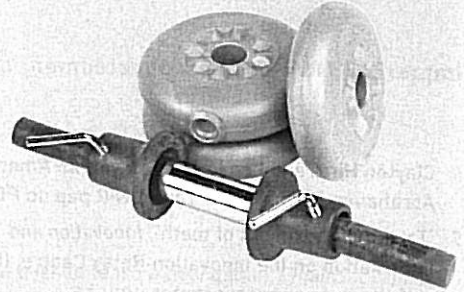


Concluding concepts 14

Red Bull: waking a new market



Stimulation

Little did Austrian businessman Dietrich Mateschitz suspect when he visited Bangkok in the early 1980s that his trip would launch not only a new product but also a new product category. Mateschitz, international marketing director for Blendax, a German toothpaste producer, encountered Krating Daeng, a 'tonic syrup' that Red Bull Beverage Company had been marketing in Thailand for years. Mateschitz discovered that one glass of the product eliminated his jetlag.

Returning to Austria, Mateschitz began a three-year product development process that included the drink's image, packaging and marketing strategy. In 1987, he obtained the marketing rights to Red Bull (the translated Thai name) from the Thai company and launched his marketing strategy.

Typical energy drinks, like Red Bull, contain about as much caffeine as a cup of coffee.

The product

Although marketers credit Red Bull with creating the 'energy drink' category, the pursuit of drinks to enhance performance and well-being is not new. Coca-Cola made similar claims in 1886 and Gatorade enhanced the performance of Florida University's Gators football team. In Britain, Lucozade helped pep up tired housewives in the 1980s and energise athletes in the 1990s.

Red Bull is a lightly carbonated energy drink that comes in slender aluminium cans. The label indicates that it has 110 calories, 0 grams of fat, 200 milligrams of sodium, 28 grams of carbohydrates, 27 grams of sugar, and less than 1 gram of protein. Ingredients include sucrose, glucose, sodium citrate, taurine, glucuronolactone, caffeine, inositol, niacinamide, calcium pantothenate, pyridoxine HCL, vitamin B₁₂, and artificial flavours and colours, all mixed in carbonated water.

Sounds delicious? Well, that is part of the problem. Each of an energy drink's ingredients has a specific purpose – but each also has its own taste, and in some cases an aftertaste. It's no easy matter to blend the ingredients to get the correct benefits for the consumer but also something the consumer will drink voluntarily.

Energy drinks sometimes include *amino acids* that are protein building blocks. Taurine, for example, is an important aid in the release of insulin and can prevent abnormal blood clotting. Because researchers have cited a deficiency of *vitamins and minerals* as being associated with

a lack of energy, beverage makers often include them in energy drinks. Niacin (vitamin B₃) works with other vitamins to metabolise carbohydrates. Riboflavin (vitamin B₂) helps combat anaemia and fatigue by helping to manufacture red blood cells.

Some drinks include *botanicals* such as ginkgo biloba, guarana and ginseng. Ginkgo biloba is purported to provide mental energy and 'sharpness' by stimulating blood flow to the brain. Finally, most energy drinks contain *caffeine*, an alkaloid stimulant that the body absorbs and circulates to all body tissues. Caffeine affects the central nervous system, the digestive tract, and the body's metabolism, boosting adrenaline levels to increase blood pressure and heart rate. Typical energy drinks, like Red Bull, contain about as much caffeine as a cup of coffee.

Packaging is also important. Some fruity energy beverages come in glass bottles, but many energy drinks that contain light-sensitive vitamins, like B₁₂, come in slender metal cans to prevent the vitamins from breaking down.

The marketing strategy

Mateschitz designed an unusual marketing strategy. 'We don't bring the product to the people', he argues, 'we bring people to the product.' Initially, when Red Bull entered the market, it used traditional beverage distributors. But as the product gained popularity, the company began to pursue a more focused distribution strategy. Red Bull sales representatives now approach a beverage distributor and insist that he or she sell only Red Bull and no other energy drink. If the distributor will not agree, Red Bull hires young people to load the product in vans and distribute it themselves.

The company divides the market into territories, with sales teams in each area responsible for developing distribution and targeted marketing plans. Each of the teams is equipped with a bespoke iPAQ pocket PC that they download to a Red Bull webpage using GPS-enabled mobile phones. The local team seeks to determine where people aged 16 to 29 are hanging out and what they find interesting. First, the sales team calls on popular clubs and bars that will offer the drink on-premise. As incentives, the team offers Red Bull coolers and other promotional items. Red Bull works with individual accounts rather than large chains because it has found that the process goes much faster due to the lack of bureaucracy. It has also found that young people in local hotspots are open to trying new things and help generate a

'buzz' about Red Bull. However, the company does not endorse all the new things people try, like mixing the product with vodka or tequila, and it has a FAQ section on its website, www.redbull.com, to counter the many rumours that have developed around the product.

