

How Do Local Enterprises Give Full Play to Advantages and Transform into Internationalization?

— A Case Study on Nongfu Spring

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Abstract: Under the trend of economic globalization, international trade is becoming increasingly frequent. Many benefits such as natural resources and technology can be pursued by enterprises. This means that enterprises can gain more opportunities in the international market. Internationalization of enterprises is an opportunity for further development, whether it is demand financing, improving technology, or expanding market size. Chinese enterprises do not have a first-mover advantage due to their late exposure to the international market, so the methods and tactics of their international transformation are more important. This article takes Nongfu Spring, a cutting-edge enterprise in China's mineral water and tea beverage industry, as an example to summarize its successful experience in the Chinese market and its replicable advantages in international transformation. This article also provides a comprehensive overview of the overall internationalization process of Chinese enterprises and provides specific plans for the company's international transformation, providing valuable experience for the internationalization of other ethnic enterprises in China.

Keywords: internationalization, Nongfu Spring, Chinese socialist market economy

1. Introduction

Since the beginning of this century, global activities in various fields have tended towards Westernization. But in reality, Eastern culture should go international and complement Western culture. It can be seen that Eastern culture needs to primarily actively export to the international market. In the context of economic integration and after the 2008 Global Financial Crisis, the country's industries and economy need to be restored. With the recovery of national economy and the vigorous development of national enterprises, industrial internationalization transformation inevitably becomes a top priority. Chinese enterprises are facing the challenge of export, and more enterprises choose to explore overseas markets to obtain resources to achieve a leap of turnover [1]. Chinese tea culture is a model, and now many foreigners are very interested in Chinese tea culture. There is a well-known enterprise in China - Nongfu Spring. Nongfu Spring benefited from the reform

and opening up policy, and gradually became one of the top 20 enterprises in China from a small and micro enterprise. In the past 27 years, Nongfu Spring has achieved excellent results in the Chinese beverage market. According to the development trend of Nongfu Spring, the company aims to take the high-end route and the international route. Since 2015, Nongfu Spring has broken through the bottleneck of “people-friendly pricing” and launched high-end mineral water successively, and introduced new products according to the different needs of the market population [2]. In recent years, Nongfu Spring plans to implement the international plan. This paper studies the prospect of the international battle road combined with the successful experience in the domestic market. While Nongfu Spring in China’s tea market approaching saturation, if not seek innovation, it is difficult for the company to have further development. The international plan, which aims to open up new overseas markets, is another form of innovation. Therefore, it is imperative for enterprises to implement internationalization strategy. This article is divided into two parts, the successful experience of Nongfu Spring in the domestic market and the factors affecting the development of overseas market. The successful experience in the domestic market can be used as a reference for developing overseas markets. This paper has two contributions, aiming to analyze the successful cases of Nongfu Spring product upgrading, and summarize the successful experience of Nongfu Spring internationalization strategy, so as to provide other domestic enterprises to adapt to the internationalization speed and internationalization rhythm.

2. Market Analysis

2.1. Domestic Market

Nongfu Spring, as a leading company in the Chinese packaged drinking water and beverage industry, has consistently held the top market share position in China from 2012 to 2022 [3]. According to Nongfu Spring Annual Report 2022 In the packaged drinking water market, Nongfu Spring has the highest market share at 26.5%, with C’estbon following at 21.3%. The company’s main products include mineral water, tea beverages, functional drinks, and juices, achieving a net profit of 8.5 billion yuan in 2022.

2.2. Overseas Markets

In terms of water, rapid global economic development has led to increasingly severe environmental pollution issues, resulting in a widespread “water quality-related water shortage” phenomenon worldwide. The demand for water quality has stimulated the development of the packaged water industry. Countries such as the United States, Italy, and Japan have seen an upward trend in bottled water sales over the past few decades, highlighting the significant international demand for packaged water [4].

