

Analysis of Nongfu Spring's Business Model and Profit Model

Yuehan Li

*School of Accounting, Zhongnan University of Economics and Law, Wuhan, China
secbnqhjuy789231@126.com*

Abstract. As a leading firm in China's bottled water sector, Nongfu Spring has transformed its single water business into a diversified portfolio covering water, tea beverages and other drinks. Its 2024 total revenue hit 42.896 billion yuan with a mild year-on-year growth of 0.5%. Affected by public opinion crises and fierce competition, bottled water revenue slumped 21.3% to 15.952 billion yuan. By contrast, driven by core products Oriental Leaf and Cha π, tea beverage revenue surged 32.3% to 16.745 billion yuan, surpassing bottled water for the first time and building a dual-engine growth structure. In 2025, the company achieved full recovery, with total revenue of 52.553 billion yuan (up 22.5% YoY) and a record-high net profit margin of 30.2%. Nongfu Spring sticks to a "three-high" model featuring high pricing, high gross margins and high cost efficiency, supported by exclusive water source resources and economies of scale. Based on its 2024-2025 financial data, this paper systematically analyzes its business and profit models, offering empirical references for peer FMCG enterprises on transformation, category expansion and risk management.

Keywords: Nongfu Spring, business model, profit model, tea beverages, value chain

1. Introduction

Existing research on the company has primarily focused on four dimensions: business model innovation, financial performance evaluation, strategic analysis, and channel strategies [1-4].

However, the literature has two notable gaps. First, most studies focus on single dimensions, failing to examine Nongfu Spring's business and profit models as a coherent system. Second, the existing research largely covers data up to 2022, without analyzing the structural changes in the 2024-2025 financial reports—especially the reversal between bottled water and tea beverages and its profit implications. Based on these research gaps, this paper aims to address the following core questions: 1. What are the intrinsic structural characteristics of Nongfu Spring's business model and profit model? 2. How does its "three highs" profit logic—high pricing, high gross margins, and high cost efficiency—support its long-term development? Nongfu Spring's Profit Model and Data Analysis

1.1. Evolution of revenue structure: from "water dominance" to "dual-engine growth of water and tea"

Nongfu Spring's revenue structure shifted fundamentally between 2024 and 2025. In 2024, the company achieved total revenue of 42.896 billion yuan, a slight year-over-year increase of 0.5%,. Bottled water revenue fell 21.3% to 15.952 billion yuan, reducing its share from about 50% in 2023 to 37.2%. Tea beverages, however, grew 32.3% to 16.745 billion yuan, surpassing bottled water to account for 39.0% of total revenue for the first time. This signifies that the company's leading product category has officially shifted from water to tea [5].

In 2025, the company's performance surged across all segments. Full-year revenue reached 52.553 billion yuan (up 22.5%), and net profit attributable to shareholders was 15.868 billion yuan (up 30.9%), marking the first time the company surpassed 50 billion yuan. By segment, bottled water revenue was 18.709 billion yuan (up 17.28%), and tea beverage revenue reached 21.596 billion yuan (up 28.97%). Tea beverages thus became the largest segment at 41% of total revenue, while bottled water fell to 36%. Additionally, functional beverage revenue totaled 5.762 billion yuan (+16.83%), and juice revenue reached 5.176 billion yuan (+26.72%), both maintaining double-digit growth. Table 1 below summarizes Nongfu Spring's revenue and growth rates by business segment for 2024–2025. Growth momentum was particularly strong in the second half of 2025, driven by both "dual engines."

Table 1. Nongfu Spring's revenue and growth rates by business segment for 2024–2025

Business Segment	2024	Year-over-Year Growth Rate	2025	Year-over-Year Growth Rate	Share of 2025 Revenue
	Revenue (100 million yuan)		Revenue (100 million yuan)		
Bottled Water	159.52	-21.3%	187.09	+17.28%	36%
Tea Beverages	167.45	+32.3%	215.96	+28.97%	41%
Functional Beverages	49.34 (est.)	+0.6%	57.62	+16.83%	11%
Juice Beverages	40.85	+15.6%	51.76	+26.72%	10%
Total	428.96	+0.5%	525.53	+22.5%	100%

Data Source: Nongfu Spring's 2024 and 2025 Annual Reports, compiled from Huachuang Food & Beverage Earnings Brief and Guotai Junan Food Research.

