Market Audit
Sports and Energy Drinks UK Market
Focussing on the Microenvironment of Red Bull

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Stage 2 Marketing: ACE2002
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1.0 Executive Summary

Red Bull’s strength seems to be based on their strategy of concentrating on its main product; the company seeks to develop a strong brand image through sponsorship of important events while focusing on its core-competences of Red Bull drink and its sugar free variant. The use of such a strong international brand means that the company’s products have powerful recognition before they are even introduced to new international markets. Young people nationwide have developed a natural affinity with the brand, finding great utility in the core benefits of the product. Careful selection of appropriate distribution channels and the creation of a brand image created around extreme events and high profile sports have helped quickly establish a premium position within the market.

Energy and Stimulant drinks have settled themselves as a fixture in the non alcoholic drinks market, the continued popularity has boosted the market’s value and despite increasing sales and increased competition, prices are still at a premium. This sector is lucrative as consumers appear to be prepared to pay a relatively high price per litre for single-serve units of the convenient energy boosting drinks. Increasing numbers of ‘Cash Rich – Time Poor’ individuals has resulted in functionality becoming a key factor, new flavours, sugar free variants and bottle changes have all been attempted by the leaders in the market. Red Bull and GSK (Lucozade) account for a large percentage of sales in the energy market and these two have created barriers to entry which limit the other firms in competition.

The Energy drink market are not just competing with each other but also the whole non alcoholic beverage market as consumers are drinking them for not only sport reasons. Many external factors have influenced the demand for this market, especially those related to the increasing popularity of fitness lifestyles and gym membership.

Possibilities for future development of the brand include diversification, changes in flavour, special editions, more/less caffeine versions could be created. The final suggestion is for the targeting of potentially lucrative social groups such as older adults and those looking for rejuvenating and stimulating properties from a drink, however this would involve alternative advertising as currently most stimulant drinks are aimed at the 18 – 25 year old market.
2.0 Introduction

The market which I shall be investigating is the sports and energy drinks market in the UK, although I think it’s important that I consider the whole market including soft drinks. This is because Sports and Energy drinks are competing with other soft drinks and sports and energy drinks are no longer only used for sports but play an important role as an alcoholic mixer and simply as a soft drink.

This report will focus on a product part of this market and I have chosen the market leader for stimulant drinks, Red Bull. I shall be examining its microenvironment and looking at the product with Porters 5 forces theory.

I will explain how Red Bull fits into the UK soft drinks market, Red Bull is part of the functional drinks market, and these are sparkling, still and dilutable non alcoholic soft drinks.

They are designed to help 3 main factors.

- ENERGY BOOST
- POST EXERCISE FLUID REPLACEMENT
- STIMULATE AWARENESS
3.0 Industry Analysis

3.1 Market Analysis

Sports and energy drinks compete with a number of other soft drink categories:

- Direct competition from bottled water and from sophisticated sports nutrition products for consumers following an exercise regime.
- Energy and stimulant drinks are widely used as alcoholic mixers and face competition from other mixers.
- Both sports and energy drinks aspire to compete in the overall soft drinks market, including fruit juices, carbonated still and soft drinks.

However due to word limit constraints I shall be focusing on the energy and stimulant drink market. I am interested in the subject and as a keen sportsman myself I regularly drink energy drinks and I thought it would be an interesting subject.

(Source of Info:Mintel)

In 2005 sales of Energy, Sports and Stimulation Drinks were £1,186 million. 10.2% of the total market.

The diagram highlights the complexity of the soft drink market and from this we can see that Energy, Sports and Stimulation drinks are only a minor part of the market as a whole and they are not simply competing against other energy drink manufacturers, but due to convenience based purchasing patterns of the industry, they’re competing for the same consumer pound as a multitude of product offerings within the soft drink category. Therefore, potential competitors include giant brands such as Coca Cola, Pepsi and Ribena.
The graph above shows the size of the Market, the younger market is bigger and needs to be the main target, however the positioning of energy drinks needs to include those from the 35-54 age group as it is still a very large group, and consumers in this group are likely to have more spending power due to higher incomes.

Lucozade have just this month released a new Lucozade energy which comes in a glass bottle, this new form has been introduced with students in mind, particularly around university bars, where customers want a greater choice of soft drinks and premium packaging. According to the National Union of Students, a survey from 2004 showed that students are drinking less because of changes in lifestyle. 60% of students are employed during term time, whilst nearly 20% spend between 2-4 hours travelling per day. A rise in ethnic and foreign students has also contributed to the fact that nearly 1 in 5 students do not drink alcohol. Therefore the importance of soft drinks in the student bar environment is getting greater and greater. For instance, I very rarely drink in the union, I actually very rarely attend the students union, but if I was passing during the day, I would be most likely to want either a healthy fruit drink, or an energy drink to keep me going. Energy drink makers try to meet the demand of a students 24/7 lifestyle by providing sturdy cans, or reusable bottles to meet demand for premium packaging in a bar environment. (1*)
3.2 Growth

In the Stimulant segment, Red Bull’s supremacy remains, it has witnessed some erosion of market share, various other brands and supermarket own labels have now been available long enough to have carved out their own niche and secure their presence.

