

Nong fu Spring's Strategic Dilemma in China's Competitive Bottled Water Market

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Abstract:

This study assesses different strategies faced by Nong fu Spring which is a leading brand in China's competitive bottled water market. The research demonstrates three potential strategies: concentrating on the production of natural mineral water, transferring to the beverage production or combining the focus on purified drinking water and adoption of eco-friendly packaging. Through the analysis of market trends and environmental impacts, the study analyzes both advantages and drawbacks of each strategy. Findings finally suggest that the appropriate method is to integrate purified drinking water production with sustainable packaging. This strategy not only mitigates the financial problems from the production of natural mineral water but also enhances the sustainability credentials of this brand. Overall, this study concludes that Nong fu Spring's market position should be strengthened by the adoption of a balanced approach which prioritizes purified water and eco-friendly innovations. The future research directions can be consumer acceptance of sustainable packaging and the feasibility of cross-industry collaborations in order to boost the development of recycling infrastructure.

Keywords: Nong fu Spring; bottled water market; marketing strategy; sustainability

1. Introduction

The bottled water market in China is in a competitive situation and continues to expand which demonstrates the significant growth in profits [1]. The competitive situation reflects the rising demand for bottled water from the consumers which includes the natural mineral water and purified drinking water. In this context, Nong fu Spring as the leading brand of bottled water industry which is also known for the premium and health-oriented brand image is

necessary to consolidate market position depending on new marketing strategies. Despite the advantages of the production in natural mineral water such as the high-quality water resources in Qiandao Lake and Changbai Mountain [2], Nong fu Spring still encountered the challenges in the field of purified drinking water. The potential demand for purified drinking water made the brands such as Yi bao and other brands more competitive in the bottled water market [3]. Further, the rapid growth of the profit in the beverage market demonstrated that developing

beverage products could be a more reasonable strategy [3]. Therefore, the present situation forms the dilemma whether to continue emphasizing on mineral water or diversify into purified drinking water or beverage production. Additionally, the increasing demand for eco-friendly packaging necessities the reassessment of product positioning combined with eco-friendly concept. Analyzing the marketing strategy of Nong fu Spring is of critical importance. First, the production of natural mineral water of Nong fu Spring is tied to the high-quality brand image so whether the behavior such as introducing purified drinking water will undermine the established brand image is highly related to the competitive edge of Nong fu Spring. Second, the rapid growth of beverage market provides the company diversification opportunities but the bottled water industry is still the representation of the company so the company still requires careful resource allocation. Further, the escalating environmental concerns such as the plastic pollution compels the company to focus on the development of eco-friendly packaging. Overall, the study will discuss about the possible ameliorations and provide evidence-based insights for Nong fu Spring to navigate competitive and environmental challenges.

2. The marketing strategies

There are several ideas about the marketing strategy of Nongfu Spring bottled water and one of the strategies is to mainly develop the mineral water and enhance the trust from the consumers. There are several reasons which can support this opinion. The first one is that the scale of the mineral water market in China was big enough. According to the data, the size of the mineral water market in China reached 15.58% by the year of 2018 and continued to reach 40.05 billion RMB in 2019 [1]. Besides the production from Chinese market itself, the imported amount of mineral water was also immense. From January to October in 2020, China imported 225300 liters of mineral water which valued 45.09 million dollars [1]. According to the list of the bottled water brands in China, the top ten producers included Kunlun Mountain, Nong fu Spring, Baishishan Mountain, Evergrande Ice Spring and Yibao [1]. These data demonstrate that the demand of the mineral water in Chinese bottled water market is rising and the bottled water producers should compete for this market. The second reason why Nong fu Spring should focus on the development of mineral water is that Nong fu spring should continue to maintain its brand image. Chinese National Health Commission has emphasized the naming and classification of bottled water since 2014 and the policy claimed that bottled water should be separated into two categories which were purified drinking water and other drinking water such as natural mineral water [4]. In comparison to ordinary purified drinking water,

natural mineral water is healthier and superior. Before the policy was issued, the Chinese native competitors mainly focused on the ordinary purified drinking water and there were no high-end bottled water brands among them. Therefore, it was a chance to fill the vacancy of Chinese domestic high-end bottled water market and also enhance the brand image. After the policy being issued, Nong fu Spring depended on the glass-bottled high-end water and the concept of precious water resource to construct the brand image and the trust from consumers [4]. Therefore, the stereotype that Nong fu Spring exclusively produces the high-end, health-oriented bottled water has already been established in the perceptions of consumers. Should Nong fu spring ventures into producing ordinary purified drinking water, it could undermine the well-established brand image. Moreover, there is a critical rationale for Nong fu Spring to emphasize on the manufactory of natural mineral water which is the existing capability to produce premium mineral water. The company possess the access to eight high-quality water resources including Thousand-Island Lake and Changbai Mountain which provide essential elements such as potassium, sodium and calcium [2]. In comparison to the other domestic competitors, Nong fu Spring has already had the advantage to develop high-quality natural water and become the leader among them. Therefore, Nong fu Spring can continue to depend on this advantage to develop mineral nature water and create more profits through the propaganda.

