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Nongfu Spring's Growth Strategy in China

——Market Analysis

——Strategy Design

2022 Bain Cup Case Competition 1st Round

Wolfie Consulting

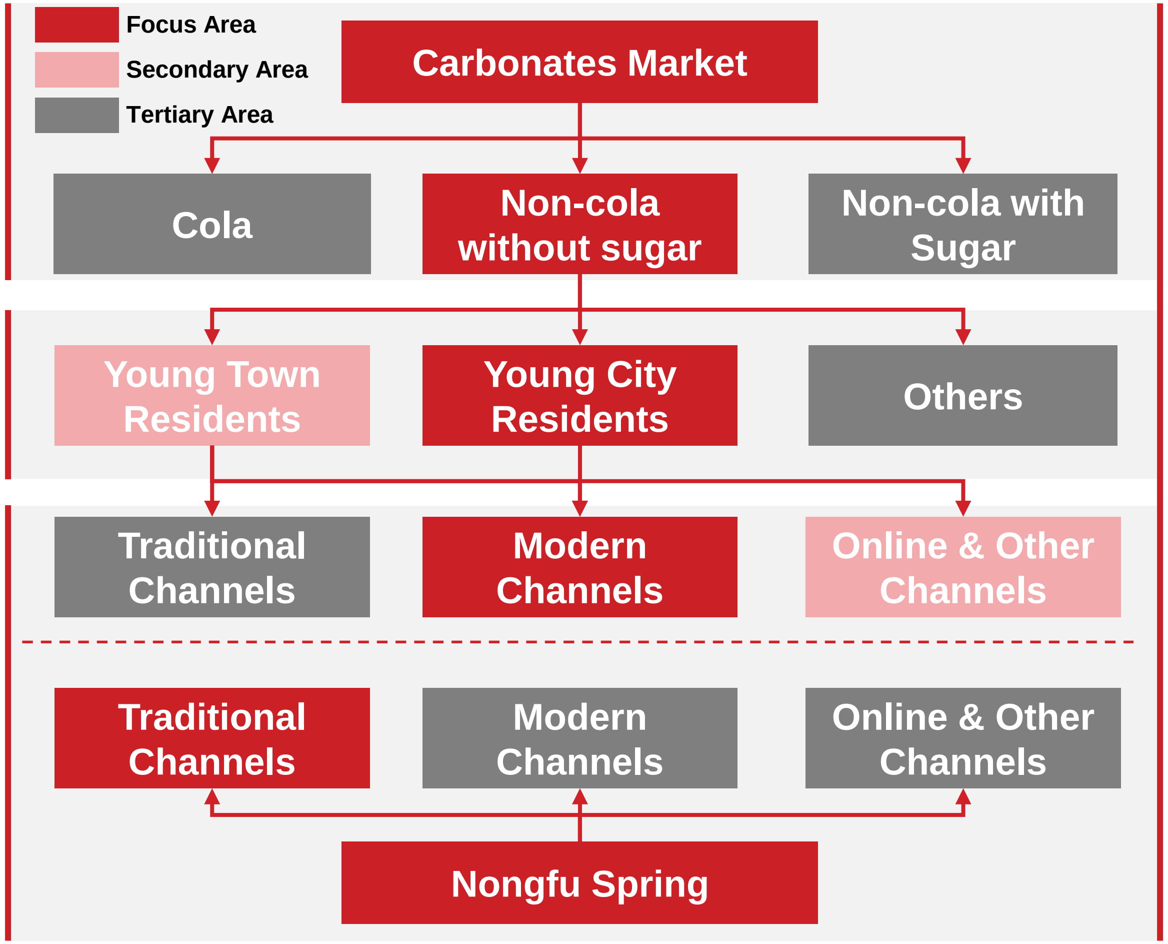
Summary: Nongfu should focus on no-sugar segment and offer diverse products targeting young & city residents, powered by brands and distribution upgrade

Main Logic

A Market Overview & B Competition Analysis

C Consumer Profiles

D Distribution Analysis



Key Implications

A Market Analysis:

Non-cola without sugar segment is the most prospective market for our client because it is the **fastest growing** segment and has **lower barrier of entry**

B Competitive Analysis:

No-sugar segment is **more vibrant and less concentrated**, but due to similar channels and requirements, our competition lies in **pan-healthy drinks segment** that includes carbonates, tea, coffee etc.