Regarding tea beverages, Asia has a strong cultural foundation for tea consumption, making the main market for tea beverages concentrated in Asia, representing around 2% of the global market. Notable brands like Suntory in Japan and Nongfu Spring in China are leading the market. China’s tea beverage sales rank first, followed by Japan, and interestingly, the United States ranks third. The markets in Vietnam and Indonesia show the highest growth rates in tea beverage sales [5]. All of these factors indicate significant growth potential for tea beverages in international markets.

3. Development History of Nongfu Spring Company

Nongfu Spring Company was founded in 1996, and in 1997, it entered the packaged water market by producing packaged purified water. In 2000, Nongfu Spring shifted its strategy and entered the mineral water market, gradually developing natural water sources such as Changbai Mountain and

Emei Mountain. In 2008, Nongfu Spring established its corporate culture centered around nature and coined the famous slogan, “We are not manufacturers of water. We are porters of nature.” This marked the deep penetration of Nongfu Spring’s brand into the hearts of every Chinese individual.

In 2011, Nongfu Spring changed its strategy again by introducing a milestone product, “Oriental Leaves” signaling its shift towards a high-end and differentiated path. Subsequently, the company produced products tailored to specific customer needs, such as NFC fruit juice, “Tea π ”, and infant mineral water, taking the differentiation strategy to the extreme. From 2012 to the present day, Nongfu Spring has consistently held the top market share position in the packaged water industry, making it a leading domestic enterprise in the Chinese packaged water market. The company is wholly owned by domestic shareholders and does not have foreign ownership.

In 2020, Nongfu Spring sought further development by implementing an internationalization strategy and went public on the Hong Kong Stock Exchange in September of the same year. As shown in the Figure 1 below, Nongfu Spring’s net profit from 2019 to 2022 exhibited a steady upward trend, with slower growth in 2020 due to the impact of the COVID-19 pandemic on market conditions.

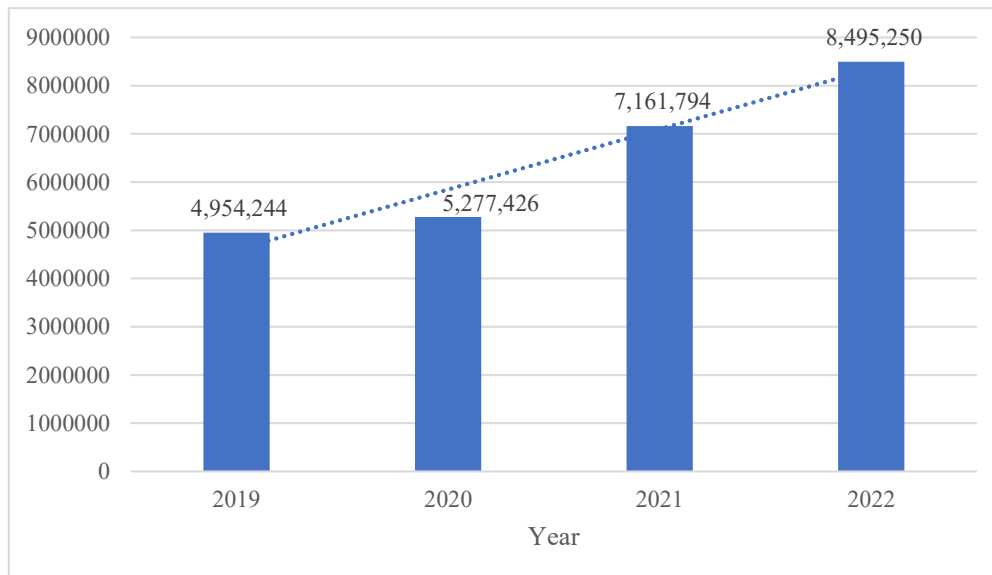


Figure 1: Annual profit margin of Nongfu Spring in 2019-2022.

