

RED BULL

“We don’t bring the product to the people.

We bring the people to the product.”¹

—Dietrich Mateschitz, Founder, Red Bull GmbH

By any measure, Red Bull was a runaway success. 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 enjoying approximately half of the worldwide market share.⁴ Since the company’s 1997 U.S. debut, Red Bull had emerged as the seventh-leading carbonated soft drink company in terms of market share, growing by 45% to achieve sales of 30 million cases (see **Table 1**).⁵ Hundreds of companies had entered the segment in hopes that they would rush the “Bull” and grab a piece of the lucrative market. Only a handful of enterprises such as Hansen Natural, with their drink called Monster, and Rockstar with a beverage of the same name, were able to challenge Red Bull’s dominant market position by offering double the size at the same price. Along with small upstarts, Coca-Cola and Pepsi were eager to increase their lagging positions in the energy-drink sphere. Coca-Cola had entered the category in 2000 with its brand KMX, but it had failed to win over consumers. In early 2005,

Coca-Cola launched a new energy-drink brand called Full Throttle to fight back. Pepsi had purchased South Beach Beverage Company (SoBe) and had launched Amp under the Mountain Dew brand to etch out a competitive position.

It looked as though the energy-drink segment would continue growing, with some analysts predicting the U.S. market to double at \$3.5 to \$4 billion by 2009. Some also predicted that Coca-Cola and Pepsi would force consolidation. How could Red Bull maintain its leadership position in a maturing category? Could the company survive the onslaught of competition, or was Red Bull a sitting duck?

Table 1: Top 10 U.S. Carbonated Soft Drink Companies, 2004

Company	2004 Market Share	2004 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%
Rockstar	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.

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).

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”) that had become a popular pick-me-up or stimulant, especially amongst blue-collar workers. Believing that such a drink would be popular in Europe, Mateschitz made a deal with TC Pharmaceuticals, owners of Krating Daeng, which gave him the international rights to the drink in exchange for a 51% share in his Red Bull company.⁶ Mateschitz adapted the taste of the drink to suit 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 head-on in the foreground, and a yellow sun in the background. Beneath the logo appeared the words “energy drink.”

As the name implies, energy drinks were designed to give the body a jolt of energy. Red Bull alleged that its product contained several energy-boosting ingredients, including taurine, glucuronolactone, and caffeine. Taurine is an amino acid occurring naturally in the body that acts as a metabolic transmitter with detoxifying qualities, but whose levels can drop as a result in situations of high stress or physical exertion.

Glucuronolactone, like taurine, also has a detoxifying effect and can help eliminate harmful substances from the body. Caffeine, a known stimulant, acts on the brain and circulatory system, and a single 250 ml can of Red Bull contained 80 milligrams, a level of caffeine equivalent to a cup of coffee. Coca-Cola had 34 milligrams in each 12-ounce can.⁷ The combination of these ingredients, along with carbohydrates in the form of glucose and sucrose as well as various vitamins, formed a beverage that, according to Red Bull, created the following effects:



A Red Bull Flugtag participant prepares to launch a homemade chicken-craft into an Austrian lake

- Increased physical endurance.
- Improved reaction speed and concentration.
- Increased mental alertness (stay awake).
- Improved overall feeling of well being.
- Stimulated metabolism and increased stamina.

The company captured these attributes in the phrase “Red Bull stimulates body and mind.”⁸

Product Introduction in Austria

Red Bull faced challenges even before the product debuted. The company’s ability to make claims regarding Red Bull’s performance benefits was restricted under Austria’s laws for “traditional foods.” Arguing that its product contained characteristics from all three of Austria’s food and drug categories—traditional, dietary, and pharmaceutical—but did not belong in any one, Red Bull successfully lobbied the government to create a new classification, “functional foods.” This category required extensive documentation to support health-benefit claims, which created a significant entry barrier that had the effect of keeping away competitors for five years following Red Bull’s launch.⁹

⁶ Acharn Terry Fredrickson, “About Business,” *Bangkok Post*, Oct. 18, 2000, <http://www.bangkokpost.net/education/site2000/bcoc1800.htm> (accessed Sept. 12, 2002).

⁷ Kerry A. Dolan, “The Soda with Buzz,” *Forbes*, March 28, 2005.

⁸ Red Bull company Web site, <http://www.redbull.com/faq/index.html>, (accessed Sept. 12, 2002).

⁹ 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.