C Consumer Profiles:

Our customer should target **young & city residents** as they are more acceptive of modern health concepts, more willing to pay and easier to reach, with a TAM of 43.6Bn RMB, and consider a new brand strategy

D Distribution Analysis:

Our client should examine its distribution network to better reach our target customer as **Nongfu relies on traditional channels while no-sugar carbonates thrive on modern & online channels**

Source: Wolfie Consulting Analysis

CONTENTS

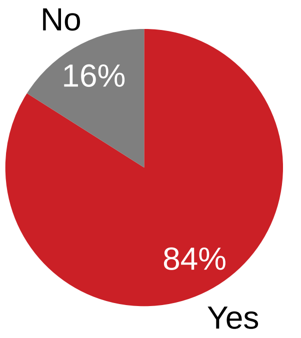
Rice DREAM
GOOD KARMA
FLAXMILK
Soymilk
SO DELICIOUS
COCONUTMILK
COLD BREW
ALMONDMILK
Almond Breeze
Organic ALMOND Milk
Silk
Almond & Coconut

Rising health awareness and consumption upgrade largely drive the market change in carbonates, accompanied by Gen Z trend and product diversification

TWO Main Drivers

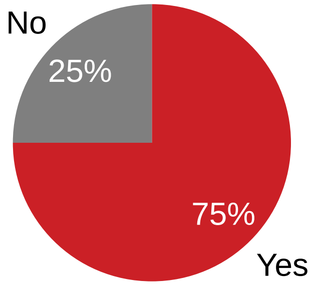
1 Rising Health Awareness

Concerned with your health?



84% of the people are highly concerned with their own health issue

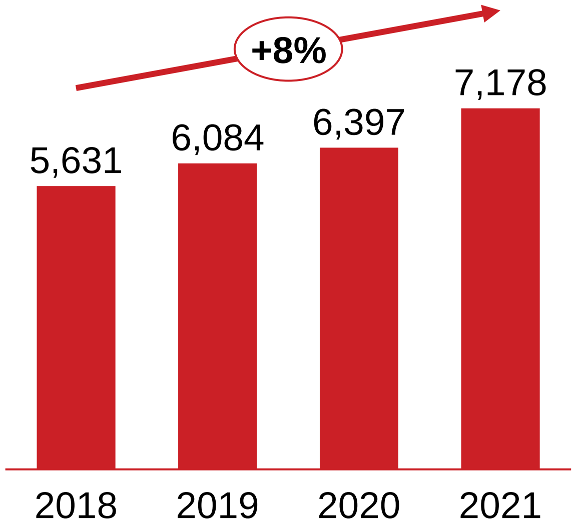
Are health elements important to beverages?



75% of the people think that health elements are very important to beverages

2 Consumption Upgrade

Per Capita Consumption on Food & Drinks



Continuous increase in Food & Drinks consumption pushed up **quality and quantity demand**

TWO Other Drivers

3 Gen Z Brought About New Trends in Beverages

According to Shanghai's survey of Gen Z:

- **51%** buys beverage 3+ times per week
- **79%** chooses no- or low-sugar beverages
- **60%** prefers domestic brands
- **59%** chooses to buy at CVS and supermarkets

4 Diversified Product Demand and Offerings

- Probiotic Carbonates: 蒙牛
- Hyaluronic Acid Carbonates: 娃哈哈
- Vitamin Carbonates: HEYTEA 喜茶
- Protein Peptide Carbonates: VOSS
- etc…..

