

Sample research paper on energy and soft drinks industry threats and opportunities...

[Business](#), [Industries](#)



Introduction

Energy and soft drinks industry targets segments including recreational, lifestyle users, athletes and body builders with sale of energy and performance enhancement drinks. Body builders use the products for the purpose of caloric intake as they are engaged in building up of muscles; a task that requires many calories and nutrients. Athletes include the sports people who also use the products for performance enhancement. On the other hand, lifestyle users are those people who do not use the products for professional exercise or sports purposes, but for recreational purposes. They use the products as beverages or for energy boosts when ill or tired hence use the products for healthy indulgence and a healthy living experience. Finally, recreational users are the non-professional people without physical levels needs of bodybuilders and athletes. They are consumers engaged in sports as hobbies or fitness enthusiast. The drinks' demand by athletes and body builders is based on scientific and specialized solutions for their performance enhancement. To address those segments needs, the products manufacturers have focused on various aspects moving towards meeting lifestyles and taste needs for the various segments. (International, 2010) Thus, the sports and energy drinks industry's operations have been subject to consumer and market related factors that influence different areas and whose effects are the subject of this analysis. In that view, the analysis provides an impact analysis of factors affecting the industry resources, demand, supply, innovation, capital and regulations.

Resources

The industry operations are dependent on quality and quantity of resources that are available and that are put into use. In that respect, factors affecting different resources have an effect on the operations and businesses efficiency. Thus, resources including g finances, human resource, equipments and technology are affected and have shaped industry performance as follows.

Human resources

The industry's efficiency is dependent on human resources skills which are crucial in the production, marketing and distribution of the products. In that respect, the increased literacy in key markets such as United Kingdom and US provides necessary skilled labor for the industry operations.

Finance

Finances determine the capacity that businesses have for development in terms of products' development and market ventures. In that respect, the cost of finances is a crucial determiner of firms' resources. Thus, a stable and falling interest rates in key sports and energy drinks markets including European, UK and US enhances firms access to finances at relatively lower cost. (Keller, 2012)

Equipments

Innovative products and production process require specialized equipments that can be used for production of differentiated brands. In that respect, the industry ability to deliver unique brands driven by technological advance that enhances equipments' efficiency.

Technology

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Technology is a key resource that is applied for product differentiation and provision of brand solutions that address customer needs for energy boost formulas. In addition, technology has been essential in marketing and distribution of the industry products and were dependent on Research and Development. In that view, the high level of R&D in the industry's major market enhances technological means and its application by the firms.

(Sengupta, 2005)

Raw materials

Firms operating in the industry sources their raw materials through strategic partnerships with their suppliers. In that respect, some firms supports project the produce raw materials as a means of ensuring a sustainable supply.

Thus, the firms have raw materials as key resources that determine their competitiveness. However, that resource is based on a number of factors including seasonal fluctuations and delivery efficiency. (Euromonitor, 2014b)

Supply

Supply of goods, as well as that of raw materials, is dependent on several factors including a number of firms, suppliers' terms and the supply chain management.

The industry is marked by an oligopolistic market structure with a few large firms that control the market. In that respect, the firms have the power to determine prices and quantity produced. However, their distribution and supply chain comprise of other businesses that acts as sellers to the end users. Such distributors include retail stores, specialty stores as well as online stores. Thus, the market reach of those channels determines the firms' efficiency in reaching their target segments. (Euromonitor, 2014a)

Firms' capacity

The individual firms' capacity determines the industry's total output. In that respect, the large size of the few firms operating in the organization means that they enjoy economies of scale because of the low average cost of production. GlaxoSmithKline Plc and Gatorade remained the leading businesses in energy and sports drinks industry by the year 2013 when they accounted for about 46% and 33% of market share respectively. That was associated with their well known brands that have had suitable pricing and availability in the market. (Euromonitor, 2014b)

Demand

Market demand is determined by a number of factors including the consumer tastes and preferences as well as the consumers' purchasing power. In that respect, the sports and energy drinks' demand has depended on economic as well as social factors. (Keller, 2012)

The economic factors

The economic factors influencing the industry demand include inflation that has an effect on consumers' purchasing power. In that respect, the high inflation rate during the global financial crises period resulted to eroded purchasing power hence decrease in demand. In addition, employment levels determine the level of disposable income in a market hence products demand. In that view, the market demand and growth declined during the recession period and compared to the previous growth prior to the recession period. (Euromonitor, 2014b)

Social factors

They determine consumers' preferences for products. That is because they

shape consumer's perspective and tastes in choosing the brands they would want to identify with. Some of those factors that have shaped the industry are the health concern over the effects of the drinks ingredients. With increased cases of diseases such as obesity being associated with soft and energy drinks, consumers increasingly seek for products that are safe for consumption as those that have added nutritional benefits. Thus, the industry faces increasing competition owing to availability of natural and organic substitutes that do not have artificial ingredients. Other social factors include change in lifestyles such as those creating emerging markets for the industry in Asia. That is because Asian consumers like those in China are increasingly blending their cultures and western cultures that result to demand western born lifestyles and related brands such as energy and sports drinks. (Euromonitor, 2014a)

Capital

Capital determines the ability to produce and engage in products' and processes development. In that respect, capital availability and cost are crucial to industry operations. In addition, the industry's need for constant innovation and product development to meet customer's changing needs and preferences requires adequate capital by the firm. However, that access is subject to factors such as interest rates that determine its cost to businesses. With that consideration, the stability in interest rates and the rates that are relatively lower for major markets such as UK and US. They are an indication of low cost of capital hence a boost on firms ability to raise capital for their operations. (Keller, 2012)

