on net assets of Wuliangye and Luzhou Laojiao, and the economic benefits continued to improve. During the five-year period from 2018 to 2022, the average return on equity of Luzhou Laojiao reached 27.82%; In the three-year period from 2020 to 2022, the average return on equity of Luzhou Laojiao reached 30.71%. Moreover, in 2022, the return on equity of Luzhou Laojiao ranked the third among the 20 listed liquor enterprises. This also benefits from Luzhou Laojiao's continuous promotion of production management mode reform, the use of digital technology to save production costs, and actively carry out marketing digital construction, so as to achieve the purpose of reducing costs, improving efficiency, and promoting profitability. This also proves that Luzhou Laojiao can obtain relatively stable profits after digital transformation, and its profitability is constantly developing positively.

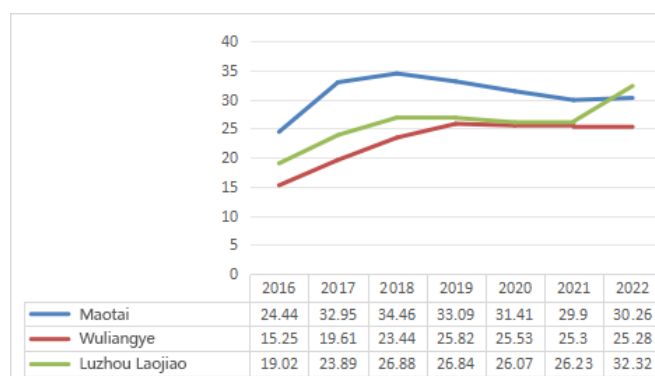


Figure 3-2. Comparative analysis of return on equity

Table 3-1. Comparative analysis of gross margin (%)

	2016 year	2017 year	2018 year	2019 year	2020 year	2021 year	2022 year
Moutai	91.23	89.8	91.14	91.3	91.41	91.54	91.87
Wuliangye	70.20	72.01	73.80	74.46	74.16	75.35	75.42
Luzhou Laojiao	62.43	71.93	77.53	80.62	83.05	85.7	86.59

Gross profit margin plays a crucial role in enterprises. It not only reflects the profitability of enterprises, but also affects the operation and development of enterprises in many aspects. By calculating the percentage of the difference between sales revenue and cost in sales revenue, we can intuitively understand the profitability level of enterprises after deducting direct costs. In 2016 and 2017, the gross profit margin of Luzhou Laojiao was slightly lower than the industry average of 71.05% and 73.89%, respectively, but began to surpass after 2018. Although the overall gross profit margin of the liquor industry is generally high, the gross profit margin of Kweichow Moutai and Wuliangye, which are the leaders in the liquor industry, in 2022 is 91.87% and 75.42% respectively, while that of Luzhou Laojiao reaches 86.59%, surpassing that of Wuliangye. As shown in Table 3-1, we can see that the gross profit margin of Luzhou Laojiao has been exceeding that of Wuliangye, the second largest company in the industry, since 2018, and is constantly approaching Kweichow Moutai, whose gross profit margin has reached the second-best level in the industry.

