

Market Repositioning and Strategic Adaptation: A Case Study of Nongfu Spring's Return to the Purified Water Market

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Abstract. Nongfu Spring launched its newly packaged purified water products in April 2024, which marked a significant restructuring of Nongfu Spring's product line. This study examines Nongfu Spring's strategic decision to re-enter the pure water market and the motivation and market reaction behind it. By analyzing market demand, brand positioning, competitive landscape and Complex Adaptive System (CAS) model, it reveals how Nongfu Spring achieved successful re-entry in a highly competitive market through brand influence and flexible market strategies. The study finds that Nongfu Spring expanded its product line and responded to the growing demand for purified water while seeking new growth areas to consolidate its leading position in the drinking water market. Despite market education and brand trust challenges, Nongfu Spring increased its market share through precise market positioning and effective marketing strategies. This study also proposes future strategic optimization recommendations for Nongfu Spring to maintain its competitive advantage in the ever-changing market environment.

1 Introduction

In April 2024, Nongfu Spring launched its newly packaged purified water, which attracted wide attention on the Internet. Unlike the classic red bottled water, the new product uses a green bottle with a capacity of 550ml. It claims ten water sources, including Qiandao Lake deep underwater, Danjiangkou deep underwater, and Emei Mountain in Sichuan Province. This change marks an important adjustment in Nongfu Spring's product line. Nongfu Spring's founder, Zhong, announced 2000 that the company would no longer produce pure water. However, after 25 years, why did the company re-enter the pure water market? This decision has aroused widespread concern in academia and industry.

The existing research on Nongfu Spring into the pure water market has a certain discussion [1, 2]. For example, Kong and others point out that Nongfu Spring has focused on the natural water market, and its decision aligns with its strategic logic to expand its product line [3]. According to the Puhua Research Institute report, Chinese consumers' demand for purified and natural water continues to grow, and retail sales of purified water accounted for

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60.4% of the total bottled drinking water in 2019 [3]. Strategic positioning expert Zhan Junhao analyzed that the advantages of Nongfu Spring in the purified water market may include its brand awareness, quality control, and marketing strategy despite the negative evaluation of quality problems in the past [4]. However, the current research mainly focuses on economic and brand advantages and has not yet deeply explored the motivation and market reaction to Nongfu Spring's re-entry into the pure water market.

Although Nongfu Spring has become a dominant player in the aquatic product market, leading the industry in sales volume and market share, its motivation for repositioning itself in the highly competitive purified water market remains to be determined. Why did Nongfu Spring choose to enter the purified water market at this time, especially when competitors such as Ebon already dominate the market? Through an in-depth analysis of market strategy and demand, this study will explore why Nongfu Spring re-entered the pure water market and summarize its successful experience and challenges.

To deeply understand the motivation and market reaction of Nongfu Spring entering the pure water market, this paper will combine market strategy analysis and demand research. The study will use literature, market data, and case studies to understand Nongfu Spring's market decision-making comprehensively. In this study, the complex adaptive system (CAS) model will be used to analyze the strategy of Nongfu Spring in the purified water market. John H. Holland proposed the CAS model in the 1990s to describe and explain behavior patterns in complex systems [5, 6]. The model is particularly suitable for analyzing market competitive and cooperative behavior, ecosystem species interactions, and social network group behavior [7, 8]. In this study, the CAS model will help reveal how Nongfu Spring adjusts its strategy and ADAPTS to change in a dynamic market environment.

The structure of this study is as follows: The second chapter will introduce the Nongfu Spring brand overview and purified water market demand, including brand history, market status, and consumer demand changes. The third chapter will analyze the decision-making process of Nongfu Spring re-entering the purified water market and discuss the implementation problems and the current effects. The fourth chapter will use the complex adaptive system model to analyze the market strategy of Nongfu Spring and its reasons for implementation. The fifth chapter summarizes the research findings, puts forward the strategy optimization suggestions for Nongfu Spring, and looks forward to the future market trend and strategic direction.

2 Market demand

2.1 Brand overview

As one of the well-known drinking water brands in China, Nongfu Spring's development process can be attributed to the following periods:

Early days. Founder Zhong Shanshan established Nongfu Spring in Hangzhou, Zhejiang Province, in 1996 and released the first natural mineral water in 1997. Development period: From 1997 to 2000, Nongfu Spring was promoted nationwide with its advertising slogan "Nongfu Spring is a little sweet" and was quickly welcomed by consumers.

