

RED BULL IN BRIEF

*“We don’t bring the product to the people.
 We bring the people to the product.”¹*
 –Dietrich Mateschitz, Founder, Red Bull GmbH

Sales of Red Bull, a nonalcoholic, carbonated energy drink, reached 1.9 billion cans in 120 countries in 2004.² Red Bull had been a forerunner in establishing the worldwide energy-drink category, estimated at over \$4.7 billion,³ and enjoyed approximately half the worldwide market share.⁴ Since its 1997 U.S. debut, Red Bull had emerged as the seventh-leading carbonated soft drink, growing its market share by 45% to achieve sales of 30 million cases (see **Table 1**).⁵

Hundreds of companies hoped to rush the “Bull” and grab a piece of the market. Some

Table 1: Top 10 U.S. carbonated soft drink companies, 2004.

Company	Market Share (%)	Cases (millions)	Volume Change (%)
Coca-Cola Co.	43.1	4414.8	-1.0%
Pepsi-Cola Co.	31.7	3241.7	+0.4%
Cadbury Schweppes	14.5	1485.9	+2.3%
Cott Corp.	5.5	564.9	+18.2%
National Beverage	2.4	249.4	+2.2%
Big Red	0.4	41.5	-0.5%
Red Bull	0.3	30.0	+45.0%
Hansen Natural	0.2	20.2	+56.6%
Monarch Co.	0.1	9.8	+7.6%
Rock Star	0.1	9.7	+154.5%
Private Label / Other	1.7	171.5	-11.2%
Total	100.0	10,239.4	+1.0%

Source: Beverage Digest/Maxwell Ranks Soft Drink Industry for 2004.

analysts predicted the U.S. energy drink market would double by 2009, and Coca-Cola and Pepsi would force consolidation. Could Red Bull maintain its leadership position?

Background



While touring Thailand in the early 1980s, Austrian businessman Dietrich Mateschitz took note of a Thai energy drink called Krating Daeng (or “red bull”). Mateschitz made a deal with the drink’s owners that gave him its international rights in exchange for a 51% share in his new company, Red Bull.⁶ Mateschitz adapted the drink to the western palate and replaced the Thai bottle with a slim silver 250 ml (8.3 oz.) can featuring a logo with two red bulls about to collide. Beneath the logo appeared the words “energy drink.”

Red Bull alleged it contained several energy-boosting ingredients, including taurine, glucuronolactone, and caffeine. These ingredients, along with carbohydrates and vitamins, formed a beverage Red Bull claimed would:

- Increase physical endurance.
- Improve reaction speed and concentration.
- Increase mental alertness.
- Improve overall feeling of well being.
- Stimulate metabolism and increase stamina.

The company captured these attributes in the phrase “Red Bull stimulates body and mind.”⁷

¹ “Selling Energy—Red Bull,” *Economist*, May 11, 2002.

² “Canada Prepares for Energy Drink Surge,” *Globe and Mail*, March 24, 2005.

³ The World Market for Soft Drinks, *Euromonitor*, September 2004, Table 82, p. 39.

⁴ Hansen Natural Analyst Report, Adams Harkness, May 4, 2005, p. 4.

⁵ Beverage Digest, www.beveragedigest.com, (accessed June 30, 2005).

⁶ Acharn Terry Fredrickson, “About Business,” *Bangkok Post*, Oct. 18, 2000,

<http://www.bangkokpost.net/education/site2000/bcoc1800.htm> (accessed Sept. 12, 2002).

⁷ Red Bull company Web site, <http://www.redbull.com/faq/index.html>, (accessed Sept. 12, 2002).

Successful Introduction in Austria

Mateschitz's native Austria restricts claims regarding performance benefits under its laws for "traditional foods." Arguing its product contained characteristics of all three of Austria's food and drug categories—traditional, dietary, and pharmaceutical—Red Bull successfully lobbied the government to create a new classification, "functional foods." The category required extensive documentation to support health-benefit claims, which created an entry barrier that slowed competitors.⁸

Red Bull debuted in Austria in 1987. The company said the product was suitable "when a long day is over and a long night starts... On long, sleep-inducing motorways... During intensive working days... Prior to athletic activities or in a performance drop... Before tests and exams... As first-aid after a long party night."⁹ Red Bull provided tips for the best use of its product during athletic events lasting more than an hour: "drink 1-2 cans about 30-45 minutes before the end of the competition."¹⁰