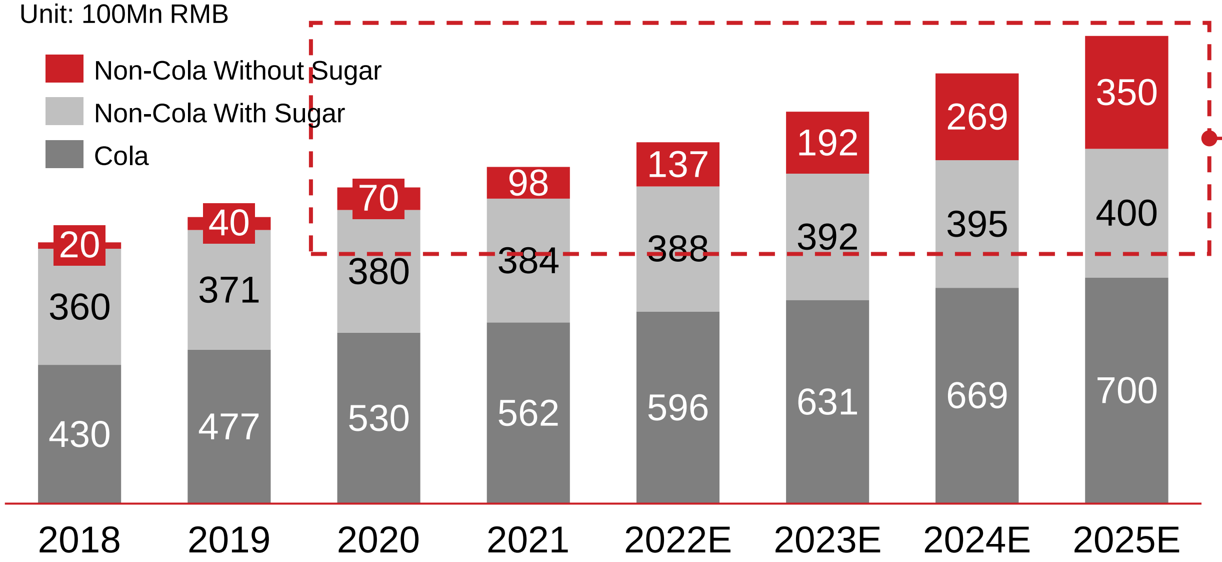
Source: Ipsos Survey; Shanghai Consumer Council; Wolfie Consulting Analysis

No-sugar carbonates expected to be the key growing market among the three segments, considering both market growth and barriers to entry

Market Growth Projection

No-Sugar projected to have the highest growth….

Mkt Share of Non-cola Carbonates from ’18 to ’21



Comparative Analysis

and could be the ideal market for growth

2020-2025	Mkt Size (’25) (CNY 100Mn)	Mkt Growth (CAGR)	Category (Growth-Size-Barrier)
PRIORITY **Non-cola Without Sugar**	~350	~40%	**High Growth** Medium Size **Lower Barrier**
Non-cola With Sugar	~400	~1%	Slow Growth Medium Size
Cola	~700	~6%	Moderate Growth **Large Size** High Barrier

Drivers (discussed in previous slide)

TWO Main Drivers: #1. Rising Health Awareness; #2. Consumption Upgrade

TWO Other Drivers: #1. New Trends by Gen Z; #2. Diversified Product Demand and Offerings

