Case study : red bull essay

Art & Culture, Music

[pic] FACULTY OF BUSINESS AND LAW MAITF VIETNAM ASSIGNMENT HAND-IN FORM I certify by my signature that this is my own work. The work has not, in whole or part, been presented elsewhere for assessment. Where material has been used from other sources it has been properly acknowledged and referenced. If this statement is untrue I acknowledge that I will have committed an assessment offence.

Student ID: 77081201 Level of Study: MA Module Title: International Marketing Course Title: MA INTERNATIONAL TRADE AND FINANCE Module TutorJune Dennis Full text word count: 3, 937 wordsStudent Name: Do Khac Huong Student Signature: ____ Date of Submission: Name of first marker: Mark: Name of second marker: Mark: 1. Introduction Red bull is a leading energy drink company in the world, with global sales of 3 million cans in 2006 accounting for 45% market share of the world energy drinks market. Since its foundation in 1984, Red Bull has made a significant expansion in international markets to over 130 countries and generated over €2.

6 billion in turnover throughout the world employing 3, 900 employees globally. Red Bull devised an innovative marketing approach to mainly target at the young adult consumers seeking an energy boost. Red Bull targets at young adult consumer aged 16 to 29, young urban professionals and students. The market for energy drinks is characterised by the presence of specialised manufacturers as well as food and beverage giants. Key players in the marketplace include Pepsi, Coca-Cola, Danone, Hansen Beverage Company, Monarch Beverage Co. , Red Bull, Dark Dog, GlaxoSmithKline, Extreme Beverages, Taisho Pharmaceuticals and Otsuka Pharmaceuticals. In

terms of market share, Gatorade and Red Bull lead the sports and energy drinks segments, respectively. Most of the soft drink multinationals (like Pepsi, Coca-Cola, Danone, GlaxoSmithKline) also cover the functional drinks market.

In the overall global soft drink market the Red Bull market share is small. According to Euromonitor it is 0. 8% in 2007. However, with the global sales of 3 billion cans in 2006 Red Bull reached a 45% market share of the world market in energy drinks. 2. International challengesThe 12C framework is used to identify and evaluate the key strategic challenges that Red Bull may face internationally in terms of functional drinks sector. The 12C framework consists of issues of country, channels, commitments, currency, communication, capacity to pay, caveats, contractual obligations, choices, consumption, concentration and culture/consumer behaviour. The 12C is a tool which is used to identify the constraints/bottlenecks when a firm enters a new international market.

The following part, each C will individually be used to evaluate the Red Bull strategies. . 1 Country Through the case study, banning from sales in countries such as Denmark and France or some certain states in Germany is a challenge to Red Bull market expansion strategies because of its unique ingredients. A rumour circulated that the taurine used came from bull’s testicles and Red Bull was liquid Viagra which gave the drink even more mystique.

Red Bull also faced many obstacles in gaining regulatory approval in several countries. Red Bull is functional drink so it is often controlled by regulations on food hygiene and safety in several countries. Some countries even use this regulation to protect their home companies doing the same business. The regulations may take time to get Red Bull into a new market or slowdown the process of market expansion in some countries or even in certain region. Red Bull used to face with the shortage of aluminium to produce cans in Europe, this leads to a fast drop of sales. 2. 2 Channels Red Bull identified its key growth strategy by increasing the international distribution. Red Bull uses network of local subsidiaries setup in key markets to manage distribution in any given region.

The subsidiaries are responsible for importing Red Bull from Red Bull GmbH in Austria and either setting up an independent distribution network or working with a partner such as in Australia where Red Bull Australia uses the Cadbury Schweppes's distribution network. In this case, Red Bull Australia imports and sells on to Cadbury Schweppes which then sells to vendors in its network. Using an existing distribution network of a partner in certain countries helps Red Bull reduce quite a lot of distribution costs and quickly spread its sales in a new country. Red Bull uses its own way to set up the distribution network in the new markets by targeting small distributors who often become exclusively Red Bull distributors. Red Bull even hired teenagers and students, giving them vans to distribute the product. Small independent venues are also the first targets.

