

Economic Consequences of Media Exposure of Product Quality Issues: Master Kong at the “315 Gala”

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Abstract. In recent years, product quality issues frequently exposed by the media have become a major threat to corporate reputation and sustainable development. Although scholars at home and abroad have conducted extensive research on product safety issues, a considerable portion of the literature focuses on conceptual exploration or macro-level impact analysis. In-depth empirical research on specific crisis events, especially systematic analysis combining market, financial, and non-financial perspectives, is still insufficient. In order to make up for this research gap, this paper selects the representative and social sensational Master Kang, who was exposed to the pickled Chinese cabbage event in the mud pit on the “315 Gala” as a typical case. Based on detailed event window data and company financial reports, this article focuses on short-term market reactions such as stock price fluctuations and changes in consumer trust caused by the event, short-term financial performance changes reflected through financial indicators, and a series of non-financial effects. It explores the multidimensional economic consequences of media exposure of product quality issues on enterprises from multiple perspectives, and provides suggestions for enterprise risk management and crisis response.

Keywords: Master Kong, “315 Gala”, short-term market, financial performance

1. Introduction

Media exposure serves as a supplementary governance mechanism to formal legal institutions, thereby improving corporate governance efficiency [1]. The information intermediary theory emphasizes that media exposure can reduce information asymmetry, and media coverage will systematically influence market participants such as investors, analysts, and creditors [2]. Therefore, the media concurrently serve as both a governance monitor and an information intermediary [3]. The “315 Gala” is one of the key channels for media exposure. It is a large-scale TV live broadcast special gala launched by China Central Television on March 15th every year, which is the International Consumer Rights Day. Nowadays, the “315 Gala” has become an important public media event that combines the functions of information disclosure and public opinion guidance, making significant contributions to regulating market order by relevant national authorities [4].

In 2022, Master Kong was publicly censured by the “315 Gala” for product-quality non-compliance. As a leading enterprise in the food and beverage industry, its negative news quickly garnered widespread public attention and had a negative economic impact on the company. Master

Kong has long been a leader in the instant noodle market and has been a microcosm of China's modernization of the food industry and a national brand symbol; therefore, its media attention is extremely high. The media attention reflects the degree of social attention to enterprises, the depth of public perception of enterprises, and the social cognitive profile [5]. Given Master Kong's high representativeness and extensive social influence, this paper chooses Master Kong as a case study to conduct a deep quantitative analysis of the economic consequences of media exposure of product quality issues. Domestic and foreign scholars have researched food safety issues, but most of the literature only discusses the concept of food safety impact, lacking an analysis of the economic consequences of food safety incidents from the perspective of capital markets [6].

2. Master Kong case introduction

2.1. Basic information about the “315 Gala”

As a program broadcast live on CCTV, the “315 Gala” uncovers illegal practices and industry unspoken rules through video investigations, presenting the true situation of enterprises to the public eye. This is significantly different from media such as newspapers and magazines. Live video footage offers incontrovertible visual evidence, precluding textual distortion or selective framing [7]. The program has a history of 34 years since its establishment in 1991. Table 1 summarizes typical enterprise cases that have been exposed at the “315 Gala” in the past 5 years, indicating that they mainly involve fields such as food and healthcare, with most cases in the food industry involving product quality issues.

Table 1. Typical enterprise cases exposed by the “315 Gala” in the past 5 years

Year	Exposed companies	Fields	Incidents
2021	Hebei Tianyi Meat Industry Co., Ltd	Food	Enterprise staff had been adding clenbuterol to sheep feed for nearly a decade
2022	Master Kong	Food	The staff of the enterprise's pickled Chinese cabbage bag supplier stepped on pickled Chinese cabbage and littered cigarette butts to produce “Earth Pit pickled Chinese cabbage”.
2023	No information	Healthcare	Internet celebrities staged a bittersweet scene in the live broadcast room, deceiving the elderly into purchasing “miraculous medical products” that were actually ordinary food
2024	Shenzhen Yuncheng Future Technology Co., Ltd	Internet	The company used motherboard machines to arbitrarily change IP addresses to evade supervision, forming a network navy
2025	Liangshan Xixi Paper Products Co., Ltd	Toiletries	Previously, this company recycled non-compliant sanitary napkins from manufacturers and processed them for secondary sales, making huge profits

Source: Compiled manually by Sina Finance.