The Diagram shows how demand for the best selling stimulant drink in the market has rapidly increased. This highlights how a market didn’t exist much earlier than 1987, and the period between 1997 and 2000 looks to be when stimulant drinks really stopped being a niche market and became a fixed part of the market. (2*)

Figure 3: Cans of Red Bull Sold (billions), 1987-2001

Estimates of 2006 Show the Energy, Sport and Stimulant market will increase by £89 Million in sales from 2005 to a total of £1275m. This is a huge increase from sales back in 2000 of £654 million.

Reasons for growth

Longer working days and the stresses and strains of everyday living leading to fatigue, the UK has the longest working hours in the EU, and in order to get most out of every day, consumers are increasingly looking at products with an extra kick.

Strong marketing, wider distribution and the challenge of new brands have lead to increasing consumer acceptance influential to the contribution of growth. Consumption of hot beverages are in decline, consumption of bottled water, juices and fizzy drinks are increasing, especially among the under 30’s.

Results of a national diet and nutrition survey showed that 92% of men aged 19 to 24 years reported drinking carbonated soft drinks over a 7 day period.
An aging population could be a good factor for the market, with a greater proportion of the population middle aged and elderly, they are attracted to products that offer regenerative or rejuvenating properties. Younger consumers are drawn to products offering legal highs, and products such as Red Bull being banned in some EU countries, which makes it more desirable to younger consumers.

Some societies are sponsored by companies who manufacture energy drinks, using Facebook and MySpace to promote youth consumption. This is a major way of marketing towards the 55 million active users currently using Facebook. Younger people want to look good and will be more concerned about physical appearance, given the rising influence of celebrity culture.

**Factors potentially stunting growth**

Various factors can lead to a reducing market share in the stimulant market, the biggest and most widely reported due to the ingredients of the drinks, and secondly to its use as a mixer with alcohol.

There’s lots of media coverage like this, for example I found an article titled ‘college students looking for a boost putting them at risk’. It states how the consumption of stimulant drinks can lead to caffeine overdose, taking in amounts greater than 300-400mg, just two cans.

**Growth Opportunities**

There are plenty of growth opportunities in the UK market. In 2002 according to the ‘Economist Online’, the highest consumption rate of Red Bull has been in Ireland at 11 cans per person. This is lower in the UK and still a realistic target, if the stimulant drink makers can achieve similar or greater usage rates then the market could generate additional sales. Ciao/Mintel found in an online survey of 1000 people aged 16 and above and 59% of people never drink energy or sports drinks, manufacturers should look to convert non-users.
### 3.3 Brands and Market Segments

#### Figure 3.2 Sports, Energy and Stimulant Drink Manufacturers and Brands
(Source: Mintel)

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Brand</th>
<th>Market Segment</th>
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<tbody>
<tr>
<td>GlaxoSmithKline</td>
<td>Lucozade Energy</td>
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<td>GlaxoSmithKline</td>
<td>Lucozade Sport</td>
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<td>GlaxoSmithKline</td>
<td>Lucozade Hydroactive</td>
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<td>GlaxoSmithKline</td>
<td>Lucozade Caffeine Boost</td>
<td>Stimulant</td>
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<td>Sports</td>
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<th>Manufacturer</th>
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<tr>
<td>Coca-Cola</td>
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<td>Sports Drink</td>
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<td>Powerade Aqua</td>
<td>Sports Drink</td>
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<td>Sprite 3g</td>
<td>Sports Drink</td>
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<td></td>
<td>Relentless</td>
<td>Stimulant Energy</td>
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<td>Britvic Pepsico</td>
<td>Gatorade</td>
<td>Sports</td>
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<td></td>
<td>Purdeys</td>
<td>Energy</td>
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<td></td>
<td>Red Devil</td>
<td>Stimulant Energy</td>
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![Red Bull Energy Drink](image)
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<td>Energy</td>
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<td></td>
<td>V- Energy</td>
<td>Stimulant Energy</td>
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<td>Red Bull</td>
<td>Red Bull</td>
<td>Stimulation</td>
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<td>Red Bull</td>
<td>Red Bull Sugarfree</td>
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<td>Taut</td>
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<td>Sports Energy</td>
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<td>Tesco</td>
<td>Kick</td>
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<tr>
<td>Aldi</td>
<td>Red Thunder</td>
<td>Stimulant</td>
</tr>
<tr>
<td>Sainsburys</td>
<td>Blue Bolt</td>
<td>Stimulant</td>
</tr>
<tr>
<td>Asda</td>
<td>Own Brand</td>
<td>Stimulant</td>
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3.4 PEST Analysis

