



Red Bull or Black Devil?

Case study
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This case was written by Professor Michel Phan, ESSEC Business School. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources and generalised experience.

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Red Bull or Black Devil?



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Twenty-one years ago, in 1987, Dietrich Mateschitz, an Austrian entrepreneur, launched a small business in Austria with one product that would consequently revolutionize the beverage industry. Red Bull was born and has created a new soft drink category: energy drinks. It quickly became the market dominator around the world in its category. Sold mostly in bars, nightclubs, sporting events, supermarkets and convenience stores, the beverage embodies that which is unique, stylish and mysterious. Targeting masses of young consumers around the globe, Red Bull successfully implemented highly adapted marketing strategies to appeal to the same target market throughout the world. However, despite this immediate success, there was much controversy surrounding its consumption which had resulted in its ban in many countries, namely Norway, Denmark, Uruguay (Reuters, 14 August 2008). France has only authorised its sale since May 2008.

A Bull's Market

Red Bull is a yellow carbonated beverage that technically qualifies as an energy drink. It has been described by critics as “cough syrup,”¹ “tinny and medicinal,”² and subsequently is known for its sweet flavor. Moreover, it is widely known for the caffeine-energy boost that it provides. Its main ingredients are: water, sugar, taurine, glucuronolactone, vitamins B12, niacin, inositol and caffeine.³ Taurine is an amino-acid found in meat, fish and humans. Glucuronolactone is a carbohydrate produced by the body, and is said to increase metabolic rate. Caffeine is a natural stimulant found in other common beverages, such as coffee and tea.⁴ Red Bull is said to contain 80 milligrams of caffeine, similar to a cup of coffee.⁵ In terms of sugar, Red Bull contains the same amount of sugar as a can of soda. It is packaged in an 8.3 fluid-ounce blue and silver colored can. The “slim” design of the packaging sets this energy drink apart from other beverage categories. In the United States, the usual 12-ounce soda can looks outdated and unsophisticated in comparison. Featured on the face of the can are two bulls with interlocked horns, a most imposing image. The sleek silver can is the “anti-Pepsi” statement. Although the can is smaller, it implies a “concentrated experience.”⁶

Red Bull targets extreme sports athletes, young socialites and students in college. Its growing popularity in bars and nightclubs has created a trend for mixing it with alcohol. The company denies that this is a marketing tactic, and insists that they target people who need energy. Despite common concerns that the beverage may be associated with health risks, especially when used as an alcoholic mixer, Red Bull promises that it “revitalizes body and mind...improves performance...increases endurance...improves concentration and increases reaction time.”⁷ Red Bull's savvy distribution strategy truly sets it apart from other beverages in its category. Initially, upon US entry, they had relied upon established distributors such as Coca-Cola and Pepsi for their distribution channels. Today, Red Bull has small distributors who work solely with their product. Local “consumer educators” are hired to promote and distribute the product to new consumers within that area.⁸

European Origin

In the early 1980's, Dietrich Mateschitz was intrigued by the syrups consumed by business executives in Asia to gain additional energy and decided to work with a Bangkok based pharmaceutical company to create his own energy drink. This concoction, called "Red Bull Krateng Dang" was sold in Asia. In 1984, Mateschitz set up a company in Austria to introduce his energy drink to the European market. In 1987, after Mateschitz refined the product to be less syrupy and added carbonation, he then launched Red Bull in Austria. By 1993, Red Bull was selling more than 35 million cans a year and Mateschitz decided to introduce the product into Germany, the Netherlands, Switzerland, and the UK in 1994. In 1995 the product was brought into Eastern European countries. Red Bull continued to expand into Australia and Brazil and by 1997 Red Bull charged into the United States market.⁹ By August 2002, Red Bull controlled 70% of the fast growing energy drink category, selling 1 billion cans and bottles the previous year, up from 100 million in 1997.¹⁰ By 2007, Red Bull has sold 3.5 billions of cans in 143 countries¹¹ with a total sales turnover of US\$ 4.2 Billion, twice the sales of 2004. An international presence in over so many countries qualified Red Bull as a global player. However, this edgy energy tonic found itself in the midst of controversy and negative publicity. For instance, in Sweden (and previously in Japan) the drink could only be sold in pharmacies.¹² The product was considered as a medicine, and therefore classified as a drug. Sweden's National Food Administration adopted this policy following the incident of a young woman who had consumed the product with alcohol and suffered from dehydration resulting in death; two other deaths tied to Red Bull were under investigation in Sweden. A death was linked to Red Bull in Hong Kong, where a British man mixed it with a pitcher of vodka and died. Greek health officials issued a warning to avoid mixing Red Bull with alcohol, and in conjunction with exercise. "Just one can of the popular energy drink red Bull can increase your risk of heart attack or stroke and the effect was seen even in young people. The caffeine-loaded beverage causes blood to become sticky, a pre-cursor to cardiovascular problems such as stroke."¹³ Spokespeople for Red Bull have responded by asserting that the company does not promote mixing the product with alcohol; however Austria and Australia are among the few countries where warning labels on the product exist. Labels on cans