4. Nongfu Spring’s Success in the Domestic Market

Spring has distinguished itself among numerous enterprises in the packaging and beverage industry, and its core competitiveness is multifaceted. Therefore, this article will analyze it using Porter’s Five Forces Model.

4.1. Competitive Landscape in the Packaging and Beverage Industry

Nongfu Spring adopts a strategy primarily focused on differentiation with diversification as a complementary approach. In the core business segments of mineral water and tea beverages, Nongfu Spring employs a differentiation strategy. While maintaining its market share in existing products, it expands into markets such as fruit juices and functional beverages. Nongfu Spring utilizes advanced water-processing equipment and precisely targets customer demographics in product development. In 2022, mineral water accounted for 54.9% of its total revenue, while tea beverages accounted for 20.8%. According to Nongfu Spring’s 2022 financial report. This ratio has been decreasing year by year, thanks to the successful execution of this strategy, leading to increasing profits in industries like fruit juices and functional beverages. In the tea beverage market alone, Nongfu Spring ranks first. In

July 2023, the sales volume of Nongfu Spring Tea beverage exceeded 25 million, accounting for nearly 35% of the market. Suntory's sales in July also exceeded 15 million, accounting for approximately 21% of the market. Vitasoy's sales exceeded 7.8 million in the same month, accounting for approximately 11% of the market.

Nongfu Spring has implemented an NCP SAP system tailored for its office operations, integrating SAP financial and business systems, thereby digitalizing and making office operations more intelligent. This has resulted in improved work efficiency and reduced company expenses [3]. The company has also adopted talent recruitment practices involving internal promotions and external talent acquisition, along with an equity incentive mechanism for a team of no more than 120 individuals. These strategies have increased employee motivation and cohesion [6].

How to leverage brand value overseas should consider brand image, product quality, marketing, and consumer reputation. Cost control is integrated into Nongfu Spring's strategic approach, emphasizing strategic cost management principles [3]. The company collaborates with plastic recycling companies to repurpose plastic, reducing the production costs of water bottles. It capitalizes on fixed costs, strategically reducing upfront costs for water source development and research expenses. Additionally, the adoption of automated processing equipment helps reduce labor costs. All these help with improving consumer recognition of the brand's philosophy and capabilities.

4.2. Upstream Bargaining Power

Nongfu Spring boasts ten stable water sources and a complete production chain. Most of Nongfu Spring's water sources are located in underdeveloped regions, and with the support of national policies, the company has significantly reduced the upfront development costs of these water sources.

Nongfu Spring has consistently embraced corporate social responsibility and adhered to the principles of sustainable development, incorporating nature and environmental protection into its corporate culture. The company recycles plastic for the production of packaging bottles, contributing to the reduction of environmental pollution through resource recycling.

The company actively donates funds for the construction of rural healthcare, education, and sports facilities and provides disaster relief supplies. According to Nongfu Spring's 2022 Sustainable Development Report, in accordance with the national precision poverty alleviation policy, Nongfu Spring takes an active stance in fulfilling its social responsibilities, thereby enhancing the brand awareness and brand value of Nongfu Spring.

4.3. Downstream Bargaining Power

Nongfu Spring operates its sales channels through an agency system, resulting in relatively loose management of downstream distributors and agents. Nongfu Spring has innovated this approach by introducing digital technology for managing distributors and agents. The company has independently developed Mobile Mapping System and IP Multimedia Subsystem, which have partially addressed downstream issues [3].

In terms of products, Nongfu Spring has precisely targeted consumers by introducing products like Nongfu Spring Red Bottled Pure Water, White Bottled Mineral Water, flavoured teas, and sugar-free Oriental Tea Leaves for different demographic segments. For high-end customers, Nongfu Spring employs scientific pricing methods, offering moderate discounts based on the principle of price anchoring, leading to increased sales and profits for high-end products within the company [2].