Red Bull finally debuted in 1987 in Mateschitz's home country of Austria. The product was positioned not for specific occasions, but rather for a range of occasions. With the flexible brand positioning "Revitalizes Body and Mind," Red Bull touted itself as suitable for such occasions as:

- When a long day is over, and a long night starts.
- On long sleep-inducing motorways.
- During intensive working days when the date planner is filling up, and your energy reserves are emptying out.
- Prior to demanding athletic activities, or in a performance drop during a game ... [along with water].
- Before tests and exams, when there's no time to sleep.
- Or as first-aid after a long party night.¹⁰

Red Bull provided tips for the best use of its product during athletic events lasting more than an hour: "The best way to achieve the full effect of Red Bull is to drink 1–2 cans about 30–45 minutes before the end of the competition, for example, before the final spurt phase of bike racing or long distance running, at half time in soccer, rugby, basketball, and volleyball matches, and before the final set in tennis, squash, or table tennis."¹¹

Early adopters of Red Bull included people attending clubs and rave parties, as well as truckers and students. 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. Forget about age, where do they shop and when do they use it? Well, drivers use it on petrol forecourts. Clubbers use it in pubs and clubs, students use it in pubs and clubs and around campuses. We say we only have two dimensions: people who are

mentally fatigued and people who are physically fatigued, or both.... I find loyal customers as soon as I can convince them that the product works. If they experience that the product keeps them awake, in a good mood, focused, vigilant, then they'll buy again. That's one of our secrets. If you do it right, you'll be getting up to 75% or even 80% re-purchase rate.¹²

In nightspots, Red Bull was often used as a mixer. A common combination was Red Bull and vodka, sometimes called a Smirnoff Bull. Another combination, called a shambles, featured Red Bull and champagne. Other mixers included gin, whisky, or, in southern Germany, beer. Kraihamer clarified that the company was not opposed to its product being used as a mixer, but that "over time we must make sure that the product is regarded as much more than a mixer. This is not a drink for a restaurant, this is a nutritional item."¹³

In line with selling Red Bull as a nutritional item, the company charged up to four times more per ounce than average soft drink prices, or \$1.99 to \$3 per 250 ml can, and deliberately set prices at least 10% above competing energy drinks to maintain a premium image. Kraihamer noted, "We are much more expensive than [cola]. This is OK because ours is an efficiency product, so we can charge this price premium, which is the secret of its success."¹⁴

Red Bull's strategy for market entry relied heavily on word-of-mouth and "seeding." The company targeted a select handful of hip and trendy clubs, bars, and stores, allowing trend-setters the first opportunity to sample its product in hopes that they would become influencers and generate buzz. The company limited availability of the product during the seeding process. After six months of seeding, Red Bull introduced its product to locations surrounding the "in" seeding locations, thus making it easier for the consumer to purchase the brand. The final step was to enter supermarkets, thus reaching the mass market.¹⁵

¹⁰ Red Bull company Web site, <http://www.redbull.com/product/ingredients/index.html>, (accessed Sept. 17, 2002).

¹¹ Claire Phoenix, "Red Bull—Fact and Function," *Softdrinksworld*, Feb. 2001, p. 26–35.

¹² Phoenix.

¹³ Phoenix.

¹⁴ Dolan.

¹⁵ Keller.

Red Bull also targeted specific celebrities, including sports figures and entertainers, and sponsored sporting events ranging from formula-one racing to extreme skiing to soapbox races to the “Flühtag,” where participants launched homemade flying objects off of a ramp into a lake. In late 2004, the company purchased the Jaguar formula-one racing team, renaming it after the Red Bull brand. With estimates that the team would cost \$100 million per year to run while only bringing in \$70 million in revenues,¹⁶ some industry savants questioned Red Bull’s move. Mateschitz explained:

As the CEO of Red Bull I have hard responsibilities. I cannot spend any marketing money, any budgets, any sponsorship by Red Bull on behalf of my personal passions, likes, or dislikes. So the decision to be involved in motor sports is all good for the brand, a good marketing decision. If you then in addition gain personal satisfaction, all the better. But the underlying decision has to be a purely rational rather than an emotional decision.¹⁷

Unlike any other major beverage company’s marketing plan, Red Bull bought its traditional advertising last. Their approach was to plan a media push only when the market had matured, thus reinforcing, rather than introducing, the brand. As Red Bull’s vice-president of Marketing noted, “Media is not a tool that we use to establish the market. It is a critical part. It’s just later in the development.”¹⁸ Red Bull invested 65% of sales in its early days in marketing, and entering 2005, continued to spend 30% of sales on marketing.¹⁹