sold in Austria warn that unsuitable levels of caffeine make the product inappropriate for children. In Australia, Red Bull cans require the health warning, "This food is not recommended for children, pregnant or lactating women and individuals sensitive to caffeine".¹⁴

Red Bull Global Consumer Profile

Red Bull generally caters to the same group of consumers globally. Red Bull's primary consumers fit into the age bracket of 16-29 years.¹⁵ This age demographic lends itself to the youthful, energetic image that the company portrays through its sales force and its brand meaning. To maintain a steady flow of new consumers, they set an aggressive goal of getting a "new generation of 16-year-olds on board every year."¹⁶ Although the youth market does not usually have as much disposable income as older generations, the Red Bull consumer is not price-sensitive. The value of the Red Bull brand name justifies the higher price. There are many different "needs" that the beverage can fulfil, but these all relate back to the simple need for energy. Socialization needs cater to a certain "in-crowd"; a group of young consumers, possibly of college age or older, who utilize the beverage for its trendy appearance and mysterious reputation. A college student was quoted as saying, "It's really a kind of fashionable drink. You see the fashionable sorority girls buying their can of Red Bull... It's like, 'Look, I can afford to pay \$3 for this ridiculous drink.'"¹⁷ These individuals consume the product most often in bars or nightclubs, where it is often mixed with alcohol for a more desirable effect.

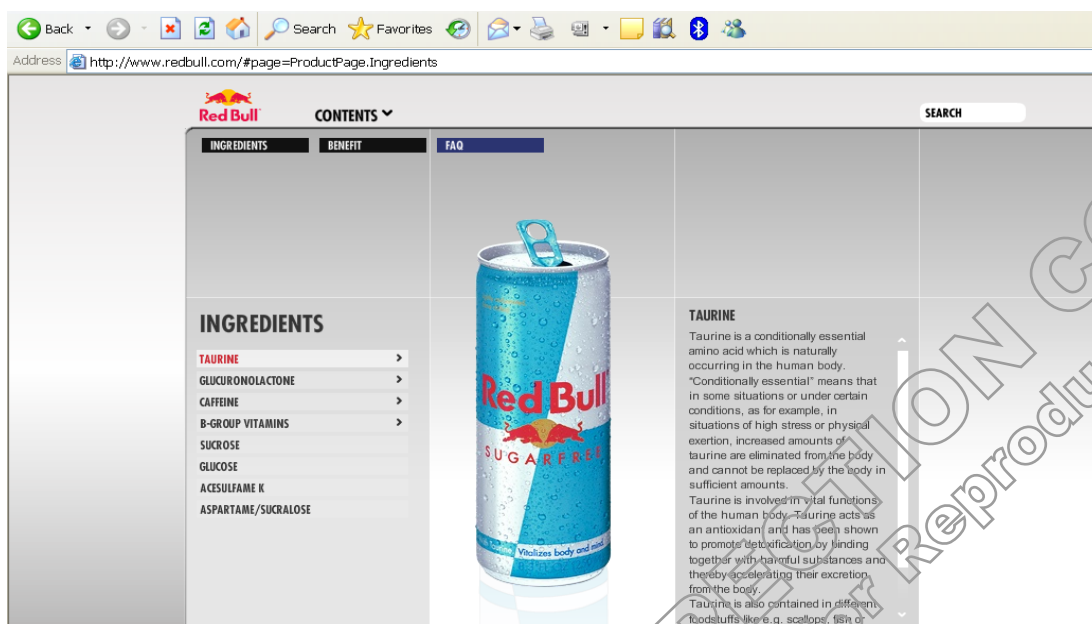
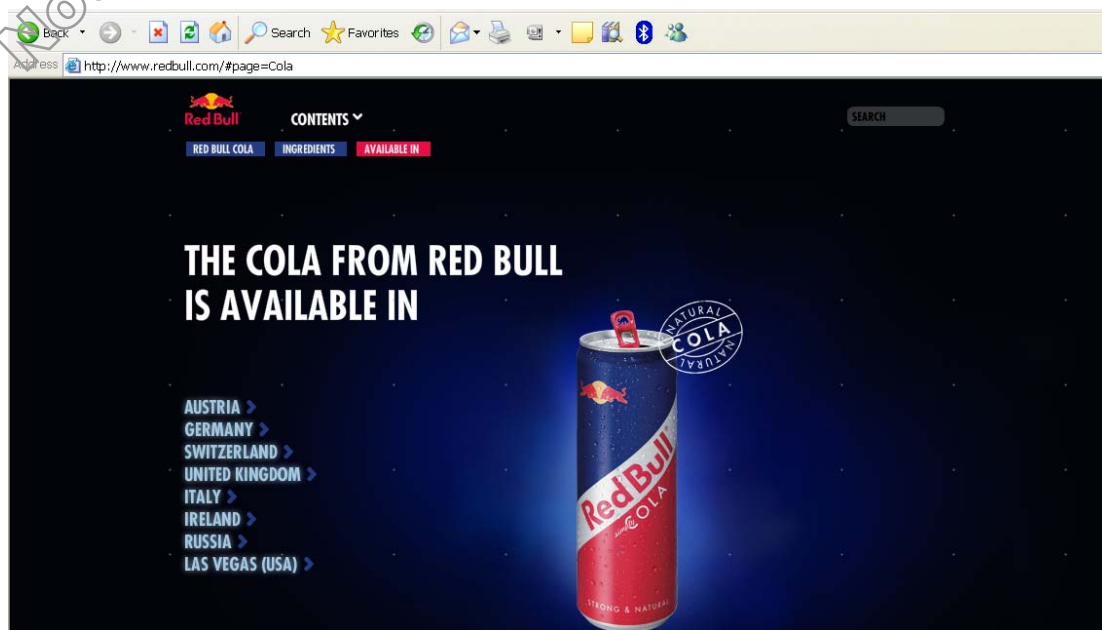
Extreme athletes are another targeted group within the age cohort. Their consumption relates to the actual need for energy during high-endurance exercise and activity. The psychological effect of participating in risky alternative sports activities, such as snowboarding, cliff-diving, car-racing and street luge, makes this consumer ideally suited to the product itself. The energy boost, combined with the "health risks" associated with mass-consumption of high-caffeine and sugary beverages truly fit the reputation of the young extreme athlete who is willing to take risks. Sponsoring promotional events that these athletes can identify with is a smart means of communication. Some events include: Red Bull Air race game in Porto, Formula 1