The second opinion is that Nong fu Spring should continue to concentrate on the development of other kinds of drinks such as beverages [5]. There are also some reasons which can support it. The first reason is that the revenue of the beverage production field is rising. According to the research, the profit from the bottled water products of Yibao kept decreasing from 2021 to 2023. Because of the disadvantage in the field of bottled water productions, Yibao changed the strategy and focused on the development of beverages [5]. For example, Yibao has already owned four tea beverages, three kinds of juice and two sports beverages and the revenue has also increased by 30.8% to 1.397 billion dollars [5]. Besides Yibao, the other brands are also facing the fierce competition in the field of bottled water so it is reasonable for these brands to search new approaches and change the production line. Therefore, Nong fu Spring should follow the new consuming trend and develop the new products which is suitable for the market to keep the competitive advantage. The second reason is that Nong fu spring has already had the ability and experience to conduct the mass production of the beverages [3]. Through the development in the field of bottled water, Nong fu Spring has already constructed the complete marketing net and can continue to depend on the original marketing strategy to popularize the beverages. Further, Nong fu Spring has also had some own beverages

such as the teas and juice so Nong fu Spring can develop the new categories of beverages based on the original beverages [3]. In the year of 2023, the revenue from the beverage products of Nong fu Spring was approximately 22.406 billion yuan which accounted for 51.7% of the total revenue [3]. Therefore, the data demonstrated that the beverage productions of Nong fu Spring did have the potential. Moreover, Nong fu Spring still has the space to upgrade the original products [3]. According to the CEO of Nong fu Spring, he claimed that the tea beverage was becoming more popular in international market but the company still lacked the understanding of tea and the planting technique of tea still stagnated over one hundred years [3]. Therefore, it is necessary for Nong fu Spring to upgrade their techniques to plant teas and continue to decrease the cost or invent more new products.

In my opinion, Nong fu Spring should conduct a strategy which integrates purified drinking water production with eco-friendly packaging rather than solely concentrating on the development of beverages or natural mineral water. The main reason for Nong fu Spring to produce purified drinking water is that the cost of producing natural mineral water is rising. The main reason is that the distance between the sales place and the production place is at most 500 kilometers so the transportation cost is hard to ignore [6]. In order to save the transportation cost, Nong fu spring even constructed a railway instead of the road while this method did not apply to all the water sources [6]. Further, there are also some other costs such as the cost of exploitation and time [6]. Although Nong fu Spring is the leading brand in the field of producing natural mineral water, the rising cost of it is making the brand less competitive. In comparison to the cost of natural mineral water, purified drinking water will save more cost. For example, the water resources are from the municipal water supply system and the factories can be located in anywhere. Further, the use of standard water producing strategies such as filtration, penetration and disinfection can limit the time cost during the production. Despite Nong fu Spring always claimed that they only produce the high-end natural water, the consumers will actually not care about that producing purified drinking water will influence the brand image. According to the research in seven Chinese cities, about 48.9% of all the consumers preferred natural mineral water, about 30.1% of consumers preferred purified drinking water and 21% of consumers did not care about specific categories [7]. Therefore, the most of the consumers did not have the concept that purified drinking water is unacceptable and inferior so producing purified drinking water will not damage the brand image. The main reason why Nong fu Spring should utilize eco-friendly package is that the original plastic packages will be harmful to the society and environment. For example, the manufacturing of 1 KG original PET bottle will generate 2.3 KG of CO₂

and the producing process will also cause water waste. Further, the recycling rate of abandoned PET bottle was only 29% in 2018 and the remaining 71% of the bottles were landfilled [8]. Besides the harm to the environment, the plastic package will also be harmful to society. According to the research, the substances added to the plastic bottle during the process of manufacturing could be released into the water especially in the high temperature. Moreover, about 93% of plastic bottled water contained microplastic contamination which was roughly twice as many as in the tap water. Therefore, the plastic water bottle will be harmful to the health of consumers. On the other hand, the pollution of plastic bottles will also cause the questions of equity and social injustice. The consumers of bottled water will enjoy the products but the whole society need to afford all the costs especially the people who populate near the landfills and bottled water factories [8]. Therefore, Nong fu Spring should use the eco-friendly substance as the package such as the glass or the new environmentally friendly materials.

3. Conclusion

The study underscores the complexities in Chinese bottled water market and the possible marketing strategy for Nong fu Spring. Despite the fact of being the leading brand among other domestic brands is known for the premium water resources, the company is still facing the challenges such as high cost from the process of mineral water production, transportation limitations and the competition pressure from other purified drinking water producers. Therefore, Nong fu Spring is compelled to reconsider the product portfolio. The analysis reveals the ameliorations that diversifying into purified drinking water and changing to the recyclable packaging are able to mitigate the cost while aligning with rising eco-friendly demand. Notably, there were 30.1% of consumers preferred the purified drinking water so the market acceptance is enough. Moreover, the beverage productions indeed provided lucrative opportunities while the keystone of Nong fu Spring is still bottled water products so the company should not completely emphasize on the beverage sector. Therefore, a balanced strategy is prioritizing the production of purified drinking water while accelerating the expand of sustainable packaging such as biodegradable plastic and recycled PE. This strategy may optimize competitiveness of the brand and ESG performance.

The findings about the rising environmental-friendly awareness and the adoption of environmental-friendly materials can provide the directions of future research. There are several aspects that can be explored. First, the further research can explore the willingness of consumers to buy sustainable packaging which can be used to predict the popularity of Nong fu Spring bottled water with

sustainable packaging in the future. Second, the life cycle appraisal of all possible recyclable materials is necessary and the outcome can be used to evaluate which material can be selected. The third part is about the cross-industry collaborations to improve recycling infrastructure which can be seen as the approach for Nong fu Spring to become the leader in the aspect of sustainability. By integrating marketing strategies with sustainability innovation, Nong fu Spring can consolidate the leadership and also bring about systematic change in China's beverage market.

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