Red Bull would find the small bars, restaurants and stores and give them a small cooler from which to sell beverage. 2. 3 Commitments Barriers to Red Bull business can be placed in some countries. For instance, Denmark and

France are countries where Red Bull is not allowed to sell its products. In some countries may set the barriers to prevent their home companies doing the same business by slowing down the process of granting the business licence to Red Bull. 2. 4 Currency Red Bull is selling their products in over 130 countries over the world.

Any change in the exchange rate in each country will result in the total revenue of Red Bull. Pricing also is influenced by changing in exchange rate in each country. The stability of currency in each country will help Red Bull design and manage its business efficiently.

2. 5 CommunicationRed Bull does not use the traditional advertising to enter a new market. Only after the product is in the market, Red Bull does the advertising serve as a reminder. Furthermore, Red Bull never uses print media because it is too dull and flat to express product. Television advertisements often are cartoon drawings using the " Red Bull gives you wings" slogan and are very carefully placed. Station and programming are carefully selected to maximise exposure to the target audience such as late night TV shows. Red Bull provides its product for consumption during long days of filming in Hollywood.

The company sponsors dozens of sport events, like the climbing of iced-down silos in lowa or kite sailing in Hawaii, as well as cultural events like break-dancing contests and rock music jam sessions. Red Bull sponsors some 500 athletes around the world. The local subsidiaries are responsible for local marketing content such as buzz marketing, local sponsorship and arranging media including TV, billboards and radio.

In addition to local marketing and advertising local subsidiaries also acquire marketing material from Red Bull BmbH and its exclusive advertiser, Kastner & Partner. Regarding to the cost of promotion, Red Bull spends relatively little in traditional print and TV advertising, instead of relying on sponsorship of extreme sports and giving away samples at local event. Red bull has invested heavily in building the brand. Red Bull spends about 30% of revenue on marketing while Coca – Cola spends 9%. 2. 6 Capacity to pay Pricing: Sales in key markets help drive the global positioning of the company, as well as providing the opportunity to sell Red Bull at a premium price over other brand.

A single can retails 2 euro which is up to five times the cost of branded soft drinks. The premium pricing is a feature of the energy drinks category. Since its launches the category has been positioned as providing product that not only refresh you, but give you energy and related brain power to make the most of your time. While it could never be said that energy drinks position themselves as healthy, which is the main reason why they can command a premium price.

The average price per litre for an energy drink across the world is US$5. 8 almost 4 times the average price of a litres of carbonates. The high price per litre of energy drink is attracting more competitors to join in this market which lead to the serious competition. Setting a high premium price can be an obstacle for Red Bull to expand to new market where the income per capita is low. In the new markets where soft drinks are popular at a low price and low income may cause difficulty for consumers to switch their consumption to new product at high price.

2. 7 Caveat Red Bull can be used with alcohol as a mixer. Cocaine was found in its ingredient and it may affect to Red Bull sale. This has been banned in some certain states in Germany and may be banned in other countries in the future. 2. 8 Contractual Obligation Red Bull is an energy drink so its products are subject to be controlled under regulations on food safety and security in many countries. As the beginning, Red Bull had to apply for a licence to sell in Austria. In each country, the differences in the regulation may allow Red Bull to sell its products or not.

For example Red Bull cola was banned from sales in some certain states in Germany. Red Bull has to follow the regulations, for example ingredient testing, brand registration…, in each market when it expands the sales in this market. The process of getting a licence to sell may take time and can loose the business opportunity in the market. 2. 9 Consumption Red Bull is sold as an energy drink to combat mental and physical fatigue.

In many markets, United Kingdom being a good example, the volume sold through on-premise channels is heavily impacted by energy drinks being sold as mixers with spirits, primarily vodka. Red Bull has a big market size accounting for 45%. The consumption of energy drinks is different from each regions and countries.