2.2. Introduction to Master Kong's “earth pit pickled Chinese cabbage” event

At the “315 Gala” in 2022, CCTV revealed that the pickled cabbage produced by Hunan Chaqi Vegetable Industry Co., Ltd. was fermented in soil pits, and the pickled Chinese cabbage sold in China had problems such as substandard hygiene and non-detection. Chaqi Vegetable Industry is one of the suppliers of Master Kong's Laotan pickled Chinese cabbage beef noodle products to produce

Laotan pickled Chinese cabbage bags. The factory did not use a standardized pickling pool, but purchased pickled Chinese cabbage that was pickled by farmers in farmland pits without cleaning. There were shocking practices such as workers trampling barefoot, throwing cigarette butts, etc., and the health indicators of pickled Chinese cabbage were not tested. This incident revealed systemic weaknesses in Master Kong's supply-chain risk controls and vendor-screening protocols. Firstly, Master Kong had long overlooked Chaqi Vegetable Industry's non-compliant production practices, which is a serious dereliction of duty in supplier management. Secondly, Master Kong did not effectively fulfill its inspection obligation, resulting in unqualified raw materials flowing into the production line.

After the incident was exposed, Master Kong's stock returns suffered a serious impact. Behavioral finance theory suggests that, in addition to being influenced by its fundamental elements, stock prices are also heavily influenced by investor sentiment [8]. Media exposure of the pickled Chinese cabbage event in the earthen pit reduced the trust of Master Kong's investors. The share price of Master Kong fell by about 17% compared with the market on the day after the exposure of the "315 Gala", which had serious adverse economic consequences for enterprises. In order to save the reputation of the enterprise, Master Kong quickly issued a statement the next day, acknowledging that the flag inserted vegetable industry was its supplier, immediately stopped cooperation and sealed its pickled Chinese cabbage bag products, and decided to immediately remove products from the problematic factory and arrange returns and exchanges for consumers.

3. Short-term market response analysis

This article refers to Ball and Brown's (2013) research and uses the event study method to explore the market response caused by media exposure of product quality issues in enterprises [9]. This article employs cumulative abnormal returns as the primary quantitative metric to evaluate the impact of media exposure on the short-term performance of enterprises. The "315 Gala" in 2022 exposed the "soil pit pickled Chinese cabbage" in Master Kong's convenient fabric bag. March 15, 2022, is the event research day, defining the one day before and after the event (-1, 1) as the event window. This article uses the Hang Seng Index in Hong Kong to calculate market returns, selecting 160 to 10 days prior to the event as the estimation period. Using the model (1) to calculate the expected return and substituting the relevant data for the estimation period, a formula (2) is obtained. The scatter plot is shown in Figure 1.

$$R_{it} = \alpha_i + \beta_i R_{mt} + \epsilon_{it} \quad (1)$$

$$R_{it} = 0.4208R_{mt} + 0.0012 \quad (2)$$

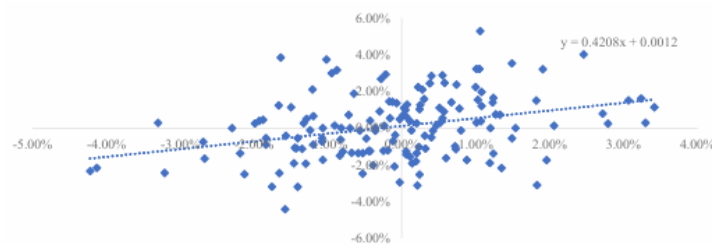


Figure 1. Scatter plot of normal rate of return based on the market model

By comparing the relationship between the expected return rate and the actual return rate of the enterprise, the abnormal return rate and the cumulative abnormal return rate were calculated. The specific results are shown in Table 2, and a line graph was drawn based on the data results, as shown in Figure 2. From this, it can be seen that on the second day after the incident, the abnormal return rate and cumulative abnormal return rate of the enterprise both rapidly declined. From the perspective of signal theory, there exists information asymmetry between enterprises and investors [10]. If the signals released by corporate social irresponsibility behavior are disseminated through the media to investors and other stakeholders, investors may make corresponding decisions based on this [11]. The media exposure of Master Kong's product quality issues has had a significant impact on the company. The product quality incident has significantly weakened investor confidence, precipitated a wave of sell-offs in the secondary market, and led to a sharp decline in stock prices. This underscores the disciplinary role of capital markets in response to perceived corporate misconduct.