Nongfu Spring's marketing campaigns feature thought-provoking slogans that seamlessly integrate the company's culture, emphasizing health, environmental protection, nature, and thriftiness, into its products. On the packaging front, Nongfu Spring uses square-shaped bottles, breaking away from the circular bottle trend, elevating packaging to a high-end level. The bottle designs incorporate

fresh, child-friendly illustrations or convey a sense of cultural sophistication. By selling products alongside cultural ideals, the company enhances customer loyalty. Additionally, Nongfu Spring produces beautifully crafted promotional videos that further disseminate the company's corporate culture to the public.

4.4. Industry Barriers

Nongfu Spring's exclusive rights to mineral water extraction from its unique water sources, its mechanized water processing equipment, and the brand value it possesses all reduce the threat posed by new entrants to the bottled water and beverage industry. In addition, Nongfu Spring's products have the highest market share in the Chinese market for ten consecutive years, and have formed economies of scale. At the same time, Nongfu Spring's products cover the low-end, mid-end, and high-end markets, and Nongfu Spring has been laying out differentiation strategies for a long time. These measures have to some extent increased the industry barriers of Nongfu Spring in the mineral water and tea beverage markets.

4.5. Threat of Substitutes

Nongfu Spring has implemented a diversification strategy early on, offering a range of products, including but not limited to functional beverages, fruit juices, milk tea, and coffee. This strategy significantly enhances its competitiveness in other industry markets and establishes a first-mover advantage. Nongfu Spring boasts a robust research and development department with strong innovation capabilities. The company owns 17 sub-brands, including Oriental Leaf, Tea Gate, spanning categories such as water, tea, functional beverages, fruit juices, and others. Figure 2 illustrates the revenue generated by various Nongfu Spring products, with bottled water accounting for 54.9% of total revenue and tea beverages for 20.8%.

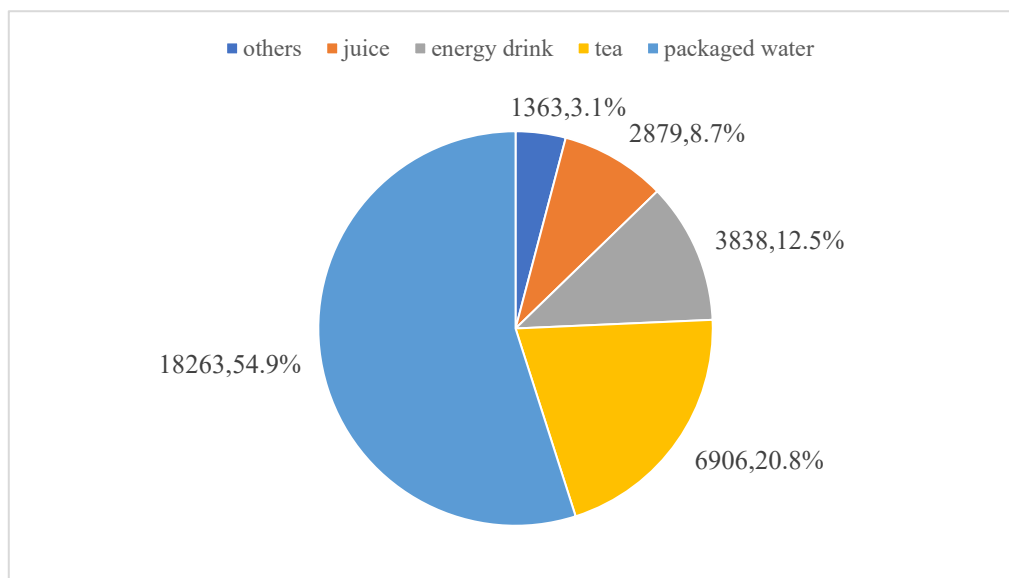


Figure 2: Income from various products of Nongfu Spring in 2022 (unit: million yuan)

5. The Development Prospects of Nongfu Spring

5.1. The Impact of Brand Value on Expanding Overseas Markets

With economic development, people's demand for bottled water has shifted from simple thirst-quenching to a focus on brand effects and the emotional value factors that products can provide. However, compared to the development of bottled water brands in other countries, Chinese water brands started relatively late, facing a challenging task in international market competition. Nongfu Spring's success is closely related to having a clear brand value positioning and offering products that correspond to the values of different consumer groups in the market.

