

Powerade and all sport: muscling in on the sports drink market essay sample



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In many ways, the sports drink category mirrors the fitness-minded individual that it targets. As any fitness instructor will tell you, a good hard workout should be followed by a cool down. After Gatorade hit the market in 1968, the sports drink category experienced double-digit growth. However, by 1996, growth had cooled down to 7.6 percent. Still, despite cooling growth, current sports drink sales total almost \$1.3 billion and per-capita consumption exceeds 1.8 gallons.

Gatorade pioneered the sports drink category and has dominated the market. Its primary competition has been mostly small, regional brands, such as 10K from Suntory, that could rack up only small market shares. In the early 1990s, competition increased when Coca-Cola entered the market with PowerAde and PepsiCo entered with All Sport. However, although PowerAde and All Sport have made inroads, Gatorade still holds a commanding market share. Gatorade's sales lead its nearest rival's by more than \$1 billion.

Gatorade was developed at the University of Florida in the early 1960s as a means of preventing dehydration during physical exertion and was popularized when the Florida football team used it. Stokely Van Camp, processor of canned vegetables, acquired the brand in May 1967. It positioned Gatorade as a sports drink and health food product based on its value in replacing electrolytes lost due to colds, flu, diarrhea, and vomiting. Sales grew rapidly as Stokely developed a strong position for Gatorade in the institutional team sales market. Then, in 1983, Quaker Oats purchased Stokely and expanded the sports drink category by increasing Gatorade's distribution and promotion. Between 1983 and 1990, sales of Gatorade grew at a 28 percent compound annual growth rate.

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Sports drinks, or isotonic beverages, replace fluids and minerals lost during physical activity. Research shows that an isotonic drink's effectiveness depends on several factors. The drink should provide enough carbohydrates (glucose and sucrose working in combination) to supply working muscles, yet not too much to slow fluid absorption. The drink should contain the proper levels of electrolytes, particularly sodium, to enhance fluid absorption. Finally, research suggests that most people prefer a noncarbonated, slightly sweet drink when they are hot and sweaty. Taste is important because it encourages the person to consume enough drink for it to be effective in rehydration. An 8-ounce serving of Gatorade contains few vitamins, no fat or protein, 60 calories, 15 grams of carbohydrates, 110 milligrams of sodium, and 25 milligrams of potassium. Gatorade's calories are about one-half the level contained in fruit drinks and nondiet soft drinks.

In 1985, the Japanese giant Suntory entered the American market with 10K. Its positioning was based on the use of salt-free spring water. 10K contained 100 percent of the recommended daily allowance of vitamin C. It also had all natural flavors, fructose, 60 calories per serving, no caffeine, and one-half of the sodium of other products. Like Gatorade, Suntory focused on grocery stores as distribution outlets and targeted sports teams. Facing only limited competition, 10K increased market share in the late 1980s, primarily in the southern United States. Since the entry of Coca-Cola and PepsiCo, however, 10K's market shares has dropped to less than 2 percent.

Coca-Cola's PowerAde has 33 percent more carbohydrates for energy than Gatorade does, is lighter, and has less salt flavor. Coca-Cola claims that

PowerAde goes down easier. When Coca-Cola entered the market, it had 1. 5
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million points of sale, including 1 million vending machines, compared to Gatorade's 200, 000 points of sale. Coca-Cola began television and radio advertising, and it paid to make PowerAde the official drink of the 1992 Summer Olympic Games in Spain and, on its home turf, the official drink of the 1996 Summer Olympic games in Atlanta.

Coca-Cola has positioned PowerAde as a piece of any athlete's "equipment." Rather than focusing only on sports stars, Powerade targets all athletes-professionals, amateurs, and any individuals interested in fitness. By introducing packaging changes such as the 24-ounce Powerflo PET bottle, Coca-Cola hopes to make its product a piece of equipment that better meets the user's needs. The Powerflo bottle features squeezable sides, quick-flow, a push-pull valve, and Olympic theme graphics. Coca-Cola's ad agency, McCann-Erickson, created a series of ads whose broad theme was the determination to overcome obstacles.

As the official drink of the steamy games in Atlanta, Coca-Cola made sure that plenty of PowerAde was flowing. Atlanta police officers packed pistols and PowerAde-the latter, compliments of Coca-Cola. The Salvation Army was equipped with 1. 5 million free servings of PowerAde, and 1. 7 million bottles of PowerAde were on hand for the athletes during competition.

In mid-1997, Coca-Cola announced that it had signed agreements to make PowerAde the official sports drink of the National Hockey League and the Women's National Basketball Association. It is especially important for sports drink marketers to sign sports-related marketing agreements-fans often want to drink what their sports heroes drink. For example, Coca-Cola's goal

is to associate PowerAde with hockey and thus tempt the hundreds or thousands of hockey fans to drink its products. As the company's vice-president of marketing, Steve Koonin, says, " We're buying more than frozen arenas with guys ...running around them; we're buying a mindset of hockey." Similarly, Coca-Cola wants to reach female sports fans by sponsoring women's basketball.