3.2. The Impact on The Solvency of Enterprises

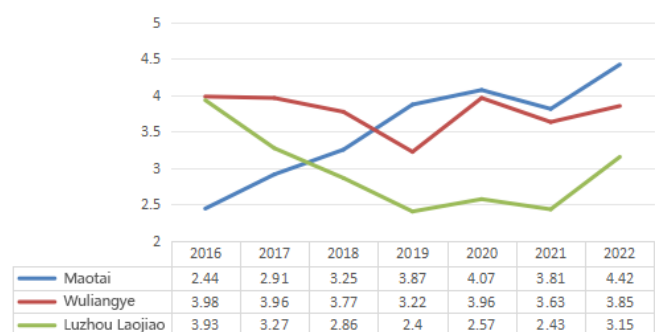


Figure 3-3. Comparative analysis of current ratio

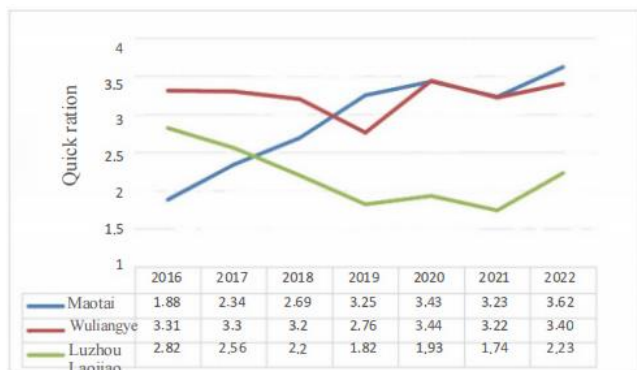


Figure 3-4. Comparative analysis of quick ratio

Figures 3-3 and 3-4 reflect the changes of relevant indicators of Luzhou Laojiao's solvency from 2016 to 2022. It can be seen that the current ratio and quick ratio of Luzhou Laojiao reached the peak of 3.93 and 2.82 in 2016. Due to the particularity of the liquor industry, most enterprises have rich cash flow, so the debt ratio of the liquor industry is generally low. However, too high current ratio and quick ratio reflect that enterprises do not make rational use of idle funds and miss more profit opportunities. From 2017 to 2019, the liquidity ratio and quick ratio of Luzhou Laojiao showed a downward trend, indicating to some extent that the enterprise began to pay attention to the utilization of idle funds. After 2019, these two indicators of Luzhou Laojiao have basically maintained a stable range of 2.5 and 1.8. According to

relevant data, after 2019, the current ratio of Luzhou Laojiao is basically the same as the average of the industry, while the quick ratio is lower than the average of the industry, reflecting the situation that there is a large amount of inventory in the current assets of Luzhou Laojiao. By comparison, it can be found that the two indexes of Luzhou Laojiao are lower than those of Maotai and Wuliangye, indicating that the enterprise is relatively weak in the security of immediate debt repayment, and Luzhou Laojiao should comprehensively strengthen the management of inventory and the turnover of receivables [4]. In addition, Luzhou Laojiao has gradually carried out digital transformation projects such as the Huang Brewing ecological Park and the construction of internal medium and Taiwan, which have cost a lot of funds and have certain short-term debt repayment pressure. Although the quick ratio began to fall below the industry average after 2019, the short-term solvency is still protected as the two short-term solvency indicators are still within a healthy range.

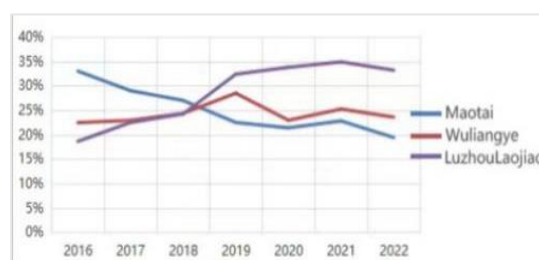


Figure 3-5. Comparative analysis of asset-liability ratio

Table 3-2. Comparison of the average asset-liability ratio between Luzhou Laojiao and the industry

	2016 year	2017 year	2018 year	2019 year	2020 year	2021 year	2022 year
Luzhou Laojiao	18.64%	22.49%	24.25%	32.38%	33.78%	34.89%	33.19%
Industry average	32.88%	33.36%	32.60%	33.96%	32.16%	35.34%	34.17%

In terms of reflecting long-term solvency, it can be seen from the comparison of the asset-liability ratio of Luzhou Laojiao with that of the industry in Figure 3-5 and Table 3-2 that the asset-liability ratio of Luzhou Laojiao has been rising in recent years. Although this index of Luzhou Laojiao was always far lower than the industry average from 2016 to 2018, after the digital transformation, its asset-liability ratio exceeded that of Kweichow Moutai and Wuliangye from 2019, and has remained on par with the industry average since then. For creditors, the higher the asset-liability ratio is, the more secure it will be. However, for investors, an appropriate asset-liability ratio helps to give positive play to financial leverage, thus improving the level of capital utilization [5]. In general, after the digital transformation, the capital utilization efficiency of Luzhou Laojiao has increased, and the debt paying ability of the enterprise is at the medium level in the industry, which is still within the healthy category.

3.3. The impact on the Operating Capacity of The Enterprise

Inventory turnover is used to evaluate the capital occupied

by an enterprise's inventory. Generally speaking, the higher the inventory turnover, the better, which is conducive to improving the efficiency of the use of enterprise funds. It can be seen from Table 3-3 that the inventory turnover rate of Luzhou Laojiao showed a continuous downward trend from 2016 to 2022. It reflects the slow realization speed of Luzhou Laojiao and the high level of capital occupation. The reason for the continuous decline in the inventory turnover rate of Luzhou Old Cellar may be that after the technical transformation projects of wine making were put into operation successively, the output of self-made semi-finished raw wine in the inventory increased greatly, which intensified the inventory pressure [6]. In addition, the state issued the policy of restricting the consumption of three public enterprises and Luzhou Laojiao repeatedly announced the price increase of all products, which eventually led to the decrease of consumption and the continuous decline of inventory turnover. Due to the impact of inventory accumulation, the total asset turnover of Luzhou Laojiao also showed a downward trend from 2016 to 2019. Between 2020 and 2022, the flat state of this indicator was mainly compensated by the increase in accounts receivable turnover.