Early adopters of Red Bull included people attending clubs and rave parties. Norbert Kraihamer, the company's global director of marketing and sales, explained:

There are five user categories: students, drivers, clubbers, business people and sports people... I find loyal customers as soon as I can convince them the product works. If...the product keeps them awake, in a good mood, focused, vigilant, then they'll buy again... If you do it right, you'll be getting up to 75% or even 80% re-purchase rate.¹¹

In nightspots, Red Bull was often used as a mixer. Kraihamer said the company was not opposed to this, but that "we must make sure



A Red Bull Flühtag participant prepares to launch.

that the product is regarded as much more than a mixer. This is...a nutritional item."¹²

The company charged up to four times more per ounce than average soft drink producers (\$1.99-\$3.00 per 250 ml can) and deliberately set prices at least 10% above competing energy drinks to maintain a premium image.

Red Bull's market entry strategy relied heavily on word-of-mouth and "seeding." The company targeted a select handful of hip and trendy clubs, bars, and stores and limited availability. After six months of seeding, it introduced its product around the seeding locations. The final step was to enter supermarkets, thus reaching the mass market.¹³

Red Bull also targeted specific celebrities and sponsored sporting events ranging from car racing to extreme skiing to the "Flühtag," where participants launched homemade flying objects off of a ramp into a lake.

Unlike any other major beverage company, Red Bull launched traditional advertising last. The approach was to reinforce rather than introduce the brand. The company invested 65% of sales in its early days in marketing.¹⁴

Red Bull began employing the slogan "Red Bull Verleiht Flüüügel" ("Red Bull Gives You Wii-ings") in an "adult cartoon" advertising campaign that featured one character with an energy deficiency and another with a solution:

⁸ Kevin Lane Keller, "Red Bull: Branding Brand Equity in New Ways," *Strategic Brand Management and Best Practice in Branding Cases*, 2nd Ed., (Prentice Hall: 2003), p. 53-72.

⁹ Red Bull company Web site, <http://www.redbull.com/product/ingredients/index.html>, (accessed Sept. 17, 2002).

¹⁰ Claire Phoenix, "Red Bull—Fact and Function," *Softdrinksworld*, Feb. 2001, p. 26-35.

¹¹ Phoenix.

¹² Phoenix.

¹³ Keller.

¹⁴ Phoenix.

Red Bull. The animated spots transcended specific target groups, enabling the company to establish a wide consumer base.¹⁵

Navigating the U.K. Market

In the 1990s, most countries in the European Union (Austria was not yet a member) had a list of allowable food ingredients. Taurine was not on the list. However, Red Bull was able to enter the United Kingdom (U.K.) through Scotland, as it maintained a list of ingredients *not* approved for use in food, and taurine was not on the list. This enabled access to other European markets¹⁶ (see **Figure 1**).

Figure 1: Red Bull early market entries.	
1987 – Austria	1996 – Belgium
1992 – Hungary	Greece
1993 – Scotland	New Zealand
1994 – Germany	Portugal
Slovenia	Romania
1995 – Baltic States	Spain
Czech Republic	Sweden
Netherlands	1997 – Ireland
Poland	South Africa
Russia	U.S.A.
Slovakia	1998 – Brazil
Switzerland	Finland
U.K.	Italy
	1999 – Australia

Source: Claire Phoenix.

The U.K. sports and energy drink market consisted of two segments at the time of Red Bull’s entry in 1995: refreshment drinks offering energy through glucose and isotonic sports drinks designed to enhance physical performance and provide replenishment.¹⁷

Red Bull changed its traditional market-entry strategy as it launched in the U.K. First, it marketed Red Bull as a sports drink instead of a stimulation drink. Second, the company sold the product immediately through mass-market channels like chain stores. Third, its traditional marketing mix was ignored in favor of a billboard campaign. The company also chose a new slogan: “You should never underestimate what Red Bull can do for you.”¹⁸ By the end of

1996, Red Bull’s share of the U.K. sports- and energy-drink market was less than 2%.¹⁹

The U.K. management team was soon replaced with a group that repositioned Red Bull as a functional energy (or stimulation) drink, thus creating a third segment in the U.K. market. The team returned to the company’s traditional method of building markets through word-of-mouth and replaced the U.K. slogan with what had worked in Austria.