Successful brand positioning often evolves and adapts with the times. Nongfu Spring, in the competitive domestic market, took a unique approach by introducing the "a little sweet" brand concept and successfully breaking through the competition among leading brands like "Wahaha" and "PepsiCo" [7]. Similarly, how Nongfu Spring makes overseas markets accept and pay attention to its brand value is a crucial step in opening up the market. At the same time, Nongfu Spring's strong reputation in the domestic market lays a solid foundation for brand internationalization.

5.2. A Complete Supply Chain

Nongfu Spring's resources and technologies are sufficient for self-sufficiency, providing assurance for sustainability while minimizing environmental impact, fostering a harmonious coexistence with nature. Since 1907, Nongfu Spring has gradually acquired ten unique water sources, including Qiandao Lake in Zhejiang, Manas in Xinjiang, Changbai Mountain in Jilin, Danjiangkou in Hubei, Emei Mountain in Sichuan, Wanlv Lake in Guangdong, Wuling Mountain in Guizhou, Taibai Mountain in Shaanxi, Daxing'anling in Heilongjiang, and Wuling Mountain in Hebei. These water sources are geographically diverse and of high quality, giving Nongfu Spring an overwhelming advantage in water sources, satisfying the market's differentiated demands for water sources [3]. According to Nongfu Spring's official website, the company has 137 automated production lines in operation, including 106 for drinking water and 31 for beverages. Among the drinking water production lines, 12 can achieve a filling speed of 81,000 bottles per hour. In the beverage production lines, 14 can achieve a sterile standard of Log 6. Such a level of supply chain capability is significant on a global scale.

5.3. Valuable Domestic Business Experience for Overseas Markets

Nongfu Spring has achieved great success domestically, excelling in both marketing and corporate governance. To expand into overseas markets, Nongfu Spring should not forget its roots and remember its initial goals. Leveraging its strengths in the domestic market is crucial, but it is equally important to learn from and apply the valuable insights and achievements of foreign enterprises. Researching whether there are differences in consumer preferences between domestic and international consumers and making adjustments based on the existing strategies is vital. The domestic business experience provides room for experimentation in the international market, giving entrepreneurs more solutions to challenges.

5.4. Large Potential Customer Base in Overseas Markets

The bottled water market is rapidly growing, with a significant increase in demand due to changing lifestyle preferences. When considering per capital consumption, Italy stands out as the largest consumer of mineral water. People of almost all age groups consume bottled water, and the market drives product innovation, leading to a finer segmentation of bottled water types and stronger

targeting [4]. Since the 20th century, the concept of health and wellness has gained prominence, and consumers are inclined towards healthier products. The minerals in bottled water or the functional characteristics in functional beverages are better at piquing consumer interest in such a health-conscious environment.

6. Internationalization Experience for Domestic Enterprises

6.1. Summary of Internationalization Experiences

In the mid-20th century, after World War II, companies worldwide were in need of international transformation to adapt to the trend of globalization. All enterprises seeking international transformation have three motives in total: Firstly, this kind of organizations hope to raise funds globally. Secondly, this kind of organizations hope to establish cooperation opportunities with cutting-edge enterprises in the international market through the process of internationalization strategy to improve its technological level or find the best natural resources to achieve global resource integration. Thirdly, this kind of organizations hope to expand its sphere of influence, enhance its brand value, develop new markets, and obtain more profits [8].