For example, in Western Europe, and the United Kingdom leads the way in volume terms, accounting for nearly half of the energy drinks consumed in the region. However, the Republic of Ireland and Austria have a higher per capita consumption figure, with Irish consumers drinking an average of 8 litres of energy drinks per year, hugely more than the regional average of 1. 6 litres per capita. Higher per capita figures in Austria can perhaps be explained by the fact that Red Bull originated there. The higher consumption per capita in Ireland and Austria where other energy originated there, is a fundamental clue for further potential of energy consumption in Western Europe and other regions or countries in the world. This is a challenge for Red Bull to design a proper marketing strategy to exploit these markets efficiently and encourage the consumption per capita in each regions or country. Asia Pacific is a potential market where Red Bull can focus on increasing the consumption per capita.

Emerging marketplaces like Indonesia, Vietnam and South Korea are potential markets with large market size, high population and young consumers. 2. 10 Choices The history of Red Bull has reported that Red Bull had to compete with Flying Horse and took Red Bull 4 years to reclaim the top spot in German market. Dozens of copycat competitors came on the market when Red Bull advancing sales spread in Europe. The market for energy drinks is characterised by the presence of specialised manufacturers as well as food and beverage giants. The key players in marketplace include Pepsi, Coca –Cola, Danone, Hansen beverage Co. Monarch Beverage Co. , Red Bull, Dark Dog, GlaxoSmithKline, Extreme beverages, Taiso Pharmaceuticals and Otsuka Pharmaceuticals.

In term of market share, Gatorate and Red Bull leads the sports and energy drinks segments respectively. Most of the soft drink multinationals also covers the functional drinks markets. Red Bull has its strengths in sports and energy drinks market share (45% market share of the world market in energy drinks). However, Red Bull is a young company and emerging in the functional drinks market. Red Bull product brands are limited and less competitive to beverage giants like Pepsi and Coca-cola. .

11 Concentration The functional drinks market consists of energy drinks, sport drinks and pharmaceutical drinks. The energy drinks generated 42, 4% of total revenue of functional drinks. The market volume forecast reported that the functional drinks market can reach 15. 8 billion litres by the year 2013 in comparison with 10.

9 billion litres in 2008. Red Bull is selling energy drinks so that there is a challenge that Red Bull has to keep and gradually develop its stand in the functional drinks segments as Red Bull doesn't have all functional drink products. Red Bull has been presenting in over 130 countries in over the world. However, Red Bull market share in Asia is 2, 8 % while the total value of Asia Pacific functional drinks market accounts for 43% of global value. Red Bull targets their potential customers aged 16-19, young urban professionals, club goers and students and focus on traditional customers like truck drivers. The market segment of young people in the Asia pacific area is very potential because the population is the highest in the world and the young population percentage is very high. Asia pacific will become a prosperous market and also a challenge for Red Bull.

2. 12 Culture/consumer behaviour The first marketing trails of Red Bull failed miserably. The respondents did not like the taste and colour or the " simulates mind body's concept". In this case, many companies would have given up their plan or reformulated to make it more appealing to the consumers. Most of the consumers are young generation and club-goers.

With the characteristics of this targeted consumers will enable Red Bull to utilize marketing strategy described as word of mouth, viral marketing, underground and grassroots. . Should Red Bull change or retain current product mix In the beginning of 2003, Red Bull launched sugar free version. The drink taste of citrus and herds and is commonly used as a mixer in alcoholic drinks such as Red Bull and Vodka or as a base ingredient in the famous Jagerbomb. In April 2004, Red Bull introduced Red Bull Cola, described as 100% from natural sources, unlike those of Coca Cola, ingredients of Red Bull product are displayed on the can. Initially, the product was launched in Austria, Switzerland, UK, Italy, Ireland, US, Belgium and Luxembourg. Shortly, the cola product was banned in certain states of Germany because it was found to contain traces of cocaine.