Table 2. Short-term market reactions during the (-1, 1) window period

Relative date	Master Kong's return rate(%)	Hong Kong Hang Seng index market yield(%)	Cumulative rate of return(%)	Abnormal return rate (%)
-1	-0.69	-4.97	1.28	1.28
0	-4.02	-5.72	-0.45	-1.73
1	-2.31	9.08	-6.70	-6.25

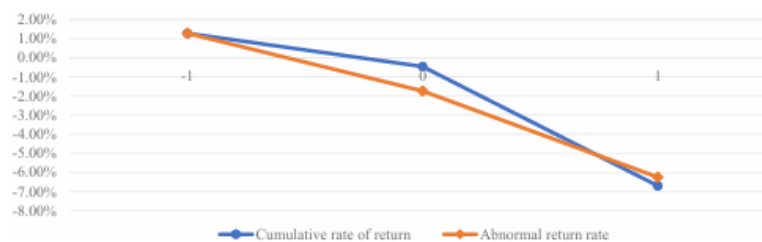


Figure 2. CAR and AR values during the (-1, 1) window period

To ensure the robustness of the results, this article also created a chart of cumulative returns and abnormal returns for the (-2, 2) window period based on the same market model, as shown below. According to Table 3 and Figure 3, it can be seen that although the abnormal rate of return of the enterprise rapidly decreased on the second day after the event, it only surged to over 1% on the third day, reaching the level of the day before the event occurred. On the one hand, it is because Master Kong issued a statement on the second day admitting its mistake and made timely corrections, which recovered the confidence of some investors. On the other hand, the sharp drop in stock prices on the second day caused an overreaction in the market, with investors buying a large amount of stocks at low prices, pushing up the stock price on the third day.

Table 3. Short-term market reactions during the (2, -2) window period

Relative date	Master Kong's return rate(%)	Hong Kong Hang Seng index market yield(%)	Cumulative rate of return(%)	Abnormal return rate (%)
2	-0.95	-1.61	-0.39	-0.39
-1	-0.69	-4.97	0.89	1.28
0	-4.02	-5.72	-0.84	-1.73
1	-2.31	9.08	-7.10	-6.25
2	4.28	7.04	-5.90	1.2



Figure 3. CAR and AR values during the (-2, 2) window period

4. Financial performance analysis

4.1. Vertical analysis

This section analyzes Master Kong's trends from 2020 to 2024 from four dimensions: net profit margin on sales, return on equity, inventory turnover ratio, and asset-liability ratio, to analyze the impact of the pickled Chinese cabbage event in the earthen pit on the financial performance of Master Kong.

Firstly, an analysis of net profit margin on sales and return on equity. As shown in Figure 4, two indicators of Master Kong from 2020 to 2024 significantly declined in 2022, reaching a five-year low. In 2022, the prices of core raw materials such as palm oil and flour for instant noodles remained high, directly driving up operating costs, compressing profits, and dragging down overall profitability. Under pressure and a significant decline in net profit margin on sales, the return on equity also hit a five-year low of 16.44%, while the "earthen pit pickled Chinese cabbage" incident in the same year undoubtedly made things worse for Master Kong. However, the impact of unexpected events was ultimately limited. In 2024, Master Kong's business situation turned around, and the return on equity soared, even reaching a peak in the past five years. It can be seen that Master Kong's investment in restoring its image was effective.