**Political**
- Bans from EU countries
- No regulation on labelling of such drinks
- Age limits should be set on purchasing
- Health risks affecting NHS and increased spending possibly leading to increase taxes

**Economic**
- PDI and Consumer Expenditure
- Rising disposable incomes encourage premium purchases
- Major soft drink manufacturers have been attracted to the sports and energy drink market partly by the premium prices that currently exist for these products.

**Social**
- Negative Health concerns
- Global warming
- Longer working hours, increased road traffic, more need for energy boost
- Increasing consumer concern around diet and personal health

**Technological**
- Improved manufacturing techniques and process could lead to lower prices
- Innovation within the market – new products – looking for ultimate hangover cure
3.5 Strengths and Weaknesses of the Sports and Energy Drinks market

**Strength**

- Bottled and Canned Drinks are easy to carry and can be used on the go, taken to work.
- There is more choice available to consumers of sports drinks, making the market more competitive and innovative.
- Healthy living and exercise are becoming more popular with about 14% of the UK population having visited a gym.
- Lots of potential in the market, around 30 direct competitors with many product ranges undeveloped.
- Increasingly busy lifestyles are leading many consumers to find ways of an energy boost, substituting the usual coffee with energy drinks.
- They have achieved a status amongst consumers which enables them to charge a premium price compared to soft drinks.

**Weakness**

- Sports and energy drink market over-reliant on young, male consumers
- Claims made by these drinks aren’t always credible and hard to prove.
- Being based towards a younger generation puts many older consumers off purchasing.
- Frequently seen as expensive compared with other soft drinks
  - Association as an alcoholic mixer can be seen as negative and goes against the healthy message they look to promote.
- Firms being over-reliant on a single brand.
  - The mature market for energy drinks has attracted some of the global firms, such as Coca-Cola, Pepsi as well as Asda/Wal-Mart, with their own brands seeking to gain a competitive advantage
- How can the industry attract the next generation of consumers?
4.0 Market Focus: Red Bull

4.1 Red Bulls Strategy

The most remarkable thing about the Red Bull can is not its size or sex appeal but the fact that it is the company’s only offering: One size. One colour. One taste.

The growth of energy drinks has led to an onslaught of new competitors; high industry margins have attracted many large companies. The many brands competing in the market are attempting to create a brand image as powerful as Red Bull’s. Red Bull are near the top of the soft drink sales figures, however they have far lower results of sales by volume when compared to others, this is due to the selling of smaller cans of 250ml which sell for a lot more than rivals.

Sales and distribution tactics of the key players in the market are interesting, Red Bull have a very detailed sales strategy, identifying key accounts like popular bars & clubs helping enhance brand visibility.

4.2 Porter’s Five Forces
Industry Competitors and Extent of rivalry: LOW

- The market is dominated by predominantly Red Bull and GSK owned Lucozade, they have saturated the market and from previously being a niche market it has moved into the mass market and a regular buy for many. It’s certainly a market for the multi-nationals and brand familiarity looks to be the key source of competitive advantage.

- Differentiation also seems a strategy applied in the market. Lucozade with the caffeine version seems direct competition trying to get into the stimulant drink side of things.

- A recent entrant into the market is Taut, which claim to be the first ‘clean’ sports drink, attempting to appear better for you than Red Bull. This is a good way of competing in the market and innovation is needed in any attempt to take some of Red Bull’s market share.

- A large number of companies have attempted to enter the market, although rivalry between brands has not led to adversarial relationships, the market seems to demand a total commitment to brand and product development.

- Perhaps the most competitive area of the industry has been in securing distribution channels. Red bull’s dominance seems assured as no competitors come close.

- The growth of energy drinks has led to an onslaught of new competitors; high industry margins have attracted many large companies. The many brands competing in the market are attempting to create a brand image as powerful as Red Bull’s.