Table 3-3. Changes in operating capacity indicators

		2016 year	2017year	2018year	2019year	2020year	2021year	2022year
Inventory turnover rate	Moutai	0.18	0.28	0.29	0.3	0.3	0.29	0.28
	Wuliangye	0.81	0.85	0.94	1.01	1.1	1.2	1.21
	Luzhou Laojiao	1.17	1.1	0.97	0.89	0.68	0.49	0.39
Total asset turnover	Moutai	0.4	0.49	0.52	0.5	48	0.45	0.49
	Wuliangye	0.43	0.45	0.51	0.52	0.52	0.53	0.51
	Luzhou Laojiao	0.64	0.62	0.62	0.61	0.52	0.53	0.53

Accounts receivable turnover reflects the average number of times that accounts receivable are converted into cash in a certain period of time. The higher the turnover rate is, the faster the receivables are collected, and the higher the efficiency of receivables management of the enterprise is. It can be seen from Figure 3-6 that from 2020 to 2022, the accounts receivable turnover rate of Luzhou Old Cellar has a phenomenon of rising and falling, from 13200 in 2021 to 6640 in 2022. The reason for this situation may be that the implementation of strict credit policy in Luzhou Old Cellar makes the payback period of accounts receivable longer. Collection slowed. In general, as the main source of receivables of Luzhou Laojiao is downstream dealers, it can be found through horizontal comparison that the receivables turnover rate of Luzhou Laojiao is relatively high, which can reflect that its digital transformation achievements in channel management play a certain role in promoting, and its ability to obtain cash from the channel end is enhanced. However, Luzhou Laojiao still needs to strengthen management and speed up inventory turnover in view of the phenomenon of overstocking.

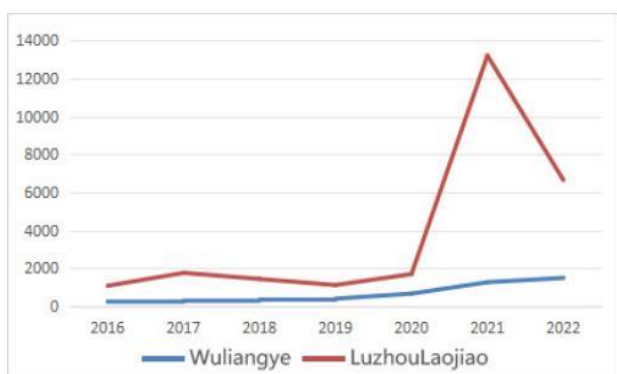


Figure 3-6. Comparative analysis of accounts receivable turnover

3.4. The impact on the Growth Ability of Enterprises

The growth rate of net profit refers to the growth rate of net profit of the current period relative to the net profit of the previous period. The larger the ratio is, the stronger the profitability of the enterprise is, and the better the future development prospect is. As shown in Figure 3-7, after the digital transformation of Luzhou Laojiao was implemented in 2018, the net profit growth rate of that year reached 36.27%, which is the highest in recent years. However, the reason for the gradual slowdown from 2019 may be due to the impact of the outbreak of COVID-19 on the market, which has a certain impact on the whole industry. As can be seen from the figure, since 2018, the net profit growth rate of Luzhou Laojiao has maintained a slight advantage, indicating that the implementation of digital transformation strategy and optimization of internal processes have entered a virtuous cycle.