Source: Bain Cup; Wolfie Consulting Analysis

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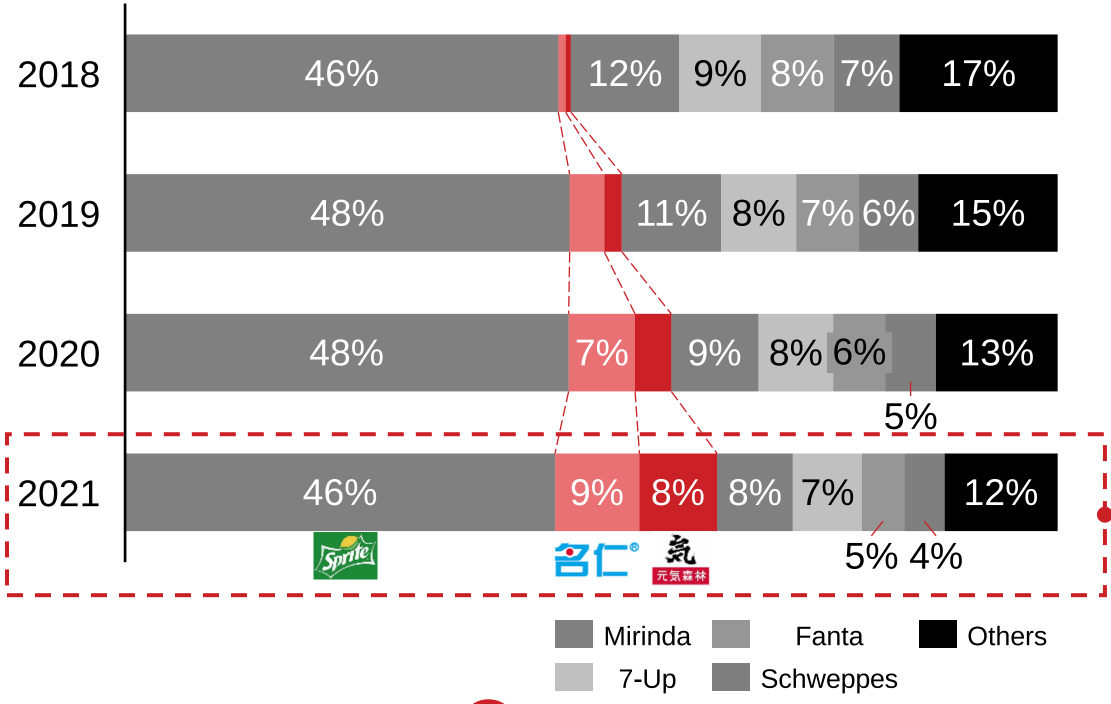
Within Non-cola market, domestic no-sugar brands (Ming Ren and Genki) are gaining shares and no-sugar are less concentrated than with-sugar carbonates

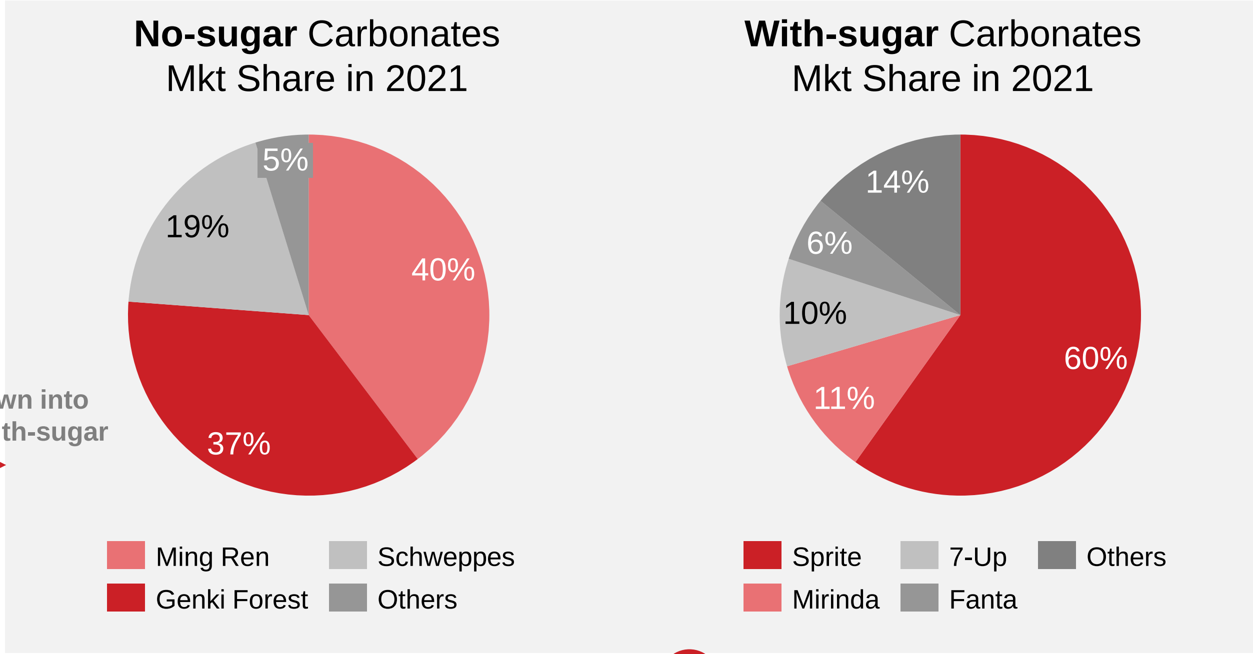
Competitive Landscape & Trend of Non-cola Carbonates