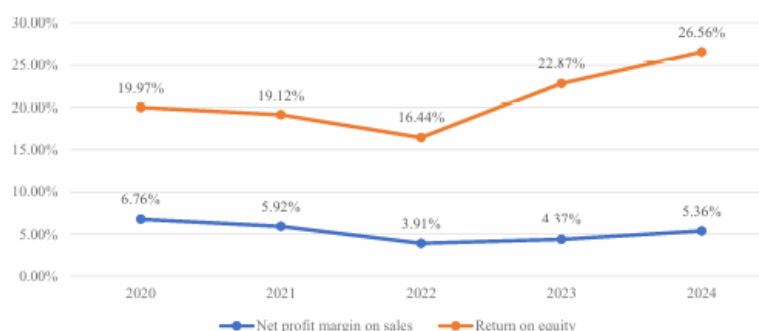


Figure 4. Net profit margin on sales and return on equity from 2020 to 2024

Secondly, the inventory turnover ratio analysis. As shown in Figure 5, Master Kong's Inventory turnover ratio in the past five years was stable at a high level in the early stage, sharply declining in 2022, and gradually recovering in the later stage. The high turnover ratio in 2020 benefited from the market demand during the COVID-19 epidemic, while the turnover ratio dropped sharply in 2022. On the one hand, under the disturbance of the epidemic, the demand side is shrinking, and dealers are actively reducing their stocking levels, and enterprises also increased the book value of inventory by stockpiling high-priced raw materials in advance to maintain production capacity. On the other hand, the "Earth Pit pickled Chinese cabbage" incident exposed by the media at the beginning of 2022 was a heavy blow to Master Kong, making the financial performance less optimistic. In 2024, the epidemic was basically under control, and the consumer market was better. At the same time, Master Kong significantly restored the inventory turnover ratio through digital construction in the supply chain, proactive optimization of enterprise channel structure, and implementation of cost reduction and efficiency improvement strategies.

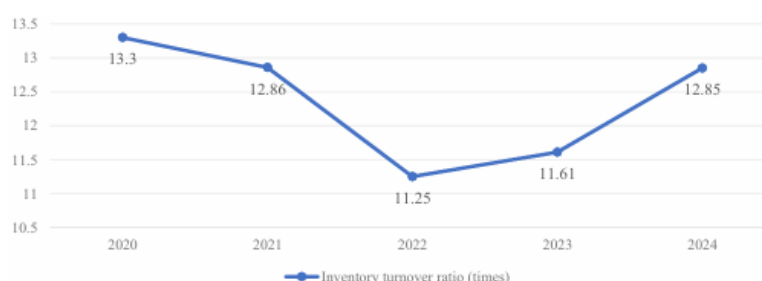


Figure 5. Inventory turnover ratio from 2020 to 2024

Thirdly, asset-liability ratio analysis. As shown in Figure 6, from 2020 to 2022, Master Kong's asset-liability ratio continued to rise, reaching a nearly five-year peak in 2022 with the largest growth rate. Firstly, the sales stagnation caused by the recurring pandemic in 2022 prompted Master Kong to extend its payment cycle to suppliers in order to alleviate cash flow pressure, resulting in a significant increase in accounts payable. Secondly, the dealer's payment cycle extended, leading to passive expansion of operational liabilities. Once again, the decline in revenue led to a decrease in current assets such as monetary funds and accounts receivable, resulting in a decrease in total asset size. In 2022, quality incidents further suppressed consumer willingness, slowed down terminal sales, and dragged down revenue performance.



Figure 6. Asset-liability ratio from 2020 to 2024

4.2. Horizontal analysis

To systematically analyze Master Kong's financial performance, a horizontal comparison was conducted between Uni-President China and Nongfu Spring from 2020 to 2024. They both have comparability with Master Kong in terms of business collaboration or profit model, which can help understand the logic of industry competition and the characteristics of enterprise management.

Compared to Uni-President, Master Kong demonstrates relatively weaker resilience in risk resistance and profit recovery. As shown in Figure 7, the net profit margin on sales of Uni-President remained higher than that of Master Kong from 2020 to 2024. In 2022, they both hit the bottom simultaneously, with Master Kong's net profit margin on sales falling to 3.91%, a significant decline greater than that of Uni-President. This was related to the concentrated impact of the "Earth Pit pickled Chinese cabbage" incident on the instant noodle business of Master Kong. First of all, the return of large quantities of Laotan pickled cabbage noodles and discounted inventory clearance directly squeezed profits. Secondly, the combined increase in prices of raw materials such as palm oil put even more pressure on the profit side. However, Uni-President mitigated the shock through a diversified product portfolio of non-pickled Chinese cabbage, such as Tangdaren. In 2023-2024, they both rebounded, but Master Kong's values continued to trail Uni-President. The results indicate that Master Kong's cost control system and product portfolio diversification strategy still need to be optimized.