Sources

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Development of financial markets enhances business operations by availing sources of capital. In that respect, businesses can raise capital through equity as well as debt. Thus, an increase in the number of lending financial institutions as well as increasing access to capital markets has made capital more accessible. (Sengupta, 2005)

Cost

Cost of capital is also crucial in determining its accessibility to firms and is dependent on factors such as the required rate on as well as interest rate. Thus, the low-interest rates with economies having recovered from the global recession and financial crises lowers cost of capital hence making it more accessible for businesses in the industry. (Keller, 2012)

Innovations

Innovation is a great driver of market efficiency and competitiveness. In addition, firms within an industry rely on innovation to differentiate their products as well as reach the market for marketing and distribution purposes. However, innovation has been highly dependent on technological advance and human resource skills. (Euromonitor, 2014b)

Production

Production processes have been one of the great beneficiaries of innovation. That is because technology application in production enhances competitiveness through high-quality products, safe production as well as quick production that enhances meeting market demand.

Marketing

The need for more efficient marketing methods given the diverse customer segments has resulted to the development of innovative marketing means.

Such innovations have been applied to reach the market through more efficient advertising via the social media and other online platforms such as company websites. Thus, there has been increasing application of and leverage on technology in a bid to deliver innovative products that provide sensory experiences to consumers while providing convenience and health solutions. Through innovation, the producers create new flavors and tastes that provide new experiences to customers. In addition, technology advance has been applied to deliver products that have features such as quick absorption of compounds, amino acids and ingredients. (International, 2014)

Regulations

Regulations determine the legal environment within which a business operates. In that respect, policies and guidelines regarding various industry and operations' aspects determine the level of activities, firms' strategies as well as market competitiveness among others. Regulations relate to trade, marketing production and environment. (IBISWorld, 2014)

Trade regulations

Regulations and policies such as those allowing free trade have a great effect on the industry's operations. That is because free trade results to markets liberalization that in-turn increase foreign firms' entry to new market such China that previously have strict trade restrictions. That has resulted to the increased presence of western brands such as Gatorade and GlaxoSmithKline Lucozade in the Chinese market. (Keller, 2012)

Environment

Owing to increasing environment concerns, there are regulations that seek to enforce environment protection by limiting polluting operations such as

manufacturing and sourcing and transporting of raw materials. In that respect, businesses in the industry have to respond to regulations by ensuring that their operations do not negatively affect environment.

(Euromonitor, 2014a)

Conclusion

In view of the industry analysis in the six areas, it is clear that firms producing and selling sports and energy drinks are subject to various external factors that influence their performance, efficiency and competitiveness. Those factors determine the opportunities that are available for utilization as well as threats to industry operations and are summarized as follows. (Keller, 2012)

Opportunities

- Technology advance has been crucial in enhancing innovative production. In that respect, there are opportunities to apply innovative technologies and deliver better solutions through complex drinks formulas that meet various segments needs.
- Technology advance also presents new avenues through which the firms can efficiently reach their clients. That is through efficient advertising and promotion channels such as the social media that can quickly reach the growing youthful segment that represents a significant portion of the drinks consumers.
- There is growing the demand owing to the growth in the youthful segment that has the greatest portion of the people in need of energy and sports performance-enhancing drinks.
- Increasing source of capital through growth in financial institutions provide

opportunities for firms to access capital and invest in product development and efficient operations. In addition, the fall in interest rate since the global recession has lowered the cost of capital hence ability to borrow for investment in emerging markets and new products.

- Emerging markets are driving demand for the industry products. That owes to the increased adoption of western cultures and brands by markets such as China that have a broad market base to drive industry demand. (Sengupta, 2005)

- Enhanced supply chains through technological advance and markets integration presents opportunities for firms to reach more customers and increase their sales. Enhancing operations

- Changing customer behavior towards lifestyle brands presents an opportunity for firms to develop more products that are specifically tailored to those emerging needs. That includes provision of products with healthier ingredients compared to the current products whose ingredients are claimed to have adverse health effects.

- Change in policies such as the introduction of free trade in major economies and countries presents opportunities for businesses to enter new markets and enhance their market reach and competitiveness. (Euromonitor, 2014b)

Threats

- The increasing concern over health effects presents a risk of decreasing demand. That is because consumers could increasingly shift towards consumption of substitute products such as beverages including coffees and tea that organic and natural. In that respect, businesses need to establish

innovative ways of addressing the adverse health effects to counter the threat.

- Increasing competition in the industry given the ease of market entry as technology lowers costs is a threat to existing brands such as Lucozade and Gatorade. In addition, substitute products provide substantial competition that could threaten the products demand. In that regard, firms need to embrace products differentiation and efficient production to enhance their competitiveness. (Keller, 2012)

- Innovation in the industry that is driven by technological advance that renders brands obsolete in a short time is a threat to existing products that have been market leaders. Thus, firms are required to adopt continuous innovations and product development as a means of keeping up with the industry trend. However, the process is costly to businesses hence a threat to their performance.

- Increase in beverage products also poses a threat to the energy and sports drinks as they provide close and cheap substitutes.

- Increasing industry regulations as a result of the increasing concerns over operations effect on the environment could threaten operations. That is because of the regulations that limit production operations and raw materials sourcing that could have an adverse effect on the environment.

(Euromonitor, 2014a)

Thus, businesses in the industry are subject to factors that pose several challenges ranging from competition from substitutes, need for continuous innovation and expansion of the distribution channels. In that view, addressing the issues in all the analyzed areas will be crucial to their

success. (International, 2010) That can be done by devising strategies that utilize the opportunities and averting the threats by use of the firm's strengths. (Sengupta, 2005)

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