No-sugar Carbonates gaining shares as year goes on



Non-cola Segment Breakdown (no-sugar and with-sugar)

No-sugar segment is more vibrant than with-sugar segment



Trends

Trend #1: No-sugar brands rapidly gaining shares

Trend #2: Competition extended to pan-healthy drinks

Trend #3: Ads & Product Homogeneity

Source: Euromonitor; Wolfie Consulting Analysis

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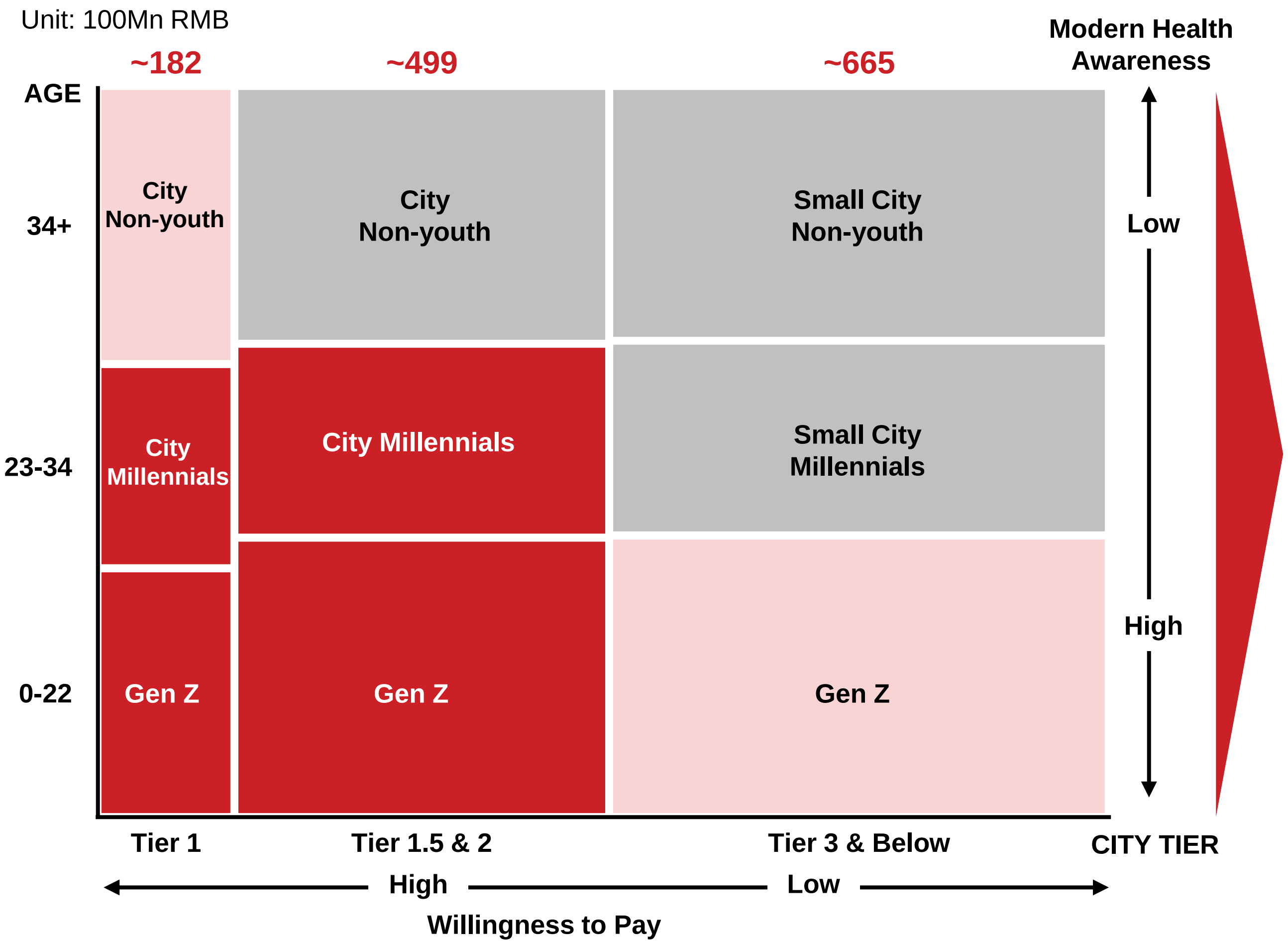
Nongfu Spring should target young (below 34) & higher-tier cities citizens first and cover older & lower-tier citizens with existing channels later

