Part I: Analysis of Case 5

1. **What are the strategically relevant components of the global and U.S. beverage industry macro-environment? How do the economic characteristics of the alternative beverage segment of the industry differ from that of other beverage categories? Explain.**

Market size

The beverage market is a large market with the worldwide total market for beverages in 2009 was $**1,581.7** billion. The total sale of beverages during 2009 in the US was nearly **458.3** billion gallons; with **48.2** percent of industry sales was from carbonated soft drinks and **29.2** percent of bottle water industry sales. In 2009, the market segment of alternative beverage include sports drinks, flavored or enhanced water, and energy drinks made up 4.0 percent, 1.6 percent, and 1.2 percent of industry sales, respectively. The global market for alternative beverages in the same year was $**40.2** billion (12.7 billion liters), while the value of the U.S market for alternative beverages stood at $17 billion (4.2 billion liters). Meanwhile, in Asia-Pacific region, the market for alternative beverages in 2009 was $**12.7** billion (6.2 billion liters) and it was $9.1 billion (1.6 billion liters) in the European market.

Market growth

The dollar value of the global beverage industry had grown at a 2.6 percent annually between 2005 and 2009 and was forecasted to grow at a **2.3** percent between 2010 and 2014. However, this indicator for the alternative beverage industry was much higher. For example, the dollar value of the global market for alternative beverages grew at a 9.8 percent annually between 2005 and 2009, but was expected to slow down to 5.7 percent annually between 2010 and 2014. US is the country has strongest growth internationally in term of alternative beverage sales with an annual growth rate of 16.6 percent between 2005 and 2009 and a forecasted growth rate of 6.7 percent between 2010 and 2014; while Europe and Asia-Pacific grew at annual rates of 5.3 percent and 5.6 percent, respectively, between 2005 and 2009 and were expected to grow at a rate of 4.4 percent and 5.1 percent, respectively, between 2010 and 2014. However, poor economic conditions in the US in 2008 and 2009 led to a 12.3 percent decline in sports drink sales and a 12.5 percent decline in flavored and vitamin-enhanced waters sales. It was also the reason why energy drinks sales increased just a little of 0.2 percent between those years.

Segmentation

The global market for alternative beverages was divided by product type (sports drinks, energy drinks, vitamin-enhanced beverages, energy shots, and relaxation drinks) with different demands for each group. Sports drinks accounted for nearly 60 percent of alternative beverage sales in 2009, while vitamin-enhanced drinks and energy drinks got about 23 percent and 18 percent of 2009 alternative beverage sales, respectively, in the US.

Scope of rivalry

The worldwide competition between 3 major producers (PepsiCo, Coca-Cola and Red Bull) made the industry rivalry become global. However, there were hundreds of regional and specialty brands of alternative beverages brands that did not compete internationally.

2. **What is competition like in the alternative beverage industry? Which of the five competitive forces is strongest? Which is weakest? What competitive forces seem to have the greatest effect on industry attractiveness and the potential profitability of new entrants?**

The bargaining power and leverage of buyers was as a **considerable** competitive force Convenience store, grocery store, and wholesale club buyers had substantial leverage in negotiating pricing and slotting fees with alternative beverage producers because of their large purchases. New brands with low market shares were most vulnerable to buyer leverage since shelf space was limited while top brands such as Red Bull were almost always assured of shelf space. Coca-Cola and PepsiCo were least vulnerable since they offered a wide variety of beverages that convenience stores, grocery stores, and wholesale clubs wished to offer to consumers. As a result of this certain appeal, the two companies' alternative beverage brands almost always found shelf space in retail stores. Of all distributors, delis and restaurants had low switching costs from brand to brand, but had less ability to negotiate for deep pricing discounts because of volume limitations.