1.2. Profitability analysis: a structural breakdown of gross margin and net profit margin

Nongfu Spring's high profitability is the most distinctive feature of its business model. In 2024, the company's overall gross margin stood at 58.1%, down 1.4 percentage points year-over-year, primarily due to declining sales volume in the bottled water business and the low gross margin of its green-bottle purified water [6]. However, in 2025, the gross margin rebounded to 60.5%, up 2.4 percentage points year-over-year, reaching an all-time high. Table 2 below summarizes the trends in Nongfu Spring's gross profit margin and net profit margin from 2017 to 2025.

Table 2. Trends in Nongfu Spring's gross profit margin and net profit margin, 2017–2025

Year	Gross Profit Margin	Net Profit Margin	Data Source
2017	56.08%	-19%	Guosen Securities Research [6]
2023	-59.5%	-28%	CMB International Research [7]
2024	58.1%	28.3%	Guosen Securities Research [6]
2025	60.5%	30.2%	Haitong International Research

Data Source: Compiled based on research reports from Guosen Securities, CMBI, and Haitong International.

Looking at profit margins by business segment, tea beverages demonstrated significantly higher profitability than bottled water. In 2025, the profit margin for the tea beverage segment rose by 2.9 percentage points year-over-year to 48.0%, while bottled water's margin increased by 6.3 percentage points to 37.4%. The sustained upward trend in the tea beverage profit margin reflects the profitability of high-margin products like Oriental Leaf, a trend driven by economies of scale.

1.3. Channel structure: distributor system and retail coverage

Nongfu Spring implements a "major distributor system" channel management model centered on first-tier distributors. Around 2024, the company had approximately 4,280 distributors and about 2.37 million retail outlets, of which 1.87 million were located in third-tier and lower-tier cities, covering all provinces, municipalities, and county-level administrative regions nationwide. After 2020, it added second-tier distributors to deepen penetration in lower-tier markets [8]. In terms of channel management, the company has established the NCP digital management system and deployed over 300 audit and inspection personnel to implement precise control over in-store displays, sales facilities, and other aspects [8]. Distributors' gross profit margin is approximately 25%, and their net profit margin is approximately 6%—1.5 to 2 times higher than the industry average. This profit-sharing mechanism ensures the stability and loyalty of the channel system.

2. Business model fit assessment

2.1. Deconstructing the business model from a value chain perspective

Using a framework centered on "how business models create corporate value," Nongfu Spring's value chain activities can be summarized as five steps: water source acquisition, product R&D, large-scale production, brand marketing, and channel distribution. The key to the success of its business model lies in the establishment of a dual barrier of "differentiation + economies of scale" [1].

1) Clear and Consistent Long-Term Brand Positioning. Academic research indicates that Nongfu Spring, starting from consumer needs, has established a three-tier positioning system: "Natural Water—Attribute Layer," "Health—Benefit Layer," and "Natural Equals Healthy—Value Layer" [9]. The brand identity integrates traditional Chinese cultural and artistic elements, enhancing emotional resonance and cultural identification [10].

2) The full-category product matrix generates synergies. Leveraging the channel advantages of bottled water, the company has successively cultivated major products such as "Oriental Leaf" (No. 1 market share in sugar-free tea), "Tea Pi" (a leader in sugary tea), "Scream" (functional beverages),

and "NFC Juice," achieving category synergy where "water drives beverage sales, and beverages in turn boost water sales." From 2017 to 2025, revenue from tea beverages recorded a CAGR of about 47% [11].

2.2. Analysis of the "Three Highs" model and its fit with the consumer goods sector

Nongfu Spring's business model is characterized by high pricing, high gross margin, and high cost efficiency.

High Pricing: Nongfu Spring's natural water is priced at 2 yuan per bottle, with an average price of approximately 3,200 yuan per metric ton—about 50% higher than the industry average. The company sustains this premium through its brand positioning as "Nature's Courier." In the tea beverage sector, the 5-yuan price point for Oriental Leaf similarly positions the brand at the high end of the sugar-free tea segment.

High Gross Margin: The company's gross margin has long remained within the 55%–60% range, significantly higher than that of competitors such as Master Kong and Uni-President. This is closely related to the company's supply chain strategy of "building its own water sources to reduce water extraction costs, producing its own tea leaves to lower raw material procurement costs, and leveraging economies of scale to reduce unit production costs" [11].