Second, the sales team also opens off-premise accounts such as gyms, healthfood stores, and convenience stores near colleges. The product sells for about €2 in convenience stores. In addition, 'consumer educators' roam local streets and hand out free samples. The company has encouraged students to drive around with big Red Bull cans strapped to the tops of their cars and to throw Red Bull parties focused on weird themes.

Contrary to traditional promotion practice, Red Bull advertises only *after* it believes a local market is maturing. The company's philosophy is that media can reinforce but not introduce a brand. Thus, it builds demand even before it introduces the product at retail. Only about 19 per cent of the €100 million the brand spent on promotion in 2000 was for measured media. Red Bull spends about 35 per cent of sales on promotion. The company has also begun sponsoring extreme sporting events and extreme athletes.

Uncanny results

Does all this grassroots marketing work? In 2001, Red Bull sold 1.6 billion cans in 62 countries, up 80 per cent over 2000. In the United States, Red Bull entered the list of the top 10 carbonated beverage distributors with a mere 0.1 per cent market share – but its case volume grew 118 per cent over 2000 to 10.5 million cases. It now captures a 70 to 90 per cent share of the energy drink market.

With results like that, it did not take long for competitors to jump in. Pepsi bought South Beach Beverage Company (makers of the SoBe brand) and developed an energy drink it calls 'Adrenaline Rush'. Coca-Cola jumped in with KMX. Beermaker Anheuser-Busch joined in with a product it calls '180' to denote that it turns your energy around 180 degrees. In early 2000, another Thai company, Otsotspa, entered the fray with its own energy drink, called 'Shark'.

Mateschitz does not seem concerned about competition. He knows Red Bull has a tremendous head start and strong local marketing teams. He already has plans to enter Brazil and South Africa. However, Mateschitz does have a few concerns. 'It makes no sense to build a company on one product', he argues. So far, he has put the Red Bull brand on only one other product. LunAqua is a still water that the company claims it bottles only 13 times per year, during each full moon when the moon reaches

its full 'energy level'. There is also a variety of LunAqua that contains caffeine. But Mateschitz knows that it will take more than just moon power to stay ahead of the competition in the energy drink market. You can bet he will be up all night, sipping Red Bull and developing new product ideas.

Also, while his eye is on global expansion, trouble is brewing closer to home. France and Denmark have banned the drink. The European Commission challenged an attempt by France to ban Red Bull because of its high level of caffeine and other products. However, the European Court of Justice upheld France's right to ban the drink.

The drink had been implicated in the death of Ross Cooney, a healthy 18-year-old student from Limerick in Ireland. The inquest said the teenager died of Sudden Adult Death Syndrome, but called for an enquiry into high-caffeine energy drinks.

Britain's Committee on Toxicity investigated Red Bull in 2001 and found it safe, although it advised pregnant women against drinking it and other high-caffeine drinks. However, it looks like Ireland will soon be following Denmark and France in banning the product. Will others follow?

Questions

1. Based on the information in the case, evaluate Red Bull's product development process. What process would you recommend as it considers developing new products?
2. At what stage of the product life-cycle are energy drinks as a category? What does this position imply for category competitors?
3. Do you believe there is a long-term market for functional foods and beverages like energy drinks? Why or why not?
4. Using the 'product-market expansion grid' presented in Chapter 2 (see Figure 2.3), recommend specific ideas for Red Bull in the areas of market penetration, product development, and market development.

SOURCES: David Jago, 'Global trends: hitting the shelves', *Prepared Foods* (June 2002), p. 9; 'Selling energy face value', *The Economist* (11 May 2002); 'Sales of Red Bull beverage in United States grow to 10.5 million cases', *Knight-Ridder/Tribune Business News* (14 March 2002), from the *Bangkok Post*; 'Shark UK launch to challenge Red Bull's dominance', *Marketing* (28 February 2002), p. 6; Kenneth Hein, 'A bull's market', *Brandweek* (28 May 2001), p. 21; David Noonan, 'Red Bull's good buzz', *Newsweek* (14 May 2001), p. 39; Laura A. Brandt, 'Energizing elixirs!', *Prepared Foods* (April 2001), p. 55; Jeff Cioletti, 'Boosting beverages', *Supermarket Business* (15 January 2001), p. 31; 'Red Bull staff speed up the process via orange route', *Computing* (27 November 2003); Maxine Frith, 'European court backs ban on Red Bull over health concerns', *The Independent* (7 February 2004).