The bargaining power and leverage of suppliers was **the weakest** competitive force. Many suppliers for alternative beverage ingredients and they fight with the others to sell their products. Packaging is readily available from many suppliers and is commodity like. However, some rare ingredients providers had a moderate amount of leverage in negotiations with energy drink producers. Additionally, the producers of alternative beverages are important customers of suppliers and buy in large quantities.

Competition from substitutes is **substantial**. There were many substitutes to alternative beverages such as tea, soft drinks, fruit juices, bottled water and tap water. Even though substitute products had a bigger market share in the US, consumers had tent to buy more alternative beverages. This change in customer preference had weakened the competitive power of substitute beverages.

The threat of new brands varies by market maturity of each alternative beverage category. It has **low** threat for mature categories and moderate to strong in young categories. During the early stages of developing a category, when famous brand leaders hadn't been established, the threat of entry in alternative beverage categories remained strong. As an example, entrepreneurs launching new beverages with novel formulas or well-developed image campaigns could quickly gain market share among consumers lacking any established brand preference who were drawn to the new beverage category. However, as the category matured, consumer preferences developed and shaped retailers' purchasing decisions. Once the category had established its brand leaders, it became much more difficult for new entrants to gain shelf space in convenience stores, supermarkets, and wholesale clubs. Therefore, in 2010, the threat of entry should be lower for all types of alternative beverages except energy shots and relaxation drinks.

The competence among sellers of alternative beverage could be considered as **the strongest** competitive force. Among the sellers of energy drinks and other alternative beverages, competition is so strong and will grow stronger each years. Competition among major brands centers primarily on brand image, an appealing taste, attractive packaging, new product R&D, sales promotions and endorsements, and gaining better access to shelf space and strengthening distribution capabilities. As for 2010, there was no evidence of strong price competition in any of the alternative beverage categories, which makes it difficult to argue that competitive rivalry is fierce or brutal.

Factors that increase the strength of competitive rivalry included efforts on the part of industry rivals to expand the number and types of alternative beverages in their product lines, low switching costs on the part of consumers, active and aggressive efforts on the part of sellers to establish consumer brand loyalty, and strong emphasis on advertising, sales promotions, and endorsements.

