

# Red bull case study



Red Bull is the leader of the energy drink market. This company created in 1984 by Dietrich Mateschitz performs an annual turnover of more than 3 billion Euros. Polemics, nonconformist, genius marketing is, among others, the ingredients that made Red Bull the star product of Energy Drink Segment in the world. For more than 20 years, Red Bull has managed to establish itself brilliantly in the world, which, despite the widespread economic gloom, has always taken a growing interest for this new drink.

Dietrich Mateschitz founded the company Red Bull GmbH in 1984. GmbH is the German equivalent of a limited liability company; it stands for ‘Gesellschaft mit beschränkter Haftung’. The company’s origins, though, lie in the owner’s time spent in Asia. He came across products known as ‘tonic drinks’ and saw the chance to market functional drinks outside Asia.

One of these tonics, which came from Thailand and was used by workers to stay awake during their shifts, was called Krating Daeng or ‘Red Bull’.

Mateschitz approached the manufacturers of the drink and bought the foreign licensing rights in exchange for a 51% stake in his company.

When Mateschitz launched the drink in his native Austria, he decided to target young professionals, rather than factory workers, as this younger segment of the population was more affluent and more appreciative of a trendy marketing campaign.

The Austrian market has been the first to commercialize the blue and red can with its famous slogan “It gives you wings”. Today, Red bull company has a turnover of 3 billion euro a year which increased of 7, 9% in 2008. The

drink is present in 160 countries in the world and it's the third soda drunk in Europe just behind Pepsi and Coca.

Red Bull operates within the energy drinks sector of the soft drinks market. This product is an example of a 'functional' drink. Functional foods respond to consumer interest in well being and performance. The major multinational soft drinks companies are investing in the area of functional drinks, developing their own brands and buying up existing ones.

This is seen as being important, given that their traditional soft drinks markets are at the maturity stage in many countries. For these multinationals, new functional drinks offer opportunities for renewed business growth.

Nevertheless, the product was forbidden in some European countries because of the taurine effects and a high rate of caffeine with the European precaution law. But for a few years, mentality evolves and countries are more open-minded and could commercialise this product. In 2010, Red bull is present in 25 European countries but not yet in Denmark for health safety as the Canada.

This drink is supposed to give energy to the costumer thanks to a mixture of different ingredients (caffeine, guarana, taurine). The main target is the teenagers and young adults (16-35 years old). We can observe that, it would be pertinent to target teenagers in order to appeal more consumers of energy drink. This drink is sold four times more expensive than others drinks; today it's £ 1, 60. We can find this product in shops but also in nightclubs.

Red Bull has an aggressive international marketing campaign. The numerous sponsored activities range from extreme sports like windsurfing, snowboarding, skateboarding, kayaking, wake boarding, cliff diving, surfing, skating, freestyle motocross, rally, Formula 1 racing (World Champion 2010), and break dancing to art shows, music, and video games. In keeping with their target market of young males, Red Bull has also enlisted help from celebrities, such as Eminem that would appeal to this group (sponsoring the Red Bull “ Em See Battle Rap championships”).

#### Market Analysis – Demand Point of view

##### Qualitative aspect:

Red Bull consumers are essentially teenagers and young workers. This drink is often consumed in order to reach euphoric behaviors. In fact, this product is often drunk with alcohol. A lot of cans are sold in bars or nightclubs. The main characteristic of the Red Bull Energy Drink is its energetic effect and that is why some consumers, drink it for stays awake during the day or the night. Numerous supermarket or restaurants offer it to their clients.

##### Quantitative aspect

Red Bull promotes its brand to its future consumers. In fact, the company is trying to appeal 10-15 years old, which are the potential demand of the Red Bull Energy drink.

Teenagers and young adults consuming everywhere the product essentially illustrate the actual demand of Red Bull (nightclub, breakfast, coffees, bars)

and when they want. This demand raise year by year because this product attracts more and more young consumers.

It is a mass market (several million of buyers) and Red Bull energy drink's purchase is often.

The no-consumers relatives are adults, between 35 and 55 years old, which are not yet appealed by the product. Nevertheless, if the brand decides to target them, they will be able to change its target and its communication policy.

The no-consumers absolutes are mainly older people because they are not in the Red Bull target and the company couldn't find any interest in this segments. The unknown effects of the taurine don't urge them to consume it.

#### PORTER'S FIVE FORCES:

The " Five Forces" model, developed by Michael E. Porter, is the most commonly used theory in the marketing strategy in order to be aware of the competitiveness of a market. Thanks to five basic competitive forces, we can evaluate the competitive environment and guide the company strategy so that it takes advantage of its strengths in order to modify the structure.

#### Threat of new entrants:

This threat refers to the possibility that new competitors may erode the profits of established firms in the industry. For the last five years, the steadily raise of energy drink company on the market has encouraged the

venue of numerous new entrants. It could be SME who try to crack a niche market with its own network of distribution as “ Smoothies” or some “ Energy Drink”.

In this precise case, we can see that more the brand is powerful (brand image, distribution network, financial potential) more the threats of new entrants will be lower. Therefore, it creates a strong barrier of entry.

Nowadays, we can notice that only one company, with the criteria just enounced, could pretend to create a product or a brand enough powerful in order to attract a majority of consumers: Red Bull.

On the Energy drink market, several brands are already well known. It would be very difficult for firms to compete with Red Bull and its rivals. So the threat of new entrants is quite low.

Bargaining power of suppliers:

Suppliers can exert bargaining power by threatening to raise prices or reduce the quality of purchased goods. The suppliers of the Energy drink market sell production equipments but also fruit and ingredients necessary to the production of the drinks. We can find in general, independent producers and that is why they are in a difficult position to cope with central buying service. Moreover, today, they have to deal with an international competition on the quality plan and concerning the price.

Inequalities between countries and their producers could be highlighted with financial help granted or not. Legislation more or less strict on the production conditions gives legitimacy to the producers on the rivalry market. These one

are affected by the fluctuation of prices of raw material such sugar (which has recently reach its most important rate in 2006). If we imagine that the sugar rate would be too high, we can foresee the fact that the manufacturers replace sugar by substitution ingredients.

To sum up, the bargaining power of suppliers in this market is very limited.

Bargaining power of buyers:

Buyers threaten an industry by forcing down prices, bargaining for higher quality or more services and playing competitors against each other. In the Energy drink market, buyers are the distributors as hypermarket or supermarket, which represent the most important way of distribution. But the costumers are mainly the consumers; it means the students and young workers (16-35).

Threat of substitute products:

Substitutes limit the potential returns of an industry by placing a ceiling on the prices that firms in that industry can profitably charge. The products of substitution of functional beverages are the range of products that provide the same effects with a nutritional content more or less equivalent. Energy drinks are thus found in indirect competition with more traditional beverages such as coffee, juice or fresh fruit. Although the taste and consumption for this type of drink are significantly higher than those of energy drinks.