The internationalization process can be defined as the process of changes that occur between key time nodes and activities that are meaningful to internationalization that occur between every two time-nodes [9]. The process of internationalization can be divided into two types: continuous and discontinuous changes. The first type of continuous internationalization process refers to the frequent occurrence of continuous and gradual internationalization development. The second type of discontinuous internationalization process refers to the existence of two or more landmark significant changes in the internationalization process. The period between the time points where these major changes occur is called the stability period. During the stable period, there are also meaningful activities, but their contribution to the overall internationalization process is negligible compared to these major events. These smaller activities that occur during a stable period generally have a large number, and the accumulation of quantitative changes in these small activities is a prerequisite for significant changes to occur.

The overall internationalization process of Chinese enterprises belongs to a discontinuous internationalization process. China has fully utilized the advantages of a socialist market economy in the process of enterprise internationalization. Under the macro control of the government, the entire process has shown characteristics such as clear purpose, orderly activities, and steady development, while ensuring that enterprises do not lose their vitality. The overall internationalization process of Chinese enterprises can be divided into three stages, and the entire process is steadily developing in a ladder like manner. Gradually exploring and accumulating experience has also made the current enterprise process systematic [10].

The first stage was from 1978 to 1990. 1978 was a critical time point, during which the Chinese government issued reform policies to promote economic development and liberalize foreign trade policies. At this stage, the government only allowed large state-owned enterprises to take the lead in international reforms, covering 45 countries with a total investment of \$1.2 billion and involving 755 projects [10]. In the environment at that time, state-owned enterprises had the necessary advantages of internationalization, such as policy support, large scale, large number of employees, and stable capital chain. In addition, most of these internationalization projects are distributed in Southeast Asia, as there is a small cultural gap with Southeast Asian countries in the Confucian cultural circle [11]. Even though state-owned enterprises in the first stage have significant advantages in the aforementioned aspects, the internationalization process in this stage has not achieved significant results. The attempts at this stage have accumulated valuable experience for further internationalization processes.

The second stage was from 1991 to 2000. 1991 was the second critical time point, when the Chinese government released the license for private enterprises to engage in international commercial activities, allowing them to expand in the international market. At the same time, at this stage, the government and enterprises began to attach importance to the rational utilization of natural resources, namely the RBV framework [10]. Most of the internationalization projects in this stage are carried out through acquisitions. Haier Company is the most successful case of international transformation at this stage. Haier Company takes less time from export to overseas factory construction, from overseas factory construction to overseas acquisition, from production to research and development than similar companies in the same industry in Japan. This has a strong correlation with the experience of the first stage of international transformation.

The third stage is from 2001 to present. The year 2001 was the third critical milestone, and China's accession to the WTO marked its important position in the international economic landscape. At this stage, the internationalization activities of Chinese enterprises are gradually frequent, and the main form is mostly mergers and acquisitions. There are many successful examples at this stage, with brands such as SAIC and Lenovo completing their international transformation. Overall, China's internationalization process is planned and sequential, with entities ranging from controllable and deterministic state-owned enterprises to private enterprises with uncertain factors and international activities range from import and export trade to equipment manufacturing, and then to the external expansion of national enterprises, China's enterprise internationalization process after reform and opening up has been successful. Compared to enterprises from other countries independently exploring the internationalization process and accumulating experience, Chinese enterprises' exploration in stages and levels under the socialist market economy system is more efficient and strategic.

6.2. Theoretical Support for China's Internationalization of National Enterprises

The current mainstream view believes that the key success factors for achieving a multinational business empire are industry, resources, and institutions [12]. The industry aspect refers to the specificity of specific industries, such as high-tech companies being more likely to attract investment from Europe. In terms of resources, there is not only the quantity and geographical advantage of resources, but also the optimal allocation of resources by enterprises¹⁰. In terms of institutions, traditional theories believe that institutional factors are external factors for the development of enterprises, but recent theories suggest that the success of large international enterprises is a win-win result of collaboration between organizations and governments. Especially under China's socialist market economy system, institutions are often the result of joint consultation between the government and organizations. Taking the mineral water industry where Nongfu Spring Company is located as an example, in terms of industry, the company has unique fully automatic mining and packaging technology, and in terms of resources, the company has complete sales channels. In terms of system, the company negotiated with the government to obtain the mining rights of the nine existing natural water sources in remote areas at a low price, which has to some extent driven the economy of remote areas.