This brand extension has received a mixed reaction from industry observers. Red Bull was described as a copycat product and did not bring new consumer benefits or represent a new product category. The cola's strong & natural positioning could even be seen to represent a natural alternative to the core product. The company remains currently committed to the product. Red Bull also introduced the Red Bull energy shot in May 2009. This product has the same ingredients as the core products but it is more highly concentrated to give the same amount of energy as the 250 ml original. It is packaged in a hard plastic 59ml bottle that shares the same design features as the canned products. Its positioning is relevant both to the core Red Bull consumers and to the athletes.

This product can be seen to bridge the gap between two principal of functional energy drinks and sports drinks. First launched in the US in May 2009, and then entered the UK market in September 2009. Red Bull has introduced three new brands of Red Bull sugar free version, Red Bull Cola and Red Bull energy shot since 2003 and currently committed with these products.

This somewhat tells the success of product mix policies. So far, there has been no reason that Red Bull should change its current product mix policies. The product mix helps Red Bull to approach different types of consumers who have different preference/taste, to give consumers more choices, to target at different markets like developed countries and developing countries and to prompt its sales in international market. By product mix policies, Red Bull can quickly accelerate the domination of energy drinks market.

The development of different brands also means to support the recycle of core product (prolong the core product lifecycle). For example, Red Bull has changed the packaging from the core product to create the Red Bull energy shot and promoted new use of product by creating a free-sugar version as a mixer with alcohol. Product mix allows Red Bull to reduce marketing costs by using the same distribution network, sharing advertisement with core product. Using product mix also allows Red Bull to utilize all existing resources efficiently through making use of existing production line, research & development activities and human resources. In terms of competition power, the product mix policy helps Red Bull to consolidate its market segment, increase revenue then result in a quickly financial accumulation. In general, Red Bull should retain its current product mix. This is a right way that helps Red Bull become a leading energy drinks player and prompt its domination in the world functional drinks market.

. Identify and evaluate the company’s mode of market entry. What alternative strategies are relevant and why? Red Bull makes no difference in its entry mode using for the individual foreign market. This entry mode is called “ Naive rule”. Red Bull has used type of the Hierarchical modes with foreign sales subsidiary mode. In this mode, the sales function is transferred to the foreign market. The subsidiary is responsible for its activities including importing and supplying in its region.

Red Bull subsidiaries will provide complete control of sales function where they are responsible for. Red Bull has a well developed net work of local subsidiaries set up in key markets to manage the distribution in any given region. These subsidiaries are responsible for importing Red Bull from Red Bull GmBH in Austria and either setting up an independent distribution network or working with partners. Red Bull GmbH will keep its marketing function at Austria. The local subsidiaries are also responsible for local marketing content such as buzz marketing.

The foreign sales subsidiaries import product from Red Bull GmbH in Austria at a price and sell Red Bull in local market so Red Bull may use the way of intra company transfer pricing to evade some taxes in the foreign countries. By setting up the sales subsidiaries in foreign countries, Red Bull may take advantage of tax in the foreign market where income tax is low. However the major reason for choosing sales subsidiaries is the possibility of transferring autonomy and responsibility to these sub-units. Red Bull can be closer to its customers. Suggested alternative strategies: Transportation costs, trade tariffs and non-trade tariffs can be factors that hinder the expansion of Red Bull to international markets. An alternative strategy, that may be relevant to Red Bull, is setting up production subsidiaries in combination with sales in given region.

Red Bull's potential international markets in Asia like Japan, Indonesia, Thailand, South Korea and Vietnam. In developing countries, sales subsidiaries may be perceived as taking money out of the country and contributing nothing of value to the host country in which they are based. In those countries, Red Bull should not keep the sales subsidiaries for a long time.