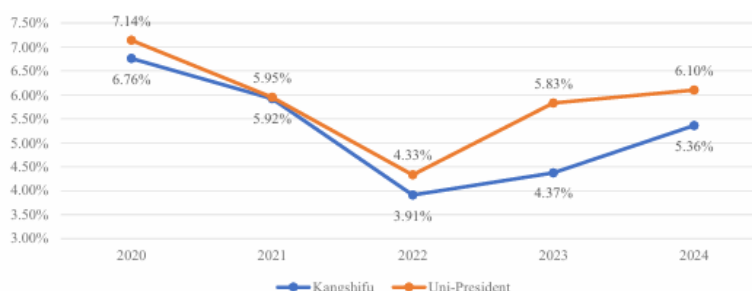


Figure 7. Comparison chart of net profit margin between Master Kong and Uni-President from 2020 to 2024

According to Table 4, Master Kong's operating income in the past five years is about twice that of Nongfu Spring's, but its gross profit margin is only about half of Nongfu Spring's. This is mainly related to the difference in raw material costs between the two. Nongfu Spring is centered around packaged water, and the cost of water is extremely low. Master Kong, on the other hand, focuses on instant noodles, low-priced water, and popular tea beverages as its core, and its raw material costs can easily squeeze profits. This is also why Master Kong's financial performance plummeted after

the significant increase in raw materials for instant noodles and the exposure of product quality issues.

Table 4. Comparison of operating revenue and gross profit margin between Master Kong and Nongfu Spring from 2020 to 2024

Year	Master Kong		Nongfu Spring	
	Operating revenue(billion)	Gross profit(%)	Operating revenue(billion)	Gross profit(%)
2020	67.62	33.17	2020	67.62
2021	74.08	30.39	2021	74.08
2022	78.72	29.09	2022	78.72
2023	80.42	30.42	2023	80.42
2024	80.65	33.10	2024	80.65

As shown in Figure 8, the net profits of the two were similar in 2020, but Master Kong's net profit declined in 2022 and is difficult to recover in the future. However, in 2024, the value of Nongfu Spring reached 12.12 billion, which is nearly three times that of Master Kong. It can be seen that Master Kong has not yet overcome the fast-moving consumer dilemma of "low gross profit, high turnover" in terms of supply chain bargaining power and breaking through the low price mentality. The high gross profit model of Nongfu Spring is precisely the benchmark direction for Master Kong's beverage sector breakthrough.

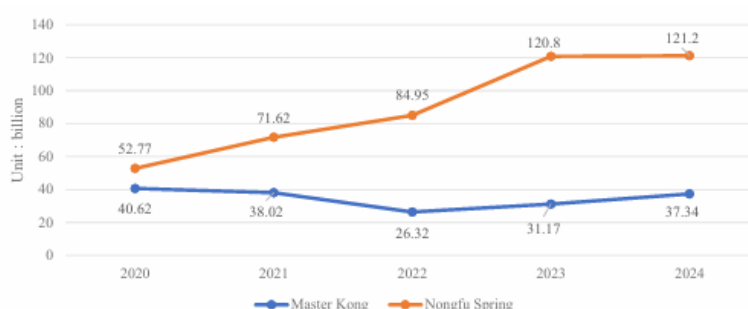


Figure 8. Comparison of net profit attributable to Master Kong and Nongfu Spring from 2020 to 2024

As shown in Figure 9, Master Kong's asset-liability ratio is much higher than that of Nongfu Spring and Uni-President, while Uni-President and Nongfu Spring have significantly lower and more stable debt ratios. Nongfu Spring, with its abundant profits, does not need to rely on debt expansion, and its financial strategy is more conservative. The unified business scale is relatively small compared to Master Kong, and reasonable control of liabilities is achieved through optimizing channels. The asset-liability ratios of the three reflect different development strategies. Master Kong focuses on channel expansion, while Uni-President and Nongfu Spring focus more on profit quality.

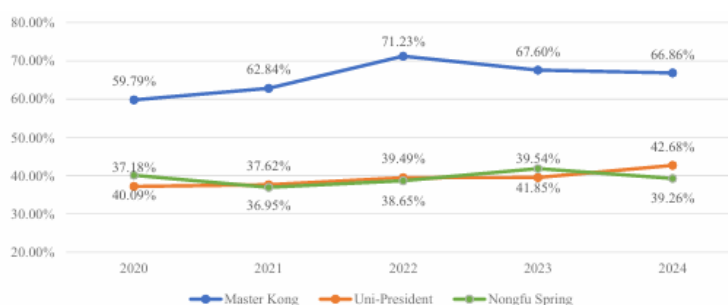


Figure 9. Comparison of asset-liability ratios of Master Kong, Uni-President, and Nongfu Spring from 2020 to 2024

5. Non-financial effects analysis

In addition to financial effects, media exposure of Master Kong's product quality issues also has non-financial effects. This section analyzes these effects from three dimensions: brand reputation, market competition pattern, and green transformation.