High Cost Efficiency: While maintaining high gross margins, the company has kept its sales expense ratio declining through digital channel management and targeted brand advertising (rather than heavy traditional advertising). By 2025, the sales expense ratio had fallen to 18.65%, a decrease of approximately 10 percentage points compared to 2017 [12]. Table 3 below summarizes a comparison of the profitability of Nongfu Spring and its major competitors (2023–2025).

Table 3. Comparison of profitability between Nongfu spring and its major competitors (2023–2025)

Metric	Nongfu Spring (2025)	Nongfu Spring (2024)	Master Kong Beverages (2023)	Uni-President Enterprises (2023)
Gross Profit Margin	60.5%	58.1%	-32%	-33%
Net Profit Margin	30.2%	28.3%	-5%	-6%
Return on Equity (ROE)	-46% (2023)	—	-15%	-12%

Data sources: Haitong International research reports, Guosen Securities research reports, and company annual reports.

The "Three Highs" model fits the consumer goods sector well: the 2-yuan price point meets mass-market purchasing power while leaving room for channel profits and brand investment; the "natural water" and "sugar-free tea" positioning aligns with consumption upgrading and health trends; and lower ad spending (versus peers) yields a higher return on ad spend. However, this model is not without its flaws—when the industry enters a phase of price wars and competition for existing market share, high-priced products naturally face the risk of being eroded by lower-priced competitors, as will be detailed in the next section.

3. Issues and challenges facing Nongfu Spring

3.1. Pressure on bottled water market share and the challenge of recovery

In 2024, Nongfu Spring's bottled water business experienced significant volatility. Data shows that in the first half of 2024, bottled water revenue fell 18.3% year-over-year, primarily due to the impact of an online public opinion incident. In Q2 2024, market share declined for three consecutive months [5]. Since 2025, the company's market share in the bottled water sector has shown signs of a gradual recovery. Revenue from bottled water grew by approximately 15% in the first half of the year, with the growth rate accelerating further to 24.85% in the second half. According to a research report by Caitong Securities, Nongfu Spring's bottled water growth rate in the first half of 2026 accumulated to approximately 6–7 percentage points, with its market share showing a steady increase. With industry growth slowing overall, price wars in the bottled water market continue, pressuring the company's pricing and channel profitability. Table 4 below summarizes changes in market share for major brands in China's bottled water industry (2020–2025).

Table 4. Changes in market share of major brands in China's bottled water industry (2020–2025)

Brand	2019 Market Share	2023 Market Share (Est.)	2025 Trend
Nongfu Spring	20.9%	-26%	Slowly recovering
China Resources Yibao	-13%	-18%	Slight decline
Baishui Mountain	-8%	-10%	Steady Growth
Master Kong	-7% (2018)	-6%	Continued Decline
Wahaha	-7%	-5%	Continuing Decline

Data Source: Compiled based on Nielsen data, research reports from Northeast Securities, Guotai Junan Securities, and Everbright Securities; figures for some years are estimates.

3.2. Intensifying industry competition: the double whammy of price wars and new-style tea drinks

Nongfu Spring faces competitive challenges from two fronts. The first is the price war in the bottled water market. In 2024, the company launched green-bottle purified water priced below 1 yuan per bottle to target lower-tier markets; while the price cut boosted sales, it also dragged down gross margins—the bottled water profit margin fell to about 31% in 2024, its lowest in recent years. Second, competition in the sugar-free tea segment has intensified. Although sugar-free tea is currently the fastest-growing subcategory of soft drinks, sales growth during the 2025 peak season (April–September) slowed significantly compared to 2024, as the industry transitioned from a period of explosive growth to a phase of competition for market share. Many new brands (e.g., Ruozi Shu Le and Rangcha) have flooded the market, trying to gain share from Dongfang Shuyue. However, as of June 2025, Nongfu Spring's market share in the sugar-free tea segment remained as high as 79.36%, up 10.94 percentage points year-over-year, with industry concentration further shifting toward the top players [13].

4. Solutions and strategic recommendations

4.1. High-end water source expansion and product portfolio upgrade

During the recovery of its bottled water business, the company should maintain a long-term strategy and consolidate water-source scarcity into a core competitive barrier. Specific recommendations include: First, accelerate the pace of bringing new water sources online; Second, diversify the drinking water product line by introducing more mid-to-high-end options above the main 2-yuan price point (such as the "Changbai Snow" brand positioned as a 3-yuan mineral water) to increase profit contribution per unit; Third, continue investing in consumer education, including inviting consumers to visit water sources, promoting water knowledge, and reinforcing the perception of "natural water" as a healthy choice.