Red Bull employed the slogan “Red Bull Verleiht Flüügel” (“Red Bull Gives You Wii-ings”) in its advertising. With the assistance of a colleague, Mateschitz created Red Bull’s “adult cartoon” advertisement, which featured one character with an energy deficiency and another with a solution: Red Bull. One ad featured a dentist and Count Dracula. The dentist tells

Dracula that he’ll have to remove the Count’s teeth, to which Dracula replies that without his teeth he will not be able to drink blood: “But without fresh blood my body will wither and my mind will fade.” The dentist proposes a solution: “One revitalizing Red Bull and you’ll be prince of the night again.” A picture of the Red Bull can appears, along with the copy, “Red Bull Energy Drink. Vitalizes Body and Mind.” The dentist then samples the drink, delivers the punch-line, “You know, Red Bull gives you wii-ings,” then sprouts wings and flies away. The animated spots transcended specific target groups, enabling the company to establish a wide consumer base.²⁰

Red Bull Mystique

Several experts argued that Red Bull achieved its cult following in part due to the rumors surrounding the product. One false rumor suggested that taurine, a key ingredient in Red Bull, was derived from bull testicles. Another falsity claimed that the drink was an aphrodisiac. Yet amongst the outright falsehoods circulated about Red Bull were a few grains of truth, including the partially correct rumor that Red Bull was banned in Europe. The drinks were banned in Denmark, Norway, Sweden, and France after health officials believed that the consumption of Red Bull was linked to deaths.²¹ Cans of Red Bull in several countries bore labels warning against mixing the drink with alcohol. Across the Atlantic, sales of Red Bull were not permitted in Canada for several years, leading to cross-border smuggling of the product.²² However, in 2004, health officials in Canada approved the sale of energy drinks with warning labels recommending that quantities should not surpass 500 ml (16.6 oz.) per day.

A research team from the Loughborough University Sleep Research Centre conducted a study to verify Red Bull’s controversial claims of its product’s ability to increase concentration, reaction time, and endurance. They tested the product on fatigued drivers. Their results indicated that one can of Red Bull was effective in reducing sleepiness and that two cans of Red

¹⁶ Dolan.

¹⁷ Alan Henry, “Motor Racing: Red Bull Puts Fizz Back into the Grid...,” *The Guardian*, March 1, 2005, p. 29.

¹⁸ Kenneth Hein, “A Bull’s Market,” *Brandweek*, May 28, 2001, p. 21.

¹⁹ Phoenix.

²⁰ Keller.

²¹ “Canada Prepares for Energy Drink Surge,” *Globe and Mail*, March 24, 2005.

²² Sweeney.

Bull could eliminate fatigue altogether for 90 minutes.²³

Missteps in the U.K. Market

Red Bull faced a challenge when considering expansion in Europe in the mid-1990s. Most countries within what is now the European Union, of which Austria was not yet a member, had a list of allowable food ingredients, and taurine was not on the list. However, Red Bull was able to enter through Scotland and then the United Kingdom (U.K.), as Scotland only maintained a list of ingredients *not* approved for use in food, and taurine was not on that list. This entry point enabled access to certain other European markets (see **Figure 1**).²⁴

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 market consisted of two segments at the time of Red Bull's entry in 1995. The first segment consisted of refreshment energy drinks. Market leader Lucozade, originally launched in 1927, offered several variants and sizes, and had built a reputation for offering energy through glucose. The second segment, sports drinks, was created by the introduction of Lucozade Sport in 1990. This segment consisted of isotonic drinks designed to enhance physical performance and provide rapid replenishment by boosting absorption of fluid, minerals, and sugar.²⁵

Red Bull changed its traditional market-entry strategy as it launched its product in the

United Kingdom. First, they marketed Red Bull as a sports drink instead of as a stimulation drink as in Austria. This was a significant decision considering Lucozade's domination of the sports-drink market and consumers' pre-established notions of what a sports drink should be. Second, rather than pursuing the word-of-mouth strategy, Red Bull sold their product immediately through mass-market channels, such as chain stores, in hopes that consumers would choose Red Bull over the other products on the shelf. Kraihamer commented, "The U.K. team started from the wrong end ... they were wrong, they totally misunderstood how to create a customer base." Third, the marketing mix used in Austria, including the ironic advertising with the cartoon commercial and the sporting event links, was ignored in favor of a billboard-focused campaign in the United Kingdom. The company chose a new slogan for the U.K. campaign: "You should never underestimate what Red Bull can do for you."²⁶ By the end of 1996, Red Bull's share of the sports- and energy-drink market stood at less than 2%.²⁷ One industry expert referred to Red Bull's U.K. experience as "an expensive disaster."²⁸

The U.K. management team was replaced following this disappointing showing. The new management team repositioned Red Bull as a functional energy (or stimulation) drink, thus creating a new third segment in the U.K. sports- and energy-drink market. They also returned to the company's traditional method of building markets through word-of-mouth. Further, they replaced the U.K. slogan with what had worked in Austria. As Kraihamer explained of the U.K. slogan, "'You should never underestimate what Red Bull can do for you,' was far too long and misunderstood, whereas the 'it gives you wii-ings' slogan as we now know works at all levels and on a worldwide scale."²⁹

From Failure to Success in the United Kingdom

Following these changes, Red Bull was positioned for success in the United Kingdom. Red Bull's volume tripled in 1998, and then

²³ Phoenix.