Red Bull’s U.K. volumes tripled in 1998 and quadrupled in 1999 to sales of 170 million cans. They climbed another 50% in 2000 to 260 million cans.²⁰ By 2004, Red Bull had become the third-leading soft drink by value in the U.K., trailing only Coca-Cola and Pepsi. The brand held a 62% share of the growing “functional-energy” segment of the sports- and energy-drink market.²¹ Red Bull achieved significant market penetration among 14-19 and 20-29 year olds, with 32% saying they drank it in bars at night and 13% calling it their favorite drink.

Kraihamer credited Red Bull’s premium price as part of the brand’s success in the United Kingdom.²²

America: A Bull Market?

Red Bull was introduced to the U.S. market in 1997. The company launched the product in a handful of targeted geographic areas, or “cells.” As Kraihamer described:

Our intention was never to go to the States and say “We are launching Red Bull...” Santa Cruz was the first test market. Then we went to parts of San Francisco. After that we went to Santa Monica—our home base in the U.S. Our concept works better the smaller the community we go into, because we are word-of-mouth people.²³

Red Bull maintained its strategy of appearing first in trendy on-premise locations. It also sponsored several dozen alterna-athletes

¹⁵ Keller.

¹⁶ Keller.

¹⁷ “UK Energy and Sports Drinks—Space... The Final Frontier,” *Softdrinksworld*, Feb. 2001, p. 36–43.

¹⁸ Phoenix.

¹⁹ Keller.

²⁰ Phoenix.

²¹ “The European Market for Energy & Sports Drinks to 2006,” <http://www.mindbranch.com>, (accessed June 30, 2005).

²² Phoenix.

²³ Phoenix.

and underwrote extreme sports competitions, such as the Red Bull Huckfest ski and snowboard competition in Utah. The fourth Red Bull Music Academy, held in New York City in 2001, drew 60 club deejays from around the world to learn from master deejays. The deejays were under no obligation to promote Red Bull when they returned to their clubs, but the company hoped they would mention it and credit the company for supporting the scene.²⁴

Entering 2005, Red Bull was spending \$600 million annually on worldwide advertising and marketing, which represented 30% of sales.²⁵ In contrast, Coca-Cola spent 9% on advertising (albeit on sales of \$20 billion).²⁶ Some industry observers believed measured media accounted for only about 18% of Red Bull's total marketing.²⁷ (A Red Bull spokesperson disputed the figure, saying its events and sponsorships were more costly than most realized.²⁸)

The Soft and Functional Drinks Market

In 2003, the global soft-drink market was estimated at nearly \$US300 billion and accounted for approximately 11 trillion U.S. fluid ounces.²⁹ The soft-drink market generally included carbonated soft drinks (40% of market), bottled water (35%), fruit/vegetable juice (12%), tea (4.5%), coffee (0.9%), Asian specialty drinks (2.7%), concentrates (0.8%), and functional drinks (3%). Functional drinks encompassed sports drinks, energy drinks, and elixirs (a beverage with curing properties).

By 2001, Red Bull had captured 65% of the \$275 million energy-drink market it helped create.³⁰ Around that time, Anheuser-Busch launched 180, Coke introduced KMX, and Pepsi brought to market Mountain Dew Amp and SoBe Adrenaline Rush. Other entrants included Snapple Venom, Arizona Extreme Energy, Blue Ox, Bomba Energy, Dark Dog, Red Alert, Deezel, Power Horse USA, Go-Go Energy, and

Hemp Soda.³¹ Still, Red Bull maintained its position as the leader of the pack.³²

The U.S. energy-drink market was estimated at \$1.6-\$2 billion in 2004, with growth between 58% and 73%.³³ Red Bull's overall U.S. market share dropped from 75% in 1998 to 47% in 2005.³⁴ Several competitors had grown their distribution and appeal (see **Exhibit 1**).

In 2002, California's Hansen Natural launched Monster, packaged in black cans with neon-accented claw marks. The cans were double the volume of Red Bull's and offered to distributors for a comparable price (\$1.99 for the final consumer).³⁵ Hansen supported the launch with its slogan "Unleash the Beast" and sent out teams to distribute samples at motocross, surfing, and skateboarding competitions, as well as concerts and beach parties. Hansen experienced sales increases of 162% in 2004. This propelled it to second place in the energy drinks segment with an 18% market share.



Hansen
Natural –
Monster
Energy Drink

Rock Star launched its energy beverage in 2001 and occupied third place in the U.S. market with a 16% share. Rock Star's primary consumers were teenage males, and the company promoted its brand through celebrities and music events. In 2005, Rock Star contracted with Coca-Cola for distribution.³⁶

²⁴ Hein.