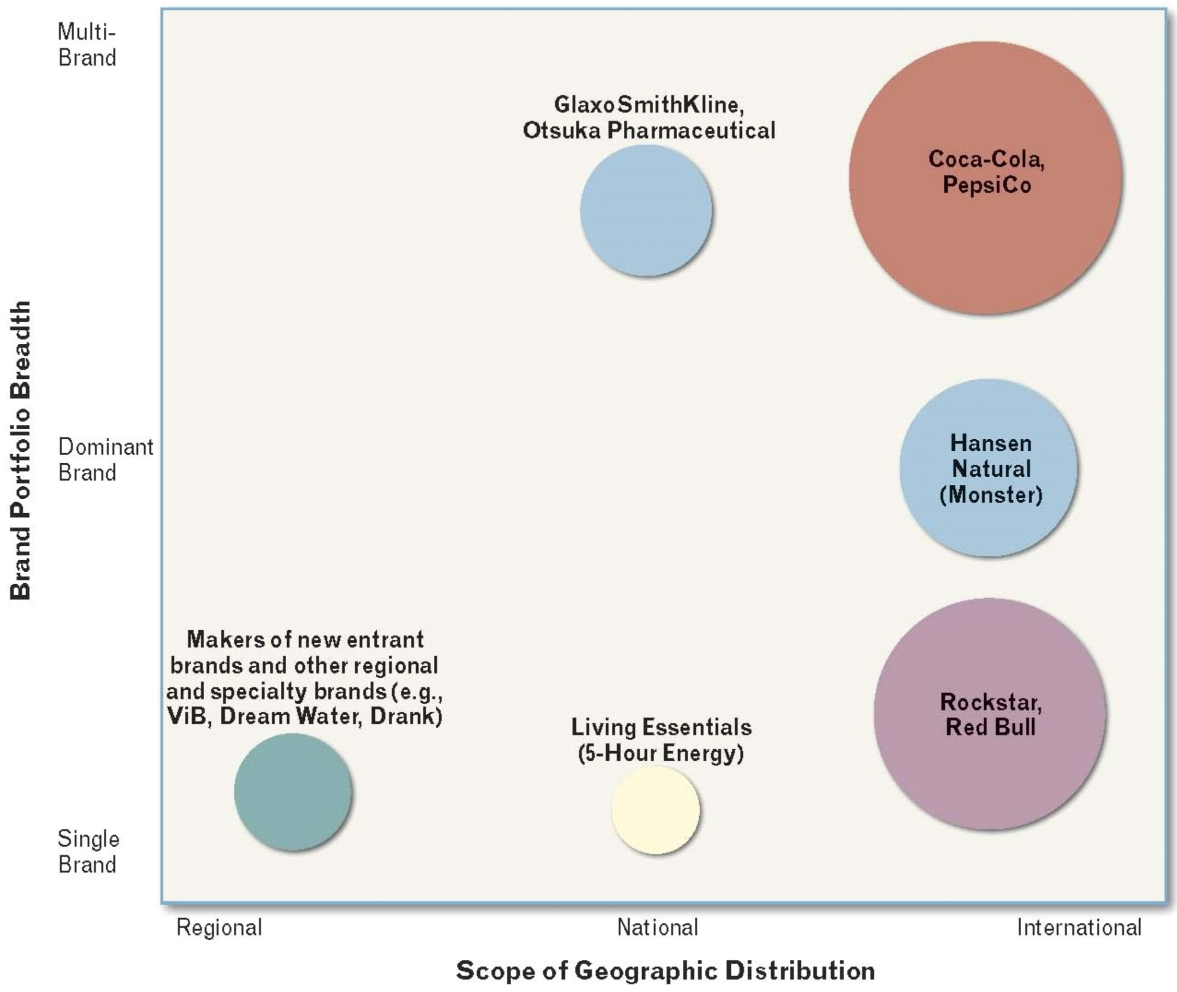
3. **How the market for energy drinks, sports drinks and vitamin-enhanced beverages changed? What are the underlying drivers of change and how might those forces individually or collectively make the industry more or less attractive?**

Driving forces of the alternative beverage industry include the change in the long-term growth rate, industry consolidation and product innovation. In term of long-term growth rate, while the effects of poor economic conditions began in late-2007 had a strong negative effect on sales of sports drinks and flavored or enhanced water and grew in the energy drinks market, there was also growing market maturity for most categories of alternative beverages. The annual rate of growth for the dollar value of the global market for alternative beverages was forecasted to decline from the 9.8 percent annual rate occurring between 2005 and 2009 to an anticipated annual rate of 5.7 percent for 2010 through 2014. While dollar value growth rates were expected to decline only slightly in Europe and Asia-Pacific, the annual rate of growth in the U.S. was projected to decline from 16.6 percent during 2005 – 2009 to 6.7 percent between 2010 and 2014.

The second forces, segments within the alternative beverage industry have consolidated as markets have matured and leaders have been established. For example, while Red Bull GmbH and Hansen Natural Corporation remained independent in 2010, Coca-Cola controlled such brands as PowerAde sports drink, Fuze vitamin-enhanced beverages, glacéau vitamin-water, and NOS, Full Throttle, Rehab, Vault, and TaB energy drink brands. In addition, Coca-Cola distributed Hansen's Monster energy drink in parts of the United States, Canada, and six European countries.

Products innovation is a constant force as the alternative beverage industry is continuing to create new ideas that give rise to new beverage industry categories and niches. As an example, the recent introduction of energy shots has given rise to an altogether new sub-segment in the industry. It was undetermined in 2010 if the relaxation drink sub-segment would thrive or prove to be a short-lived fad.