²⁴ Keller.

²⁵ "UK Energy and Sports Drinks—Space... The Final Frontier," *Softdrinksworld*, Feb. 2001, p. 36–43.

²⁶ Phoenix.

²⁷ Keller.

²⁸ Phoenix.

²⁹ Phoenix.

quadrupled in 1999 to sales of 170 million cans—and then climbed another 50% in 2000 to 260 million cans.³⁰ By 2004, Red Bull had become the third-leading soft drink by value in the United Kingdom, 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.³¹ Red Bull achieved significant market penetration amongst the 14–19 and 20–29 year old age groups (see **Figure 2**). Red Bull proved popular for social occasions, with 32% saying that they drank Red Bull in pubs and bars at night, and 13% indicating that Red Bull was their favorite drink during that time.

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

If you have a product and the consumer recognizes the benefit, you are going to create a large consumer base.... If the product doesn’t do anything and is eight times, five times, whatever more expensive than a normal soft drink, what will people say? Very often I have the impression that all of our so-called competitors have never understood that. They think it is a fashion thing or that it is all a hype issue—which it is not.

Kraihamer continued, “We need people to hate us. As soon as we run out of haters, we have to create a foundation for haters because we lose our sharp image.”³²

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,” instead of launching nationwide. As Kraihamer described:

Our intention was never to go to the States and say “We are launching Red Bull....” We chose small market cells. Santa Cruz was the first test market. Then we went to parts of San Francisco. After that we went to Santa Monica—

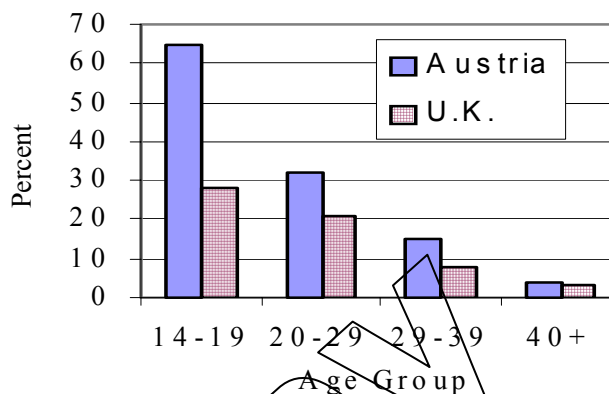


Figure 2: Red Bull Market Penetration, 2000

Source: Red Bull College; Kevin Lane Keller.

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. In a huge area nobody hears you. In a small area you get the message across quite quickly. So we worked in the United States with the principle of healthy cells. When one small cell became a success story, we moved on to the next cell.... [T]hese cells are becoming bigger and bigger. But initially it was towns or parts of towns.³³

Red Bull maintained its strategy of appearing first in trendy on-premise locations. Markus Pichler, executive vice-president of Strategic Planning for Red Bull North America, explained, “We go to on-premise accounts [vs. retailers] first, because the product gets a lot of visibility and attention. It goes faster to deal with individual accounts, not big chains and their authorization process. In clubs, people are open to new things.”³⁴ A distributor commented, “They only select five accounts in an area instead of all of them. It could be a boards-and-blades store or an underage disco.... If a [bar next door asks for it], they’ll say, ‘You can’t have it yet.’”³⁵

In addition to its emphasis on sampling events at hip nightspots, Red Bull sponsored several dozen alterna-athletes, and underwrote many extreme sports competitions. One such

³⁰ Phoenix.

³¹ “The European Market for Energy & Sports Drinks to 2006,” Mindbranch.com, (accessed June 30, 2005).

³² Phoenix.

³³ Phoenix.

³⁴ Kenneth Hein, “A Bull’s Market.”