- Many Brands are imitating Red Bull, however the company claims it has a very loyal customer base, its own research indicates that 40% of Red Bull drinkers would go elsewhere if they couldn’t find the product in store.
Threat of New Entrants: MEDIUM

- The most important development in the stimulant market and the biggest direct competitor to red bull is Coca Cola’s new product, ‘Relentless’. It also is cheaper as it is sold in larger cans.
- First-mover advantage has disappeared as the market has matured. Red Bull are the giants of the stimulant drink industry, comparable to Coca Cola and Pepsi in the cola market.
- The economies of scale achieved in red bull would enable them if necessary to be very price competitive but the huge margins they make people seem to accept as we can see directly where the money is being spent (see picture below).
- However that doesn’t seem likely and there is a gap for lower priced stimulant drinks, as it seems that red bull have carved out the niche segment of the market, supermarket own brands dominate the budget end, however mid range there aren’t a huge amount of suppliers, however competing with Red Bull’s marketing would be a massive barrier to entry.
- The market it different from the usual market as red bull have such strong brand power, they are so confident that they have loyal customers they can get away with charging high prices even when competition comes in from Coca Cola.

Threat of Substitutes: LOW

- Stimulant drinks represent a Fast Moving Consumer Good (FMCG) or commodity and, therefore, usually rely on spur of the moment or impulse purchase. Although price sensitivity is fairly low within the target segments, convenience is the standard purchase criteria however Red Bull have created a situation where cross product substitution is low because of the brand power and customer loyalty.
o Red bull have no interest in lowering prices as they are the market leader and want to link the high price with high quality.

o It's worth noting that own brands offer direct substitutes, almost replicas of red bull for a fraction of the price.

o There are other products available which can provide a boost, replacing the need for caffeinated drinks, power smoothies with less sugar and a better combination of complex carbohydrates and protein give a greater energy boost. Drinking plenty of fluids, such as water and herbal teas are also beneficial. There are better alternatives then relying on expensive energy drinks that will only give you a temporary burst of energy.

**Bargaining Power of Buyers: LOW**

**Concentration Ratio**

By working out the concentration ratio of the energy and stimulant drinks brands it will help me to work out the relative size of firms in relation to the industry as a whole, and assist me in determining the market form of the industry. I will use the four-firm concentration ratio, consisting of market share of the four largest firms in the industry. The four firm concentration ratios is 89% which is high, and is bordering between oligopoly and monopoly.

(Data obtained from Mintel)
More importantly in such a concentrated market the customers have less bargaining power and this enables the firms such as Red Bull to set such high prices. There is a small amount of existing products, I think this is because many find it hard to compete with the brand loyalty associated with the huge advertising spending of Red Bull and Lucozade.

- Buyers in this market are not really price sensitive, they are targeted at the higher end of the market, those who buy it as it is necessary to function at the end of a hard day.
- The manufacturer – retailer relationship has evolved over the course of the market lifecycle and the balance of power shifted. The popularity of stimulant drinks has created a market pull which means that retailers have no real bargaining position.
- The degree of bargaining power differs according to the distribution channel. Retail multiples such as Tesco and Asda have massive customer bases and can provide incredible market exposure and according hold more bargaining power.

**Bargaining Power of Suppliers: LOW**

- With a relatively uncomplicated production process, the power of the suppliers is seemingly fairly low.
- With a relatively short supply chain, the value added at each stage leads to significant profits. However, the only access to this attractive market for the suppliers is through a brand-owner, thereby pushing the balance of power in the favour of the latter.
- Low Input costs
- Power over suppliers as they will heavily rely on Red Bull, leaving them held to ransom by large companies.
5.0 Conclusions & Recommendations

It is possible that as Red Bull’s core market matures, the company needs to broaden its appeal to the mid-20 to 30 year olds, whilst retaining its appeal amongst 16-24s. Vodka and Red Bull is still the most popular alcoholic drink amongst young people, but we will have to wait to see if the firm’s attempts to reach out to more consumers works.

It seems like Red Bull are performing in the right way regarding their lack of product range, focusing on their core competences has resulted in the creation of a huge single brand who are the best at what they do in the market.
6.0 Portfolio of Information Sources

All sources have been referenced here when used.

6.1 Primary Research

I didn’t do any primary research in this assignment but I had previous knowledge of the market and as I consumer myself I felt it wasn’t necessary. I obtained opinions from family and friends which assisted me making various points.

6.2 Secondary Research

The internet was very useful as there was a lot of relevant information on the market which I used.

Websites

(1*) Information on Lucozade’s new product

(http://www.tuco.org/news.asp?id=08-10-04)

- Red Bull in suspected link to deaths - http://news.bbc.co.uk/1/hi/health/1435409.st

Market Reports

Mintel Marketing Intelligence Database

- Sports and Energy Drinks 2007
- Energy and Stimulant Drinks July 2005 (Further Reading)

Textbooks


Case Studies


Red Bull Case Study – Bized
(http://www.bized.co.uk/compfact/redbull/redbullindex.htm) (2*)

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