Drivers of change are unlikely to dramatically alter the attractiveness of the alternative beverage industry in the next 3-5 years. Even with a slowing economy, there is no indication that the larger producers such as Red Bull GmbH, Coca-Cola, or PepsiCo are prepared to compete aggressively on price for volume and market share gains. It is more likely that these larger producers will rely on product innovations and acquisitions to increase sales and market shares. However, the individual and collective effect of industry drivers of change are likely to make the industry less attractive for lesser-known independent brands unless such companies gain a first mover advantage in the development of a new beverage category.



4. What does your strategic group map of the energy drink, sports drink, and vitamin-enhanced beverage industry look like? Which strategic groups do you think are in the best positions? The worst positions?

The strategic group maps show the industry participants competing in scope of geographic distribution and brand portfolio flavor. It shows that beverage producers competing internationally with broad brand portfolios are positioned most favorably in the industry. However, Red Bull GmbH has successful marketing a brand in Europe and the Americas while Hansen Natural is technically a multi-brand producer. It should be considered a dominant brand company since Monster energy drinks account for 90 percent of its sales. Hansen's success is part of result of its distribution agreements with Anheurser-Busch and Coca-Cola which give it broad retail that cover across the U.S. and parts of Europe. Similarly, Rockstar Inc.'s success is heavily dependent on distribution by PepsiCo. Companies with a single brand and regional or national distribution only (e.g., Living Essentials, Vacation in a Bottle (ViB), Dream Water, or Drank) seem to be positioned most poorly in the industry. The current level of competition makes it doubtful that small regional producers will survive over the long-term unless acquired by a large international bottler.

5. What key factors determine the success of alternative beverage producers?

There are four factors that are necessary for competitive success in the alternative beverage industry. The first one is access to distribution, which is regarded as the most important industry success factor due to the fact that most brands of energy drinks/alternative beverages cannot achieve good sales volumes and market shares unless they are widely available in stores, and there are also far too many brands for all to be included on store shelves. Popular brands that enjoyed first mover advantages such as Red Bull and 5-Hour Energy and brands offered by Coca-Cola and PepsiCo were assured of consistent access to distribution. The second factor is innovating product skills. By definition, alternative beverages were different from traditional beverages based upon product innovation. Moreover, continuing product innovations were essential to developing additional volume gains from line extensions and the entry into new categories like energy shots. The third one is image, which was also a critical factor in choosing a brand of customers. The image presented by the product's name and emphasized in advertisements, endorsements, and promotions created demand for one brand over another. Brand image was also a result of labels and packaging that alternative beverage consumer found appealing. Small producers with poor image building capabilities found it difficult to compete in the industry unless the product enjoyed a first-mover advantage similar to that achieved by 5-Hour Energy. Finally, sufficient sales volume to achieve scale economies in marketing expenditures is also an important driver. Successful alternative beverage producers were required to have sufficient sales volumes to keep marketing expenses at an acceptable cost per unit basis.

6. What recommendations would you make to Coca-Cola to improve its competitiveness in the global alternative beverage industry? to PepsiCo? to Red Bull GmbH?

Coca-Cola has a slower growth rate compare to others competitors. While the market share of Hansen Natural Corporation's Monster energy drink brand has grown from 15 percent in 2006 to 27 percent in 2009 because of its distribution agreement with Coca-Cola, the sales of Coke's own brands of energy drinks have been lackluster. NOS's market share has increased from 2 percent to 4 percent between 2007 and 2009; while Full Throttle's market share had declined from 7 percent in

2006 to 2 percent in 2009. In addition, the sales of Coca-Cola's NOS Energy Shot amounted to only $11.8 million in 2009 and had declined by 10.4 percent from 2008. In addition, the combined sales of PowerAde, Full Throttle, NOS, Rehab, TaB, and Vault energy drinks; glacéau vitamin-water; and Fuze vitamin-enhanced drink fell just short of the sales of Red Bull energy drinks.