³⁵ Kenneth Hein, “Red Bull Charging Ahead,” *Brandweek*, Oct. 15, 2001, p. M38.

event was the Red Bull Huckfest ski and snowboard competition in Utah. Said Pichler, "We find consumers there, early adopters."³⁶ Other events included cliff diving in Hawaii, street luge in San Francisco, paragliding in Chicago, and hang gliding in Aspen, Colorado. The fourth Red Bull Music Academy, held in New York City in 2001, featured a collection of 60 club deejays from around the world gathered to learn the tricks of the turntable trade from master deejays. The deejays were under no obligation to promote Red Bull when they returned to their respective clubs, but the company hoped that they would mention Red Bull when telling others of their trip, and credit the company for its support of the scene.³⁷ The Red Bull Music Academy toured around the world in diverse locations such as London, Sao Paulo, Cape Town, and Rome.

In total, Red Bull spent \$600 million on worldwide advertising and marketing, which represented 30% of their sales. In contrast, Coca-Cola spent 9% on advertising, albeit on sales of \$20 billion.³⁸ Some industry observers believed that measured media accounting for only about 18% of Red Bull's total marketing.³⁹ A Red Bull spokesperson, disputing the figure, admitted that, "the perception that these events don't cost much to produce is good for us. We don't want to be seen as having lots of money to spend. But it's not as easy and inexpensive as people think."⁴⁰ Giving insight into Red Bull's strategy of highly specific use of electronic media, Kraihamer commented, "After 11 o'clock, we are much more likely to find our target audience. With cinema, we never just buy a media plan, we always choose to go with certain films—extreme action films or highly sophisticated cult films...."⁴¹

The Soft Drink and Functional Drinks Market

The global soft-drink market was estimated at nearly \$US300 billion and accounted for

approximately 11 trillion U.S. fluid ounces.⁴² The soft-drink market generally included the following classifications: carbonated soft drinks (40% of market), bottled water (35%), fruit/vegetable juice (12%), ready-to-drink tea (4.5%), ready-to-drink coffee (0.9%), Asian specialty drinks (2.7%), concentrates (0.8%), and functional drinks (3%). **Exhibit 1** shows the growth of each segment within the global soft-drink market.

Functional drinks encompassed three main rubrics: sports drinks, energy drinks, and elixirs (a beverage with curing properties). Led by Pepsi's Gatorade⁴³ and Coca-Cola's Aquarius, the sports-drink category grew at a compound annual growth rate of 9.5% over the past five years, and dominated the functional drinks sector representing 77% of the volume. The sports-drink segment was considered to be relatively more mature than other functional drinks such as energy drinks and elixirs. Gatorade, for example, had been on the U.S. market since the 1960s, but continued to grow through product development and aggressive marketing. Euromonitor estimated that sports drinks would grow at an average rate of 5% on a global basis until 2008.⁴⁴ Some industry observers believed that sports drinks and elixirs containing healthier ingredients such as vitamins and electrolytes would outperform energy drinks, as consumers demanded more healthy alternatives.

³⁶ Kenneth Hein, "Red Bull Charging Ahead."

³⁷ Hein.

³⁸ Kerry A. Dolan, "The Soda with Buzz," *Forbes*, March 28, 2005.

³⁹ Kenneth Hein, "A Bull's Market."

⁴⁰ Walker.

⁴¹ Phoenix.

⁴² *The World Market for Soft Drinks*, Euromonitor, September 2004, Table 80, p. 39.

⁴³ Gatorade was developed by Quaker Oats. Pepsi purchased Quaker Oats in 2001.

⁴⁴ *The World Market for Soft Drinks*, Euromonitor, September 2004, Table 95, p. 43.

Competition Abounds

By 2001, Red Bull had captured 65% of the \$275 million new energy-drink market that it helped to create.⁴⁵ Around that time, Anheuser-Busch launched 180, Coke introduced KMX, and Pepsi brought to market both Mountain Dew Amp and SoBe Adrenaline Rush, all as competitors to Red Bull. 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.⁴⁶ Still, Red Bull maintained its position as the leader of the pack.⁴⁷ Kraihamer, speaking of Red Bull's competitors at the time, commented:

I think they perceive it all as a micro-market thing.... This is peanuts. It's keeping some marketing people busy, but they don't realize the true potential. They might become competitors in time, but I think it is to our advantage that we are small.⁴⁸

By 2005, the landscape for energy drinks had changed significantly. The U.S. energy-drink market was estimated between \$1.6 and \$2.0 billion in 2004 with growth hovering between 58% and 73%.⁴⁹ Red Bull's U.S. overall market share (including all points of distribution) had dropped from 75% in 1998 to 47% in 2005.⁵⁰ Several competitors had been successful in growing their distribution networks and appealing to consumers through innovative communication. **Exhibit 2** shows key competitors' volumes in the U.S. energy drinks market.