Firstly, brand reputation. In 2022, the “earthen pit pickled Chinese cabbage” event severely eroded consumer trust in the instant-noodle brand. According to the research results of former scholars' questionnaires on “earthen pit pickled Chinese cabbage”, most of Master Kong's “loyal users” have lost directly [12]. This is closely related to Master Kong's position in the fast-moving consumer goods industry. The products in the fast-moving consumer goods industry have characteristics such as convenience and low brand loyalty, and purchasing decisions are mainly influenced by personal preferences [13]. Even though most consumers still recognize Master Kong's instant noodle market, it cannot fully compensate for the loss of consumer confidence. High-frequency and high-intensity negative reports have significantly eroded Master Kong's brand favorability in the mass market. This situation forces enterprises to increase their investment in high-end products, such as upgrading the “Suda Noodle House” series and applying aerospace temperature control technology.

Secondly, the market competition pattern. Master Kong's competitive landscape is accelerating from a “scale war” to a “profit war”. While its instant noodle price increase strategy is easing cost pressures, its channel share is being overtaken by Uni-President, which adheres to a low price strategy due to the high price sensitivity of consumers in second-tier cities, revealing the marginal benefit decline dilemma faced by the growth model centered on cost-effectiveness. In the beverage business, tea products have achieved a breakthrough against the trend of health, but packaged water and fruit juice have been impacted by the trend of new-style tea beverage consumption, resulting in an increase in volume and a decrease in profit. Zhong Guoyan mentioned that in the face of the continuous rise of new brands and increasingly fierce market competition, innovation is the key driver for revitalizing time-honored brands and improving their business performance [14]. Therefore, Master Kong should focus on product innovation, strengthen competitiveness, and break through difficulties.

Thirdly, green transformation. In 2024, Master Kong launched the “Everything is Yuán” ESG project, establishing an environmentally friendly vegetable base on the supply chain side, replacing plastic with paper on the product side, reducing bottle cap weight, printing with plant-based ink, and real-time monitoring of carbon emissions throughout the entire chain. Through sustainable actions, it strengthens the brand's social responsibility image and aligns with the “green preference” of consumer upgrading.

6. Conclusion

By analyzing the case of “earthen pickled Chinese cabbage” exposed by Master Kong at the “315 Gala”, this article finds that the incident led to poor short-term market performance and financial results for Master Kong, and also triggered non-financial effects. It concludes that the incident has indeed had a negative impact on the economic situation of Master Kong. The “315 Gala” exposed the dual impact of the “earthen pickled Chinese cabbage” event on Master Kong in the short term and the long term. In the short term, brand trust suffered a decline, sales and profits were under pressure, and the market reaction was intense. But in the long run, this negative event has prompted Master Kong to tighten its qualification review of suppliers, driving the transformation of products towards high-end and diversified products. Meanwhile, Master Kong is also shifting from its previous “scale war” to a “profit war”. Master Kong needs to focus on product innovation, break through the limitations of low prices, develop high-value-added and nutritious categories, and leverage cultural co-branding strategies to command premium pricing, strengthen competitiveness, and break through bottlenecks. It can be seen that although the negative impact caused by media exposure may drag down the financial performance of enterprises in the short term, its impacts are time-bound and reversible. On the contrary, it may give rise to new business models, promote differentiated competition, and help enterprises break through growth bottlenecks.

The “earthen pickled Chinese cabbage” incident sounded an alarm bell of quality and trust for Master Kong and the Chinese manufacturing industry. Enterprises should actively optimize supply chain management, strictly control quality testing, seize opportunities to focus on food safety, and expand development space. In addition, government departments should also take corresponding measures to improve market information transparency, establish fair and stable market mechanisms, foster a transparent, equitable, and informationally efficient market ecosystem, and promote high-quality and sustainable macroeconomic development.

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