²⁵ Phoenix.

²⁶ Kerry A. Dolan, "The Soda with Buzz," *Forbes*, March 28, 2005.

²⁷ Kenneth Hein, "A Bull's Market."

²⁸ Walker.

²⁹ The World Market for Soft Drinks, *Euromonitor*, September 2004, Table 80, p. 39.

³⁰ Walker.

³¹ Kenneth Hein, "Necessity and Invention," *Brandweek*, Feb. 19, 2001, p. 22.

³² Sweeney.

³³ Adams Harkness; and Scott Leith, "The Buzz on Energy Drinks: Coke, Pepsi and Tiny Firms Vie for Sip of Caffeine-Packed Beverage Market," *Atlanta Journal-Constitution*, April 8, 2005, p. F1.

³⁴ Dolan.

³⁵ Christopher Palmeri, "Hansen Natural; Charging at Red Bull with a Brawny Energy Brew," *BusinessWeek*, June 6, 2005, p. 74.

³⁶ "Food Brief – Coca-Cola Co. Deal Is Reached to Distribute another Firm's Energy Drink," *Wall Street Journal*, April 29, 2005, p. A11.



Rock Star Energy Drinks. Source: www.rockstar69.com.

In early 2005, Coca-Cola released Full Throttle after KMX captured only 0.9% of the U.S. market.³⁷ Full Throttle was marketed in 16 oz. black cans with bright lettering set to a backdrop of flames. Coca-Cola planned promotions such as giveaways at Monster Truck Jams and motorcycles shows. A spokesperson said the target for Full Throttle was different from that of the club-goers and extreme-sports enthusiasts who typically consumed energy drinks: “We are speaking to the guy’s guy.”³⁸ A Red Bull spokesperson responded that “movement by the bigger players onto the scene... validates the category.”³⁹

Pepsi had gained more market share than Coca-Cola with Mountain Dew Amp and two SoBe products called No Fear and Adrenaline Rush. To spur sales, SoBe partnered with 7-11 convenience stores for a co-branded Slurpee.

Canned coffee products also offered a potential threat to Red Bull. An estimated 500 billion cups of hot coffee are served each year throughout the world. Scandinavian countries consumed more than 20 pounds per capita annually in 2005⁴⁰, and more than half of Americans were estimated to drink coffee daily at that time.⁴¹

Several packaged-goods companies were looking to offer innovative ready-to-drink cold-coffee products in the early to mid-2000s. Pepsi had introduced Pepsi Kona in the mid-1990s but never launched it due to lackluster results. Later,

³⁷ Gillian Wee, “Coca-Cola Seeks Swig of Revved-Up Energy Drink Market,” *Knight Ridder/Tribune Business News*, February 5, 2005.

³⁸ Leith.

³⁹ Wee.

⁴⁰ Nation Master Statistics, www.nationmaster.com, (accessed July 7, 2005).

⁴¹ Roast and Post Coffee Company, www.realcoffee.co.uk, (accessed July 7 2005).

Pepsi teamed up with Starbucks launch Starbucks Frappuccino iced coffee and Starbucks DoubleShot espresso drink, which held 90% of the noncarbonated, ready-to-drink coffee segment as of 2005.⁴² In other countries, companies (including Red Bull) were experimenting with a fusion of coffee, milk, and energy drinks.⁴³

A Shot at the Future?

Red Bull estimated it would sell one billion cans in the U.S. in 2005. Based on per-capita consumption, many believed there was room to grow. Kraihamer said he believed the company could sell 10 cans per person annually, possibly 15-20.⁴⁴ It was estimated Red Bull had moved from 0.4 cans per U.S. person in 2001 to 2.5 cans per person in 2004.

Although sales of the leading energy drink brands in the U.S. appeared to be slowing by the end of 2009, the category reported strong growth in 2010, likely spurred by energy shots, a new product form pioneered by 5-Hour Energy. According to Nielsen, for the 13 weeks through September 25, 2010, all outlets combined (excluding Wal-Mart) reported sales in the energy drink and shots category increased 14.9% versus the same period a year prior. For the five weeks before September 25, Red Bull’s share of the convenience and gas channel of the category was 31.9%, Monster’s was 28%, 5-Hour Energy’s was 10.6%, and Rock Star’s was 9.7%.