Hansen Natural

California's Hansen Natural had first competed against Red Bull in 1997 in the United States when the company launched Hansen Energy drink. Lacking targeted advertising to



A Red Bull alterna-athlete competes in the 2000 X Games in San Francisco

energy-drink consumers such as sports enthusiasts, college students, and truckers, Hansen's energy product did not make a dent in the Red Bull-dominated market. In 2002, the company came back with Monster, packaged in black cans with neon-accented claw marks.



Hansen Natural – Monster Energy Drink.

The cans were double the volume of Red Bull's cans and were offered to distributors for a comparable price, resulting in a \$1.99 price to the final consumer.⁵¹ The company also used its own staff to assist the 300 independent distributors restock the product in convenience-store refrigerators.⁵²

Hansen supported the launch with its slogan "Unleash the Beast," and sent out teams of Monster "ambassadors" to distribute samples at motocross, surfing, and skateboarding competitions as well as concerts and beach parties. The company was a sponsor of the Vans Warped music tour and in 2005, the company created the "Monster Army," a sponsored group of professional athletes.

⁴⁵ Walker.

⁴⁶ Kenneth Hein, "Necessity and Invention," *Brandweek*, Feb. 19, 2001, p. 22.

⁴⁷ Sweeney.

⁴⁸ Phoenix.

⁴⁹ Source 1: Adams Harkness and Source 2: 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.

⁵⁰ Dolan.

⁵¹ Christopher Palmeri, "Hansen Natural; Charging at Red Bull with a Brawny Energy Brew," *BusinessWeek*, June 6, 2005, p. 74.

⁵² Christopher Palmeri.

Largely driven by the success of the Monster brand, Hansen experienced sales increases of 162% in 2004. This propelled Monster to second place, capturing an 18% market share of the energy-drinks segment. Hansen's CEO Rodney Sacks bubbled over with enthusiasm at the results, "These are the new soft drinks of the world."⁵³

Hansen had several new product releases, such as Joker, exclusively for Circle-K stores: Rumba, a juice with high caffeine content, and Lost, a name that Hansen had licensed from a leading skateboarding, surfing, and snowboarding apparel brand.⁵⁴

Other Upstarts

A number of other entrepreneurial ventures had challenged Red Bull's leadership. Rock Star, based in Las Vegas, launched its energy beverage in 2001, and occupied third place in the U.S. market with 16% share. Rock Star's primary consumers were teenage males. The company promoted its brand through associations with celebrities and music events. In 2005, the company inked a deal with Coca-Cola whereby Rock Star would pay fees for Coca-Cola to distribute the product throughout the United States.⁵⁵



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

It was estimated that over 1,000 products from hundreds of different small enterprises had attempted to break through the noise by launching their own energy drinks, often focusing on a specific sub-set of consumers. For

instance, extreme sports enthusiasts were targeted by not only Red Bull and Monster, but also Go Fast! and Fuze, whereas video game junkies were targeted by BAWLS and Guarana. Three brands—Crunk!!!, Pimp Juice, and DefCon 3—were focused on the hip-hop market, and consumers interested in Jewish mysticism were singled out with the product Kaballah energy drink.⁵⁶ Kaballah even signed pop-icon Madonna to endorse the product.⁵⁷

The Two Giants: Coca-Cola and Pepsi

In early 2005, Coca-Cola released Full Throttle, its second energy drink, after its first energy brand KMX captured only 0.9% of the U.S. market.⁵⁸ Full Throttle was marketed in 16 oz. black cans with bright lettering set to a backdrop of dramatic flames. Coca-Cola planned on using its wide distribution system, supported by promotions such as give-aways at Monster Truck Jams and motorcycles shows. A Coca-Cola spokesperson explained that the target for Full Throttle was different from that of the club-goers and extreme-sports people who typically consumed energy drinks: "We are speaking to the guy's guy."⁵⁹ A Red Bull spokesperson seemed unconcerned: "Movement by the bigger players onto the scene really just validates the category."⁶⁰



Coca-Cola: KMX Orange and Full Throttle. Source: www.bevnet.com

Pepsi's position was distinct from Coca-Cola's as they had gained more market share with Mountain Dew Amp and two SoBe products called No Fear and Adrenaline Rush.

⁵³ Palmeri.

⁵⁴ *Hansen Natural Analyst Report*, Adams Harkness, May 4, 2005, p. 4.

⁵⁵ "Food Brief – Coca-Cola Co. Deal Is Reached to Distribute another Firm's Energy Drink," *Wall Street Journal*, April 29, 2005, p. A11.