Growth period. From 2001 to 2008, Nongfu Spring launched the "Farmer's Orchard" fruit juice beverage to expand its market share further, and in a few years, invested in the construction of several mineral water production bases, expanded production capacity, and became the designated drinking water supplier for the Olympic Games, and its brand awareness was also enhanced.

Stable development period. Since 2009, Nongfu Spring has successively launched drinks such as *Scream*, *Tea II*, *Vitamin water*, and *Oriental Leaves*, gradually occupying the domestic market.

2.2 Brand positioning and market status

According to statistics, in the past decade, Nongfu Spring has occupied the head of China's packaged drinking water market share, with a proportion of 23.6%. The identity of nature porters only moved 20 billion bottles of mineral water from nature in 2023. Ebao occupies second place with 18.4% and sells more than 10 billion bottles, although the gross profit margin is 59.5% and 44.7%, respectively. There is a slight difference, but because one produces mineral water and one produces pure water, the markets are more stable and do not interfere with each other. However, Nongfu Spring seems unsatisfied with the status quo and has entered the pure water market as a green screen. It wants to launch an impact on the status of the "boss" of Ebao pure water.

2.3 Aquatic product line

Pure water. Taking 2 yuan a pack of purified water as an example, which is standard on the market, it can be seen from its prospectus that the production cost is 0.38 yuan (including packaging and water charges, etc.) and the transportation cost is 0.06 yuan, which occupies most of the cost. The production of a bottle of pure water is also straightforward, from the municipal water supply system where the factory is located, through filtration, penetration and disinfection and other water treatment, packaging after inspection, then it can be transported to the shelves for sale.

Mineral Water. Taking the common 2 yuan mineral water on the market as an example, from its prospectus, you can see that most of its cost is the packaging fee and freight (0.2 yuan and 0.06 yuan, respectively), compared with the cost of water is only 3 points, almost negligible [9]. The main difference between the production mode of mineral water and pure water is that mineral water has higher requirements on the water source, which requires extremely high time cost and capital to mine the water source because the qualified water source itself is scarce, so its radiation range can only be limited in the vicinity of the water source.

3 Decision analysis: Nongfu Spring re-enters the purified water market

3.1 Implementation process of decision-making

Although Green Bottle Nongfu Spring was launched without any notice, before deciding to enter the purified water market, Nongfu Spring conducted market research, analyzing consumer demand, market trends, and the situation of competitors [10]. According to the report, China's packaged drinking water market in 2023 is 215 billion yuan, with a compound annual growth rate of 7.1% from 2018 to 2023, and is expected to reach 314.3 billion yuan by 2028. Drinking pure water is the largest market segment; retail sales in 2023 are 120.6 billion yuan, accounting for 56.1% of China's packaged drinking water market, and is expected to reach 197.8 billion yuan in 2028. Given the continuous growth of market demand for purified water, Nongfu Spring decided to adjust its strategy and re-enter the purified water market, using its rich water source resources, such as Qiandao Lake, Emei Mountain,

Danjiangkou and other places, to develop new purified water products to broaden the product line and meet the needs of different consumers.

3.2 Problems during implementation

Because it can use the original sales channels, the Green Screen Nongfu Spring listing is relatively smooth. Still, before the statement that it no longer produces pure water, there was a consumer trust crisis in Nongfu Spring pure water. Since 2000, Nongfu Spring has carried out a series of “pure water is useless” publicity to enhance natural water's market visibility and reputation. Nowadays, making consumers who agree that “mineral water is better than pure water” accept the new products is an urgent problem for Nongfu Spring. Wenxi Bai, chief economist of IPG China, said that Nongfu Spring's business strategy adjustment and relaunch of pure water products may confuse consumers' perceptions and increase the difficulty of market education. In addition, this strategy adjustment may also trigger public opinion attention and discussion, putting a certain pressure on the brand image and market strategy of Nongfu Spring. According to the data disclosed by Nongfu Spring, from May 31 to June 3, the cumulative sales of new green bottled pure water exceeded 1 million, but compared with the sales of their own red bottled mineral water and Ebo purified water in the same period, this figure is slightly inferior. Therefore, it needs some time to stabilize its foothold in the market.