Red Bull should change their entry mode by setting up the manufacturing or production base. Setting up production base helps Red Bull reduce transportation costs, avoid trade tariffs, avail lower local labour cost and other obstacles. The host country, where Red Bull is, can perceive Red Bull's commitment and long term development if Red Bull sets up production base in their country. Red Bull may also receive tax incentive or preferential investment policies from the host countries. Red Bull can also release the pressure of controlling sales and production from the head office by decentralising to the country level. The business strategy can be adjusted to fit local context. Red Bull should establish production bases in the countries of large population and high percentage of youngsters like China, Indonesia, Thailand and Vietnam. 5.

Evaluate the company's approaches to promotion and distribution and assess to what extent these approaches represent sources of sustainable competitive advantageMany products get into the public by doing large advertisement campaigns in newspaper and TV, tasting and giving away but Red Bull uses its own ways to get its products and brand into the public. Red Bull only does the advertisement when its products already existed in the market and the advertising acts as a reminder to the consumers. Red Bull never uses print media because it is dull and flat to express the product. Television advertisements are often cartoon drawings using the slogan " Red Bull gives you wiiings". Every year the company sponsors dozen of extreme sporting events, like climbing of iced-down silos in Iowa or kite sailing in Hawaii, as well as cultural events. Red Bull sponsors some 500 athletes around the world. The promotion activities are also conducted by the local subsidiaries.

The local subsidiaries are responsible for the local marketing contents and also acquire marketing materials from Red Bull GmbH. The promotion activities seem not to target directly the targeted consumers. Traditionally, the promotion activities are to get attention from the interested people and lead them to the action of buying product. However, Red Bull hasn't done like that, it focuses on eminding the consumers about their existence in the market. The way of Red Bull promotion is totally different from that of Coca Cola or Pepsi. Coca Cola focuses on print, sponsorship for big events like football cup, advertisement on TV with high frequency, give- aways, tasting and so on. Red Bull also spends a lot of money on promotion accounting for 30% of revenue while Coca Cola spends only 9% of its total revenue.

Red Bull uses the network of subsidiaries to distribute their products in international markets. In each country, it targets small distributors who often become exclusively the Red Bull distributors. Another form of distribution is to find bars, restaurants and stores and give them the cooler to sell the beverage.

By selecting the small distributors, Red Bull can give its control over the marketing strategy and the small distributors can commit a long term partnership with Red Bull. This will enable Red Bull business stability. However, the small distributors may not be good enough in committing money, management and proven marketing idea so Red Bull has to invest on them money, time and marketing knowledge as well. For a sustainable competitive advantage distribution, Red Bull should pay attention to managing and controlling the distribution channels by carefully selecting distributors with consideration to: let distributors not select you; look for distributors capable of developing markets rather than those with a few obvious contact; treat local distributors as long term partners, not temporary markets instruments; support marketing entry by committing money, managers and proven marketing ideas; from the start, maintain control over marketing strategy; make sure the distributors provide detailed market and financial performance data.

In terms of promotion, Red Bull should be more flexible in selection of the form of sales promotion like product trial, consumer introduction shop and encouraging shop stock products and communication tools like media, print, Radio, TV and outdoor advertisements. In each country or region, a locally adapted promotion strategy is placed. More outdoor and TV advertisements are needed to get Red Bull closer to different layers of consumers. Red Bull image needs to be created not only in young generation but also in mid-agers. All promotion activities should target directly to potential customers to get their attention to the products and turn their attention into action of buying.

Red Bull needs to reconsider the budget for promotion. Red Bull should reduce the sponsorship activities for less popular sports and turn that money for advertisement on TV, Radio and print. In contrast, public relation activities like sponsorship of prizes at well-known events or press releases will promote company’s image and brand. 6. Conclusion Within the scope of this study, Red Bull has been a successful example of international market expansion during the past two decades, it has become a leading energy drinks company in international market.

However, this market is seriously competitive with presence of food and beverage giants. Crucially, Red Bull should make improvements in its current product lines and the mode of market entry in its non-domestic markets. It is necessary for Red Bull to improve its promotion and distribution forms which enables the company to take the best advantage of a sustainable competition. Reference Svend Hollensen (2009).

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