⁵⁶ Burt Helm, "The Sport of Extreme Marketing," *BusinessWeek*, March 14, 2005, p. 14.

⁵⁷ Adam Hellinker, "Madonna to Give Cult Drink a Boost," *Express on Sunday*, February 6, 2005, p. 17.

⁵⁸ Gillian Wee, "Coca-Cola Seeks Swig of Revved-Up Energy Drink Market," *Knight Ridder/Tribune Business News*, February 5, 2005.

⁵⁹ Leith.

⁶⁰ Wee.

SoBe, a short form for South Beach Beverage Company, was founded in 1996 and was purchased by Pepsi in 2001 for an estimated \$400 million.⁶¹ To spur on sales, SoBe had partnered with the national convenience store 7-11 for a co-branded SoBe Slurpee.



Pepsi Co: Mountain Dew Amp, products.peapod.com. SoBe products. Source: www.sobebev.com

The Canned-Coffee Category: A Threat?

Regular coffee served hot was a mainstay throughout the world with an estimated 500 billion cups served each year. In the United States, per capita consumption was about seven pounds a year, whereas Scandinavian countries topped the worldwide list, consuming over 20 pounds per capita per year.⁶² More than half of Americans were estimated to drink coffee daily, consuming an average of 3.4 cups per day.⁶³

Several packaged-goods companies were looking to offer innovative ready-to-drink cold-coffee products. Pepsi, for example, had introduced the coffee-flavored Pepsi Kona as a test product in the mid-1990s, but never launched it due to lackluster results. Later, Pepsi teamed up with Starbucks to introduce Mazagran, a carbonated coffee-based drink that was sold at select Starbucks locations, but Mazagran was never released nationally. The Pepsi-Starbucks partnership continued, and together the companies launched Starbucks Frappuccino iced coffee and Starbucks DoubleShot espresso drink, which held 90% of

the noncarbonated, ready-to-drink coffee segment as of 2005.⁶⁴

In other countries, companies were experimenting with a fusion of coffee, milk, and energy drinks. Backed by a Nestle venture-capital fund, an Austrian executive who helped introduce Red Bull to the United States was launching his own brand called Returnity in Europe—a milk-based product deemed to be a “brain shake.”⁶⁵ In Australia, the milk brand Dare launched a coffee, guarana, and milk drink with the appeal that it could be used to replace real coffee or energy drinks. A representative commented on the approach to the end consumers, “[We want to] touch them through their passion points—reach out through credible links to music, entertainment, fashion, sports, technology, and sex. The entire marketing mix will drive the brand’s outlaw personality and encapsulate the 24-7, non-stop living theme.”⁶⁶

Even Red Bull Beverages Co. in Thailand (the producer of Red Bull) was preparing for the Thai re-launch of a canned-coffee version of Krating Daeng in the summer of 2005.⁶⁷

Looking Ahead

Red Bull estimated it would sell one billion cans in the United States in 2005. Based on per-capita consumption, many believed that there was room for Red Bull to grow. Kraihamer had explained the per-capita targets as Red Bull was growing:

In the best markets today, we can achieve a potential of 10 per person—ten cans per head, per year. We don’t know if we can achieve a potential 15 or 20 per person, but I believe so.⁶⁸

It was estimated that in the United States, Red Bull had moved from 0.4 cans per person in 2001 to 2.5 cans per person in 2004. While

⁶¹ Hoovers Company Capsule, www.hoovers.com, (accessed June 29, 2005).

⁶² Nation Master Statistics, www.nationmaster.com, (accessed July 7, 2005).

⁶³ Roast and Post Coffee Company, www.realcoffee.co.uk, (accessed July 7 2005).

⁶⁴ Christina Cheddar Berk, “Coca-Cola Seeks to Refresh Product Line With New Items,” *Dow Jones Newswires*, January 11, 2005.

⁶⁵ Dagmar Mussey, “Nestle introduces European ‘brain shake,’” *Advertising Age*, June 6, 2005, p. 20.

⁶⁶ “Dare shoots into energy drinks market with a new coffee product,” *B&T Weekly*, February 3, 2005.

⁶⁷ “Thailand: Red Bull changes aim to coffee drinks,” *Thai News Service*, June 20, 2005.