5-Hour Energy’s share was derived from its dominance of the new shot category (generally about 2-ounce drinks). The shots promise fewer calories, natural ingredients, vitamins and other nutrients for longer-lasting energy and no sugar crash. The company has avoided crowded shelves and refrigerators and merchandised the product on countertops. Independent distributors started selling 5-Hour Energy shots to convenience stores, but by 2010, \$60 million of advertising had generated sales of about \$300 million, and the product could be found at

⁴² Christina Cheddar Berk, “Coca-Cola Seeks to Refresh Product Line With New Items,” *Dow Jones Newswires*, January 11, 2005.

⁴³ “Thailand: Red Bull changes aim to coffee drinks,” *Thai News Service*, June 20, 2005.

⁴⁴ Phoenix.

retailers such as Dick's Sporting Goods, Home Depot, Kroger, and Wal-Mart.

International expansion has been a strong source of growth for Red Bull, which boosted sales in the Far East by 43% and reported strong growth in the French, Brazilian, and German markets in 2009. The following year, Red Bull announced plans to expand in Africa, Russia, India, and Japan. Hansen's Monster has also expanding beyond the U.S. Although the company has a distribution agreement with Coca-Cola in Europe, "they have been careful not to over-distribute prior to having a marketing plan in place for each region," according to UBS analyst Kaumil Garjwal.

In spite of the strong category growth in 2010, not everyone is optimistic about the future of energy drinks. According to a 2010 survey by Mintel, 74% of consumers don't use energy

drinks/shots, and 69% of non-users are not interested in trying them, citing high prices, too much caffeine, and a general feeling they are not good for you.

Anti-energy drinks, which contain ingredients such as theanine, chamomile, valerian and other ingredients claiming to have calming effects while increasing mental awareness, also have entered the market. AriZona, the leading ready-to-drink tea, has created two shot formulas—A.M. Awake and P.M. Relax—to "regulate the body clock while delivering important vitamins and nutrients to help the mind and body function more efficiently," as well as RX Energy Fast Shots, which are made with a green tea base and a proprietary blend of vitamins and herbs.

Will the Bull survive another rush of competition?

Exhibit 1

Top Energy Brands in the U.S.

Top 12 Energy Brands in U.S. Food, Drug and Mass Channels- Period Ending Dec 2004

Brand	Sales \$	YoY Change	Share \$	Volume Sales oz	YoY Change	Share %
Red Bull	\$ 155,728,144	71.0%	60.3%	700,026,496	73.5%	49.6%
Rockstar	\$ 22,797,562	125.4%	8.8%	189,600,224	127.2%	13.4%
Monster (Hansen)	\$ 16,268,929	223.1%	6.3%	139,289,344	228.0%	9.9%
SoBe Adrenaline Rush (Pepsi)	\$ 15,231,377	15.7%	5.9%	67,769,376	15.3%	4.8%
Amp (Mountain Dew)	\$ 14,191,741	14.7%	5.5%	63,349,544	13.6%	4.5%
SoBe No Fear (Pepsi)	\$ 10,108,871	190.3%	3.9%	79,767,944	187.0%	5.6%
Hansen (Hansen Energy)	\$ 3,130,313	-13.1%	1.2%	15,669,595	-3.7%	1.1%
KMX (Coca-Cola)	\$ 1,917,185	-63.7%	0.7%	8,985,793	-64.8%	0.6%
EAS Piranha (Abbot Labs)	\$ 1,555,390	100.7%	0.6%	7,821,674	60.0%	0.6%
Lost (Hansen)	\$ 1,401,335	n/a	0.5%	11,765,080	n/a	0.8%
Rush (Monarch)	\$ 1,245,518	202.1%	0.5%	9,480,658	282.2%	0.7%
Fuze Omega	\$ 1,207,002	629.9%	0.5%	10,910,017	684.3%	0.8%
Other	\$ 13,459,817		5.2%	107,986,527		7.6%
Energy Category	\$ 258,243,184	61.1%	100.0%	1,412,422,272	70.0%	100.0%

Source: Information Resources Inc. as cited in Hansen Natural Analyst Report, Adams Harkness, May 4, 2005, p. 7.

Data is for food, drug and mass only and excludes Wal-Mart, club, food service, bar and convenience-store channels.

NOTE: These volumes likely represent between 15 and 25% of the overall volume sold in the U.S. in the energy drinks sector.