While it may be unrealistic for Coca-Cola to seriously challenge Gatorade in the mature U.S. market for sports drinks, the company should boost its product innovations and image building efforts to regain lost market share in energy drinks and capture more rapid growth in vitamin-enhanced beverages and energy shots. Coca-Cola should pursue the acquisition of Living Essentials' 5-Hour Energy or at least enter into a distribution agreement with the company that would be patterned after its agreement with Hansen Natural Corporation.

Anyway, Coca-Cola should focus on building upon its strength in alternative beverage sales in Asia and acting quickly to resolve its lack of competitiveness in the European market for alternative beverages. Combination of new flavors and formulations, brands, line extensions, improving company's image, and distribution capabilities are needed to increase sales of alternative beverages internationally.

In the other hand, PepsiCo gains number-one rankings for worldwide, U.S. and European sales of alternative beverages. The company was also a close runner-up in the Asia-Pacific market for alternative beverages in 2009. Also, Gatorade held a commanding 75 percent share in the $1.57 billion sports drink market and Propel and SoBe Lifewater were other best-selling alternative beverage brands. In addition, its distribution agreement with Rockstar, Inc. allowed it to offer the number-three brand of energy drink sold in the United States

However, PepsiCo's strategy in the energy drink category of the alternative beverage industry outside of its distribution agreement with Rockstar, Inc. is questionable. Amp's market share in the energy drink category has declined from 4 percent in 2006 to 3 percent in 2009 after rising briefly in 2007 and 2008. Also, the company's DoubleShot energy drinks do not seem to be gaining any purchase in the marketplace with a 3 percent market share in 2009. The company also did not offer energy shot beverage in 2010 and it was unclear who well its new brands (Charge, Rebuild, Defend, and Bloodshot) would perform in the marketplace. The company has to launch a major image building campaign for whichever of its energy drink brands show the most promise. Students should also recommend that the company develop its own energy shot brand or encourage Rockstar to add an energy shot to its distribution agreement with the company.

Even though PepsiCo has great position in European and Asia-Pacific alternative beverage market, this success comes more from the performance of Gatorade and SoBe since none of its energy drink brands appear to have any popularity outside the U.S. and its distribution agreement with Rockstar, Inc. is for the U.S. and Canada only. We would recommend that the company negotiate for the European and Asia-Pacific distribution rights to Rockstar or launch its most promising energy drink brands in attractive international markets. As Europe, Australia, South America and the Middle East were attractive markets for energy drink, they might also be attractive markets for PepsiCo to pursue when seeking growth in international sales of energy drinks.

Red Bull had an impressive performance with the worldwide number-one ranking in the market for energy drinks, which made it the third-largest producer of alternative beverages worldwide and the number two seller of alternative beverages in the U.S. and Europe. The company had the right strategy to have broad image building campaign that included wide-ranging sports team sponsorships, music event sponsorships, advertising, promotions, and its signature Flugtag events. To keep these competitive advantage, Red Bull GmbH should emphasize its need to improve the performance of its recently introduced energy shots and continued expansion into rapidly growing country markets for energy drinks. It is necessary for the company to maintain its lead in the U.S. and European energy drink market with additional product line extensions based upon product innovation. Finally, they should develop sports drinks or vitamin-enhanced beverages that can further exploit the appeal of the Red Bull brand.

Part II: Executive Summary

Alternative beverages industries were booming during the mid-2000s. Alternative beverage becomes an important part of beverage companies' lineup of brands as a result of rapidly growth along with premium price and high profit margins. However, the premium-priced alternative beverage market was heavily affected by the economic crisis in the US. While sales of these products deducted, beverage producers had made various attempts to increasing the market size for alternative beverages by extending exist product lines and developing new one. Some others also moved to capture demand for new relaxation drinks. Beverage producers even have to face with the criticism that their products contain health risks for consumers and therefore many strategies to promote their products become reckless behavior. But the most primary concern of many beverage companies was how to improve their competitive standing in the marketplace to the best. The global beverage industry was forecasted to grow from 2009 to 2014 by $0.2 trillion as beverage producers entered new geographic markets, developed new products and create demand for popular drinks. The alternatives beverage became important segments within the industry in 2010.