⁶⁸ Phoenix.

further growth opportunities appeared significant since the energy drinks segment was still growing rapidly, Red Bull needed to overcome several challenges. One analyst gave this view of the competitive situation:

Market-leader Red Bull is also a very strong competitor, but focused on the 8 oz. can category (particularly in liquor establishments), while Hansen and Rock Star focus their energy efforts on 16 oz. cans at retail. While Coke and Pepsi are obviously the dominant beverage players in the U.S. and have had some success in energy (more so Pepsi than Coke) with their respective Full Throttle and SoBe brands, we doubt that their success has met internal expectations. Coke's first effort under the KMX brand was clearly a failure. If brands such as Monster and Rock Star continue to grow north of \$100 million each with strong sales per point of distribution, we would expect the big players to consolidate the fast-growing brands.⁶⁹

Analysts with *BevNet*, a Web site and industry newsletter tracking the entire beverage industry, shared their opinion of how Red Bull fit into the market as of 2005:

Red Bull faces some potential bumps in the road in the coming 24 months. First, the product has completely oversaturated the market—Red Bull is in just about anywhere that you can fit a mini-cooler, as well as mass merchandisers, bike shops, bars, etc., etc., etc. This could result in Red Bull becoming passé by removing the “cool” factor that made the brand so successful. Second, while other companies are improving formulations, flavors, and packaging, Red Bull stays the same. Will consumers find something that truly works better? Third, from our point of view Red Bull has a less-than-stellar industry reputation—and many people are praying for their demise as a result. Finally, given that Red Bull is a one-trick pony (compared to others such as Coke and Pepsi), the party is in serious

jeopardy if sales start to slump, a price war starts, or over-energy-drink health concerns start to proliferate. Overall, tremendous brand power right now, but does it have true staying power to last another five years as number one?

In response to extending the brand's reach, Red Bull was testing an herbal tea drink named *Carpe Diem* in Los Angeles and was considering using the name to launch an international fast-food concept served in edible potato containers. As well, the company was about to release a quarterly magazine touching upon the key themes of the Red Bull lifestyle such as extreme sports, the clubbing life, and music.⁷⁰

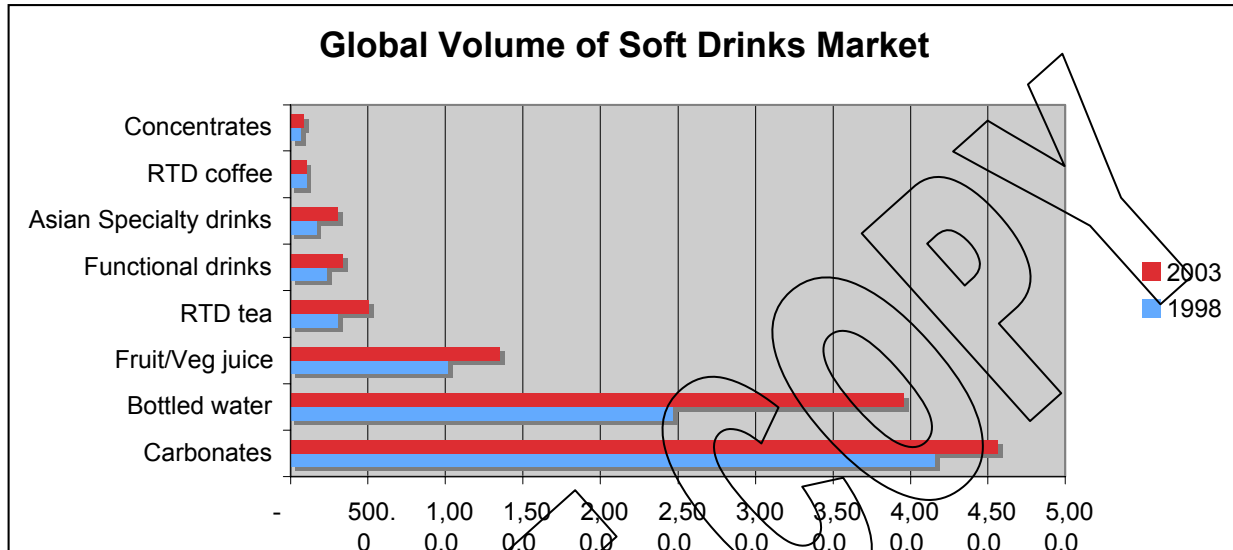
“We have the next hundred years in front of us,”⁷¹ stated Mateschitz about the brand's future. He then offered up his opinion on why consumers would continue drinking Red Bull: “We created the market. If you appreciate the product, you want the real one, the original. Nobody wants to have a Rolex made in Taiwan or Hong Kong.”⁷²

⁶⁹ Harkness.

⁷⁰ Dolan.

⁷¹ Dolan.

⁷² Dolan.

Exhibit 1**Global Volume of Soft Drinks Market by Category****Exhibit 2****Top Energy Brands in the United States****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 Ririnha (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.