From another perspective, the internationalization process of a company can be divided into three elements: Firstly, the development speed of the company's own commercial scale. Secondly, the speed of the company's global development of new markets. Thirdly, the speed of the company's penetration into a single market [9]. The internationalization process of enterprises is determined by multiple levels, and Chinese national enterprises should consider the common development of these three elements when transitioning towards internationalization. In addition, Chinese national enterprises should change their original focus when entering the international market. Firstly, it is a shift from focusing on suppliers and distributors in the domestic market to focusing on the local user

network, which is the social relationship between target customers and potential customers. Secondly, there is a change in the perspective of enterprises, shifting from outsiders in the host country market to insiders. Enterprises should integrate into rather than enter new markets. Even if a company is strong, it cannot change the long-standing beliefs inherent in the host country [13].

Domestic enterprises pursuing internationalization strategies can be categorized into three main approaches: strategic alliances, acquisitions or mergers, and entirely new investment projects [11]. These enterprises should adjust their internationalization pace and selectively utilize these three business strategies based on the cultural and policy environments of different international markets.

The policy environment in international markets is influenced by the host country's political factors, economic conditions, and technological advancements. On the other hand, the cultural environment in the host country is influenced by factors such as uncertainty avoidance, individualism, collectivism, and gender roles within the nation. A conducive social environment can significantly reduce the impact of cultural differences on internationalized enterprises. Regarding the accumulation of corporate experience, enterprises face greater internationalization challenges in markets with larger environmental differences, but they also gain richer experience [14].

Strategic alliances are suitable for international markets with significant environmental differences, helping to reduce risks associated with varying market conditions [11]. Acquisitions and mergers are appropriate when markets share some similarities. Entirely new investment projects demand high environmental requirements, while also carrying the highest risks and rewards. Taking Nongfu Spring as an example, the company's expansion into markets like Japan and South Korea, where there is an existing culture of tea consumption, can be considered a new investment project. In the United States, although there is no cultural foundation for tea consumption, the well-established policy environment makes an acquisition or merger strategy viable. For markets like Europe, where coffee culture substitutes for tea culture, the challenges for a tea beverage producer like Nongfu Spring are substantial. In such cases, the company can accumulate experience over time and eventually enter the market through strategic partnerships.

7. Conclusion

In the 21st century, economic globalization has become a trend of development, and international trade has become increasingly frequent. From the perspective of individual enterprises, the international market has a wider market and more development opportunities. The internationalization transformation of enterprises is a necessary path for their development and also an effective method to solve the recession period encountered by enterprises in their life cycle. Firstly, this article analyzes the key success factors of Nongfu Spring Company in the domestic market and summarizes its successful experience in the domestic market that can be continued in its international transformation. Secondly, this article summarizes successful experiences in the internationalization process of enterprises in China since the reform and opening up, based on the environment where Nongfu Spring Company is located. Combining the advantages and current situation of Nongfu Spring Company, this article supplements the internationalization experience and provides certain suggestions. This article aims to take the international transformation of Nongfu Spring as an example, and provide replicable and reference experiences for other Chinese enterprises with the ability to expand overseas and the ambition to become international cutting-edge brands. In short, as the largest manufacturing country and the third largest export trading country in the world, China's internationalization transformation of Chinese enterprises can make greater contributions to economic globalization. It is hoped that more Chinese enterprises can actively participate in international activities in the future, and take on more social responsibilities globally while developing themselves.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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