- **Distributions**

Consumers can buy most alternative beverages brands in supermarkets, supercenters, stores, wholesale clubs, and convenience stores. While Coca-Cola and PepsiCo were able to encourage their customers to purchase items across its product line, some smaller producers even typically used third parties to sale and deliver products to the distribution channels.

- **Suppliers**

The suppliers for the alternative beverage industry are the makers of nutritive and non-nutritive ingredients. Suppliers to the industry also included the manufacturers of cans, bottle, printers and packaging suppliers.

- **Key competitive capabilities**

Alternative beverages compete was different from traditional drinks. While energy drinks brands try to develop brand loyalty, alternative beverage sellers try their best to have efficient distribution systems by maximizing the number of deliveries per driver, offering on-time deliveries and responsive customer services; along with keeping marketing expense at acceptable level.

- **Recent trends**

Alternative beverage producers were optimistic in prospecting the industry. Worldwide demand was expected to grow as consumer purchase power increased. Producers also expect to support premium pricing and increasing volume because of innovation in brands, flavors, and formulations. The emergence of two-ounce energy is an important growth category in the industry. There are even some individuals try to mix alcohol with energy drinks.

Some leading alternative beverage producers

- **Pepsico:**

Pepsico became the world’s fourth-largest food and beverages producing company in 2010. Pepsico also became the largest seller of beverage in the US by leading most of alternative beverage categories. Pepsico’s global market share in 2009 was 26.5 percent, overcome by 11.5 percent to Coca-Cola.

- **Coca-cola:**

Coca-cola was leading the world in terms of manufacturing, marketing, and distributing of nonalcoholic beverage concentrates, and also known as the world's most valuable brand. It has vast global distribution system and also can gain distribution for new beverages. Coca-cola was the third-largest seller of alternative beverage and in the top five best-selling nonalcoholic beverages worldwide in 2009.

- **Red Bull Gmbh**

Red bull is the world's number one seller of energy drinks, which made it the third-largest producer of alternative beverages worldwide and became the number two sellers of alternative beverages in the US and Europe. In 2010, Red bull sponsored athletes and sports teams, and a number of music events all over the world during its series of promotion campaign.

- **Hansen Natural Corporation**

Hansen Natural Corporation had developed and introduced many alternative beverages. Along with commons products, the company also produces Hansen's natural juices and iced tea. Hansen imitated Red Bull's image-building and marketing approaches.
The relative strengths of producers in the beverage industry attract many additional entrants during the next several years.

Recommendation for each company:

Coca cola should improve its product by innovating and building up good image to recapture the market share it lost in energy drinks category. Coca cola should also try to create more rapid growth in vitamin-enhanced beverages and energy shots product. Also it should build up its strength in term of alternative beverage sales in Asia and react quickly to solve the problem of lacking competitiveness in the European market for alternative beverages. Coca cola can use a combination of new flavors and formulations, brands, line extensions, improved image building, and distribution capabilities to increase sales of alternative beverages internationally.

Pepsico have to launch a major image building campaign for the most promise product it have. Pepsico also needs to develop its own energy shot brand try to convince Rockstar to add an energy shot to its distribution agreement. In addition, Pepsi should negotiate for distribution rights to European and Asia-Pacific market with Rockstar or launch its energy drink brands in attractive international markets.

Red Bull GmbH should improve the performance of its recently introduced energy shots and continue to expand into rapidly growing country markets for energy drinks. It is necessary for the company to maintain its lead in the U.S. and European energy drink market with additional product line extensions based upon product innovation. Also, it should develop sports drinks or vitamin-enhanced beverages that can further exploit the appeal of the Red Bull brand.