4 Nongfu Spring into the pure water market strategy

4.1 Shortcomings of the original strategy: the limitation of a 500 km transportation radius

In the bottled water industry, there is a natural theory of 500 kilometers of transportation radius, that is, the price of two yuan of water, the distance between the sales place and the production place is at most 500 kilometers, otherwise the profit of the sales company will not be enough to cover the transportation cost. As the head of the purified water market, Ebo has established more water production plants whose density reaches a certain level. This can reduce the transportation radius, reverse compress the transportation cost, and obtain higher profits under the exact pricing. Since Nongfu Spring produces natural water, according to the 2015 “Water Pollution Prevention and Control Action Plan”, you must first get the mining qualification and go to the Ministry of Finance to apply for the auction license and annual water withdrawal to participate in the auction. The process is time-consuming, and Nongfu Spring's water source, discovered on Mount Emei in 2000, was only completed and put into operation in 2014. The exploitation of a water source has consumed a lot of time, capital, and other costs. Therefore, to save costs, Nongfu Mountain Spring used a railway instead of a road to break the 500-kilometer transportation radius limit and intended to enhance the radiation range of a single water source. At present, special railway lines have been established in Qiandao Lake, Danjiangkou, and other water sources, and Changbai Mountain, Nongfu Spring has even developed "iron motor transport", which can directly deliver products to customers, but this method does not apply to all water sources, it can not completely lift the restrictions on all water sources, even if the owner of 12 water mining sites Nongfu Spring, to produce only mineral water, a 500-kilometer transportation radius also limits it. Its market has always been limited to the South China, Central China, and North China. If it wants to develop the market but can not break the 500 km transportation radius limit, Nongfu Spring can only re-open up the pure water market abandoned before.

4.2 Advantages of new products: limit the market of other manufacturers

After fully understanding the brand overview of Nongfu Spring, it can be seen that the market of Nongfu Spring is not limited to the water market, and the profit of its beverage market occupies a large proportion of its total profit. From the prospectus of Ebao and the latest financial report of Nongfu Spring, it can be found that the net profit margin of Nongfu Spring is 28%, and that of Ebao is 9.9%, three times the difference. The reason is not that the sales volume of Ebao and Nongfu Spring bottled water is very different, but that compared with Nongfu Spring, its sales products are almost only bottled water, and 92.1% of the company's revenue is white water income. Beverage revenue, which is even more lucrative, was only 7.9%. In contrast, Nongfu Spring's bottled water revenue was reduced to less than 50% in 2023; the rest are high-unit-price beverage products. The growth rate of this sector shows a stable growth trend. In the case of Nongfu Spring's beverage *Oriental Leaves*, which was originally listed as one of the five most difficult drinks, because of the prevalence of sugar-free, healthy wind, it has become a popular model. Its sales and profits are far ahead of those of similar products of China Resources Beverage, the parent company of Ebon.

China Resources Beverage submitted the prospectus to the Hong Kong Stock Exchange on April 23, planning to finance the plant's construction and expand production. The next day, Nongfu Spring entered the pure water market with the new product Green Bottle, which not only had a huge impact on the listing of China Resources Company but was bound to disrupt the pattern of the pure water market. All companies will also adjust their products to cope with this change. That leaves little time to move into the more profitable beverage business. However, Nongfu Mountain Spring can use the previous sale of natural water to develop a good channel, directly carry the original sales model, and launch this new product, which not only reduces the cost of opening sales channels but also allows other companies to have no time to enter the beverage market. Its near monopoly status can be continued.

5 Conclusion

In conclusion, the entry of Nongfu Spring into the mineral water market is a strategically planned and well-timed business move that has proven highly successful. This success can be attributed to several key factors. First, Nongfu Spring's accurate market positioning allowed the company to understand the market price of mineral water and adapt its strategy to cater to various consumer segments. Second, the brand's strong influence as a well-known drinking water provider in China gave it a significant advantage, as consumers were more inclined to try its new mineral water products. Third, Nongfu Spring invested heavily in marketing, utilizing advertising, sports sponsorships, and celebrity endorsements to boost brand awareness and increase market share. The company's extensive sales channels, including online e-commerce platforms and offline retailers like supermarkets and convenience stores, provided broad market coverage for its mineral water products. Finally, Nongfu Spring's competitive strategy, which focuses on differentiating its products based on unique selling points such as water source and quality, has allowed it to stand out in a crowded market. Overall, the launch of Luping Mineral Club has diversified Nongfu Spring's product line and strengthened its leading position in the drinking water market.

Looking at the entire drinking water market, not only the big moves made by Nongfu Spring and Ebao, but also the group led by today's Merang and Master Kong to open up the cooked water market, and Wahaha and other brands are also expanding their channels, which seems to be releasing a signal: When the packaged water market is about to peak, the development space of various groups in their respective subdivisions is also very limited, and the only way to survive is to change this road.

Therefore, after years of silence, the packaged water market will appear in a new round of fierce competition. For the leading Nongfu Spring, its self-denial of the launch of pure water is transformed into a new growth point, or in a new round of business setbacks, time will answer.

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