

# Energy drink market analysis



**ASSIGN  
BUSTER**

## **Introduction**

### **Background of the energy drink market**

Currently, the beverages industry shows a strong growth, and the energy drinks industry particularly expects further growth in the near future.

Caffeine, acting as the most common stimulant, is generally the primary active component of energy drinks. Being able to provide the consumers quick refreshment and a feeling of highly energetic, the energy drinks give consumers another option to choose besides the traditional coffee and tea.

Energy drink consumption has continued to gain in popularity since the 1997 debut of Red Bull, the current leader in the energy drink market. Drinking energy drinks is a popular practice among college students for a variety of situations. The energy drink consumption patterns among college students, prevalence and frequency of energy drink use for six situations, namely for insufficient sleep, to increase energy generally, while studying, driving long periods of time, drinking with alcohol while partying, and to treat a hangover. Although for the majority of situations assessed, consumers drink one energy drink with a reported average frequency of at least once per week.

### **Company and Product Description**

Bada Company is an independent energy drink manufacturing company located in a college town, which is also a tourist destination in the holiday season. The only product that we plan to launch in the start up phase is Bada Bala energy drink, which is designed to be packed in 350ml plastic bottle. It will be a new precedent for local standards and set up the new trend mainly among college students, which are also our target consumers.

## **Market analysis and strategy**

Our company plans to launch only one kind of product in the start up phase because we really want to make sure that our business can achieve a steady increase in sales and gradually expand the popularity and market shares in this region. Since our company chose not to develop in an aggressive way and still maintain our edge in the local market, some key factors for our Bada Bala energy drink's success are summarized as following:

1. Prime location for our product to break into the market . Located in a university town, our company have a strong and stable customer base and with more universities choosing to establish their campuses in this university town, the customer base will be growing in a steady pace.
2. The visiting tourists in the holiday season will make up the decline demand from college students in the holiday season.
3. Unique and high-quality product at reasonable prices. Our company will incorporate great product at lower expense, thus stick to keep an idea margin while catering to our customers' demand. While energy drinks are nothing new, we will distinguish ourselves and focus more on the college students and at the same time emphasize on local taste to attract the visiting tourists in the holiday seasons.
4. Successful taste testing with an excellent result among our target consumers. Based on their feedback, those university students are eager to have our Bada Bala energy drink as their first choice when they need an energy drink to boost their energy.
5. Because of the student population being the core target markets, heavy sales and marketing will not be needed. Rather, our company

will emphasize word-of-mouth advertisement, along with promotions broadcast on campus. During the first two weeks of launching the Bada Bala energy drink, flyers with coupons will be passed around campus for notification. We have allotted a small amount for any needed advertising each month, and prepare a promoting program when the tourists arrive here in the holiday season.

6. Once the production begins, the revenue generated is expected to be the financial source for reproduction.

## **Financial plans**

### **Financial objective**

1. Generate £1, 200, 000 of sales in year 1, with an 15% growth rate for the next two years.
2. Realize a gross margin of at least 50% each year.
3. Show a net profit of £600, 000 by the end of the year 1.
4. We have already coordinated with local distributors to set up accounts for purchases and repayment.

### **Investment plan**

The start-up costs of the production of Bada Bala Energy Drink will incorporate the costs such as of machinery and equipment for manufacturing, setting up selling and distribution channels, staff hiring, and other necessary expenses to start operation. At first year of start up phase, there are no plans for expanded business scales or introduce other new products. As business continues, we will re-evaluate to see if there is a part of the market that could be better assisted and adjusted.

Costs have been allocated for 1-month supply of basic purchases raw materials, since general inventory turnaround is between 15 and 20 days. We realize that the 1-month time frame will allow for a small inventory to be maintained during opening months. Based on that, we will be able to determine rate for future replenishment. The plant site on the 50, 000 square foot building has been confirmed and only minor renovations will be needed to set up the production condition for Bada Bala Energy Drink. The following sections will outline the important financial assumptions, break-even analysis, cash flow budget, budget balance sheet, budget income statement and key financial indicators and ratios.

### **Sales forecasts on our product**

The market will vary greatly based on two factors: the academic schedule of university students and the travel schedule of the visiting tourists. The academic schedule will not affect the consumption too much, except for their will be a rise in consumption on the exams week and on occasions like sports meeting. Summers will tend to decrease the customer base of students as many choose not to attend school during this time. But the increasing tourist population will be the main force of our consumers during the time the students are away from the town. Thus, only some minor adjustments in production plan will be needed. Based on careful market analysis and calculations, we expect around 100, 000 bottles to be sold on a monthly base in first year of the start up phase

Based on the above forecasting sales, chart and tables of further financial analysis are enclosed in the appendix of this report.

## **Return on investment**

At the start up phase, the monthly net profit from sales is expected to be £50, 000, with the monthly total sales being £100, 000 and the total costs of sales being £50, 000. The sales margin is calculated to be 50 % by dividing the £50, 000 monthly net profit from sales by the £100, 000 monthly total sales revenue. Our business will achieve realizable revenue of £1, 200, 000 after one year of operation, and the profits will rise to £600, 000 pre-tax. This represents an earning margin of 50 % pretax. The profits generated will be used to expand the scale gradually in the second year, while continue to run the business in a prudent strategy. Having the capital turnover being 3. 2%, and the return on sales being 50% on a yearly base, with the return of investment is estimated to be 0. 17%.

## **Break-even analysis**

According to the estimate based on the market research, our company decides that roughly Bada Bala Energy Drink 100, 000 bottles are sold on a monthly base, that is a profit revenue of £100, 000 at monthly sale. The break-even point quantity will be reached at the sales volume of 23, 077 bottles, given the Total fixed cost of £15, 000 per month, consisting of the monthly fixed factory overheads of £5, 000, 000 , the monthly fixed selling and distribution overheads of £400, 000 , and fixed administration overheads of £600, 000. The variable costs per unit, consisting of the direct materials per unit of £0. 15 and direct labor per unit of \$0. 2, together totals to be £0. 35 . Thus, the total variable cost on a monthly base is expected to be £35, 000 and the total monthly costs is £50, 000.

## **Cash flow plan**

The cash budget is based on cost and revenue estimates. Monthly sales are the largest indicator. As discussed and explained above, the seasonal variations do not affect much on the sales. We want to finance the future growth of our company mainly through cash flow. Although “playing it safe” means we will have to increase the production scale slowly and gradually grab the lion market share, we think this strategy suits us very well because we want to the business have gradual growth without much financial risks.

## **Summary**

Our advantage of located in the university town, together the careful financial planning, the precise market concentration and the rather modest developing strategy all serve as an competitive edge for success in this energy drinks manufacturing field. The earning margin of 50 % pretax and healthy cash flows that generated speak for itself and lead to a promising and attractive returns