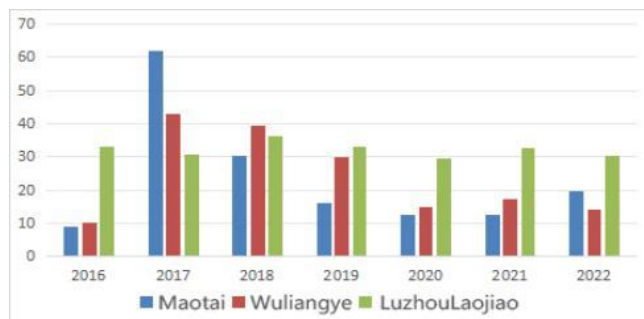


Figure 3-7. Comparative analysis of net profit growth rate

4. Suggestions for Luzhou Laojiao Based on Digital Transformation

4.1. Establish Digital Warehousing and Logistics

Since the implementation of comprehensive digital operation in 2018, Luzhou Laojiao has continuously optimized the quality management and traceability ability of the whole life cycle, and promoted the implementation and continuous upgrading and reform of one thing one code, so that the enterprise can know the inventory information of products in real time. However, considering that the inventory turnover capacity of Luzhou Laojiao continues to decline, it is suggested that Luzhou Laojiao strengthen the digital construction of warehousing and logistics system. Through the construction of logistics informatization, the physical space movement of goods is transformed into electronic data information in the background system in real time, so as to timely understand the inventory situation of goods, delivery time and other relevant information, and timely contact with consumers when there are problems with goods, optimize and improve the enterprise products and services, and improve the market competitiveness. Secondly, Luzhou Laojiao can vigorously improve the technology of the enterprise, establish a digital model of the whole process, analyze and predict the future sales trend and seasonal demand changes according to the storage data, which can effectively achieve the purpose of destocking, reducing risks, reducing logistics costs, and providing capital turnover operation efficiency.

4.2. Rationally Optimize the Capital Structure

The unreasonable capital structure will not only make the debt solvency of the enterprise doubtful, but also have a negative impact on its business performance, thus increasing the financial risk in the operation of the enterprise. Therefore, before optimizing the capital structure, it is necessary to make a comprehensive study and judgment on the structure, scale and cost of debt, strictly control and manage the structure of debt, reduce the probability of financial risks caused by changes in the market environment, industry conditions, national policies and other factors, so that the business

activities of enterprises can play the optimal effect, maintain its good operation, and ensure the enterprise The daily operation of the industry can develop continuously and healthily. Through the analysis of the debt paying ability of Luzhou Laojiao, it can be found that after the realization of the digital transformation strategy, although the short-term debt paying ability of Luzhou Laojiao is good, the asset-liability ratio has an obvious upward trend, and its debt paying risk cannot be ignored. Considering that this may be because the enterprise does not make good use of financial leverage and is not good at using external funds, it is suggested that Luzhou Laojiao can optimize its capital structure reasonably and moderately increase the proportion of financial liabilities. For example, increase the use of loans and trust products from financial institutions or banks. In addition, because Luzhou Laojiao has carried out a large number of engineering projects in the process of digital transformation, it has high requirements for equipment and technology. Therefore, Luzhou Laojiao can consider using leverage leasing, which can not only meet the requirements of equipment supply and technology upgrading, but also create greater benefits by reducing costs and increasing efficiency.

4.3. Strengthen Technological Innovation and Enrich Product Mix

Luzhou Laojiao, as a leader in China's liquor industry, has always focused its core business on liquor sales. However, with the change of times and the diversification of consumer tastes, the liquor market is experiencing unprecedented changes. Among them, the most significant trend is the younger consumer groups. There is a significant difference between the young generation of consumers and the traditional consumer groups in their consumption attitude and behavior toward liquor. In the face of this market change, Luzhou Laojiao can make use of the consumer portrait constructed by using big data and artificial intelligence technology in the process of digital transformation to carefully grasp the individual needs and preferences of consumers, increase investment in research and development, constantly explore and try new technologies and processes, and enrich and optimize the product structure. The company actively develops more products that meet the needs of young consumers, such as liquor products with softer taste, more fashionable packaging and richer cultural connotation. These new products not only meet the personalized needs of young consumers, but also improve the competitiveness of Luzhou

Laojiao in the market, and bring about a significant improvement in the financial performance of the enterprise.

5. Conclusions

Luzhou Laojiao still needs to strengthen its solvency, and its current ratio and quick ratio are lower than the industry average. At the same time, operating capacity is facing challenges, inventory turnover decreased year by year, and capital occupation level is high. Still, Luzhou Laojiao has kept its asset-liability ratio low, showing a solid financial position. To cope with these challenges, Luzhou Laojiao should continue to promote digital transformation, while focusing on inventory management and accounts receivable turnover to improve capital utilization efficiency. In addition, the establishment of digital warehousing and logistics, rational optimization of capital structure and strengthening of technological innovation are also key to driving development. Through these measures, Luzhou Laojiao is expected to further consolidate and enhance its market position and achieve sustainable development.

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