"Healthy Drinks" Customer Breakdown by Age and City Tiers[1]



TAM[2]: ~135Bn RMB

Primary Target | Secondary Target | Tertiary Target

City Tier	Customer Segment	Segment Size	Modern Health Awareness	Willingness to Pay	Easiness to Distribute
1st Tier	Gen Z	◑	●	●	●
	Millennials	◑	●	●	●
	Non-Youth	◑	◕	◕	●
2nd Tier	Gen Z	●	●	◕	◕
	Millennials	◕	●	●	◕
	Non-Youth	◕	◕	◕	◕
3rd Tier	Gen Z	●	◕	◑	◑
	Millennials	●	◑	◑	◑
	Non-Youth	●	◔	◔	◔

Source: Census Data; Wolfie Consulting Analysis

Note: 1: In our model, definitions are slightly different than commonly known – millennials are defined to be born between 1988 and 1999, while Gen Z between 2000 and 2022

2:TAM is the total addressable market that includes any products that features as healthy drinks to address customers' demand, for example tea and flavored mineral water

Appendix: Market Sizing for Healthy Drinks by City Tiers and Ages

	Tier 1	Tier 1.5 & 2	Tier 3 & Below	Total
Population (in 10,000)				
22 and below	2656	10330	25214	**38200**
23-34	1992	7575	17874	**27442**
34 and above	3653	16528	55356	**75537**
	8301	**34434**	**95380**	**141179**
Penetration				
22 and below	80%	70%	45%	
23-34	80%	60%	40%	
34 and above	65%	45%	20%	
People who drink (in 10,000)				
22 and below	2125	7231	11346	
23-34	1594	4545	7150	
34 and above	2374	7438	11071	

✖

	Tier 1	Tier 1.5 & 2	Tier 3 & Below	Total
Frequency per week				
22 and below				
High	20%	15%	8%	
Low	80%	85%	92%	
23-34				
High	25%	20%	12%	
Low	75%	80%	88%	
34 and above				
High	20%	10%	5%	
Low	80%	90%	95%	
Standard				
High Freq.	4 per week		Price (RMB)	3.5
Low Freq.	1 per week			
ARPU[1] per week (RMB)				
22 and below	5.6	5.075	4.34	
23-34	6.125	5.6	4.76	
34 and above	5.6	4.55	4.025	

Total Market Size (in 100Mn RMB)				
22 and below	61.9	190.8	256.1	**508.8**
23-34	50.8	132.4	177.0	**360.1**
34 and above	69.1	176.0	231.7	**476.8**
	181.8	**499.2**	**664.8**	**1345.7**

Source: Census Data; Wolfie Consulting Analysis
Notes: 1. Average Revenue Per User (ARPU)