4.2. Optimization of digital supply chain and channel management

Nongfu Spring has established the NCP digital channel management system. We recommend further deepening efforts in the following areas: First, leverage the data middle platform to integrate the entire information flow—from production scheduling to end-point sales—to enable precise distribution and automated replenishment, thereby reducing channel inventory days; Second, in terms of product innovation, increase R&D investment in region-specific and health-focused flavors such as chrysanthemum Pu'er and dried tangerine peel white tea, and expand the core consumer base of those aged 30 and above by linking flavors to cultural elements [13].

5. Conclusion

This paper deconstructs Nongfu Spring's business and profit models using financial data and public market information from 2024 to 2025, and reaches the following conclusions: First, Nongfu Spring's profit model has undergone a structural shift from "water dominance" to a "dual-engine drive of water and tea. This marks a shift in the core profit driver of its "three highs" model from water to tea. Second, the "high pricing, high gross margin, high cost-efficiency" business model is highly compatible with the consumer goods sector, but it has flaws: while water source barriers have created a differentiation moat, the company also faces challenges such as insufficient penetration into lower-tier markets and the impact of price wars. Third, the company's current major risks include the protracted nature of market share recovery in the bottled water segment, brand vulnerability exposed by public relations crises, and a shift toward a zero-sum game following the slowdown in the sugar-free tea segment's growth; however, through strategic initiatives such as establishing factories at premium water sources, digital operations, and overseas expansion, the company is poised to make the leap from "water market leader" to "multi-category giant."

The limitations of this study include: data relies primarily on securities firm reports, annual reports, and public media coverage, lacking primary research data such as distributor interviews and consumer surveys, and the depth of the conclusions could be improved; a single-case study makes it difficult to conduct cross-company comparisons; and some conclusions still require further support from more cutting-edge literature. Future research could focus on the following areas: First, tracking the implementation and effectiveness of Nongfu Spring's internationalization strategy in overseas markets; second, conducting a quantitative assessment of the actual impact of the NCP digital system on the company's operational efficiency; third, constructing a model to analyze the impact of

public opinion crises on FMCG brands' "trust assets," providing a theoretical framework for industry crisis management.

References

- [1] Li, W., Liu, J., & Wen, X. (2023). How do business models create corporate value? — Taking Nongfu Spring as an example. *Research on Financial Management*(4), 6–18.
- [2] Dao, S. (2021). Analysis of the profitability of Nongfu Spring Co., Ltd. *Rural Economy and Technology*, 32(24), 136–138.
- [3] Zhou, X. (2022). Corporate strategic analysis based on the SWOT model: A case study of Nongfu Spring. *China Market*(35), 79–81. DOI: 10.13939/j.cnki.zgsc.2022.35.079.
- [4] Yi, W. (2021). *A study on business models and valuation in the fast-moving consumer goods (FMCG) beverage industry: The case of Nongfu Spring*. Shanghai Jiao Tong University. DOI: 10.27307/d.cnki.gsjtu.2021.000268.
- [5] CITIC Securities. (2025, February 26). *Analysis of Nongfu Spring's profitability inflection point and valuation recovery*.
- [6] Guosen Securities. (2025, July 30). Nongfu Spring (09633.HK): A leader in bottled water and a rare platform-based beverage company [R].
- [7] CMBI. (2024, March 28). Nongfu Spring (9633.HK): 2H23 revenue and net profit up 33% and 62%, respectively; sugar-free tea business share rises significantly [R].
- [8] Soochow Securities. (2025, April 10). Nongfu Spring (09633.HK): Adhering to a long-term approach, unwavering leadership status—Buy (initial rating) [R].
- [9] Xie, L. (2022). Analysis of Nongfu Spring's brand positioning and implications. *Journal of Economic Research*(25), 80–82.
- [10] Building a CI design strategy for Nongfu Spring guided by cultural traditions. *Journal of Nanjing University of Science and Technology*.
- [11] Haitong International. (2026, March 31). Nongfu Spring (09633.HK): Resilience shines through in competition; high growth on a low base [Report].
- [12] Huachuang Food & Beverage. (2026). Nongfu Spring 2025 annual report earnings brief [Report].
- [13] Zhongtai Securities. (2025, December 19). Soft drink industry annual strategy report: Sugar-free tea—market concentration among leading players and opportunities for expansion across all scenarios amid rational competition [Report].