The NHL deal is especially significant in that the NHL's previous arrangement had been with Gatorade. " Clearly, we would have liked to have continued this relationship," says Patti Jo Sinopoli, a Gatorade spokesperson. " But Coke was willing to put a lot more money and support behind it, and we didn't feel it was appropriate for us to allow the NHL to take a higher priority than the relationships Gatorade has across so many other sports." Although the NHL deal cost only \$30 million, it indicates Coca-Cola's seriousness in attacking this market. Sports drinks are the only nonalcoholic beverage market not dominated by Coca-Cola or PepsiCo. It appears that Coca-Cola is using a " circle the opposition" strategy in attacking Gatorade and its strong ties to football and professional basketball. Rather than trying to buy its way into those major sports, Coca-Cola is obtaining sponsorships in a number of smaller sports drink that came in four flavors.

Like Coca-Cola, Pepsi has approximately 1 million points of sale and daily contact with 250, 000 retailers. Unfortunately, many athletes had the same reaction to the product as semi-pro tennis player, Paul Fortunato. " Who wants a carbonated sports drink? The last thing I need in the middle of a big point is to deal with burping, ", he says. After hearing such complaints,

PepsiCo relaunched All Sport in mid-1996 with new neon packaging, new
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flavors of Cherry Slam and Blue Ice, a new ad campaign, an extra dose of “energy-packing” vitamin B and much less carbonation. PepsiCo thinks that, with its new formulation, it has found the ideal taste. The most important change is the reduction of carbonation-“ You probably won’t even be able to tell it’s there,” says a PepsiCo spokesperson.

PepsiCo is positioning All Sport as the body quencher. Its ad campaign, sporting the slogan “ The game will never be the same,” touts All Sport as a more “ evolved” drink than the more traditional Gatorade. Spots show athletes drinking All Sport in the future. One ad shows well-known athletes such as Jerry Rice and Steve Young drinking All Sport during the half time of “ Global Bowl LVXIII.”

Meanwhile Gatorade has not been idle. It has launched new flavors, packaging changes such as the one-gallon “ big-grip” bottle and four packs, and beefed up advertising with memorable and popular Michael Jordan advertisements. Gatorade is positioned as the beverage for “ active thirsts.”

With all these marketing efforts, have competitors made a dent in Gatorade’s domination of the market? Not by much. By mid-1997, Gatorade’s market share had slipped only slightly to 78. 9 percent while PowerAde’s rose by 0. 9 percent to 10. 2 percent and Pepsi’s All Sport had stabilized at 8. 1 percent. Although Gatorade might be tempted to dismiss these competitor gains as minor, it should note that PowerAde and All Sport are now beginning to eat into Gatorade’s share. Previously, the two challengers had taken sales mostly from small manufacturers and 10K. By 1997, however those opportunities were exhausted, and the competitors

were beginning to take share directly from Gatorade. This could signal future problems for the Quaker brand.

Coca-Cola and PepsiCo have deep pockets, and Quaker Oats will be hard pressed to spend as much as either major competitor to protect its market share. However, because Gatorade is its major brand, Quaker may be more willing to fight the encroachment of rivals. From Coca-Cola's and PepsiCo's viewpoint, sports drink sales are still relatively small and market share gains are exceedingly costly. If Gatorade can develop creative campaigns in the future, it may be able to stave off the challenges of PowerAde and All Sport.

As the battle for global markets heats up, however, Coca-Cola has a major advantage with its large share international soft drink market and its extensive international marketing expertise. Even PepsiCo, with its switch to blue Pepsi, is picking up share internationally. According to one industry analyst, "Internationally sports franchises and other potential partners are more likely to want to team up with a 'primo' beverage player with several brands than with a company with one brand." With satellite transmissions, fans in England and Japan are watching American football and basketball and Americans now have access to soccer cricket. This creates the potential for international sports markets and creates international celebrity status for sports heroes. While Gatorade is strongly associated with American football and basketball, the sport with the greatest worldwide following is soccer. If Coca-Cola or PepsiCo could grab a major soccer sponsorship, or even a baseball sponsorship (another international sport), they would gain a significant lead in the international market.

In response to the international competitive threats posed by Coca-Cola and PepsiCo, Quaker Oats has reorganized. It has formed a separate division to market Gatorade worldwide. In addition, Gatorade is pursuing partnerships with other companies to expand worldwide distribution. But Gatorade is a new brand and unknown firm outside the United States. In addition, along with Coca-Cola and PepsiCo products, it will face other sports drink competitors in the international market, such as Lucozade (distributed by SmithKline Beecham in the United Kingdom).