motor racing with Sebastian Vettel and Sebastien Bourdais as the car drivers, Red Bull X fighters (motorbike racing), NASCAR race in the USA, and Red Bull X-Alps (paragliding competition) to name a few.¹⁸ Similarly, Red Bull has a universal appeal to the DJs and “raver” dancers who are known to dance all night long in discos and clubs. The energy required to stay up all night makes this group of young music fans ideal consumers to use Red Bull. Red Bull Music Academy was founded as a global forum where aspiring club DJs could meet to discuss skills and music. At these sports and music venues, Red Bull cleverly places their product in the hands of many potential new customers, but does not directly promote it. The goal is to create brand awareness among new consumers that fit their target markets without obvious sales tactics. The goal is to create brand awareness globally.

Distribution Tactics

When Red Bull was launched in the USA in 1997, the company divided the country into eight decentralized sales-units and expanded on a city-by-city basis. Red Bull did not use mass marketing but instead each of the eight units was responsible for creating distribution channels, making sales calls, and developing targeted marketing plans.¹⁹ Red Bull’s differentiated global strategy utilizes a sales force that caters specifically to each target market in each area. Red Bull hires “hip locals” who drive around in Red Bull logoed cars offering free samples and promoting the product in popular venues. This dedicated sales force finds the trendy “hot spots” in each particular market and through high-end promotions can put their product into the hands of their target market. The plan of expansion into new markets was unique to Red Bull. When Red Bull enters a new market, they scout out accounts at popular venues frequented by the target market. Red Bull then picks only five venues to introduce their product. At this point, Red Bull develops consumer education teams. For example, on college campuses, Red Bull employs student brand managers who are responsible for getting the product into the hands of their peers. These students are essentially brand extensions of Red Bull’s ambassadors; they embody the ideal Red Bull consumer. In addition, Red Bull finds small distributors who will dedicate themselves to the product and deliver it in Red Bull-branded vans. Red Bull requires distributors who carry other

products to employ a separate sales force to handle their drink.²⁰ Red Bull's hard work in establishing distribution channels independent of larger brands, for example Coke and Pepsi, is rewarded in the loyalty achieved from the distributors who represent their product exclusively. Red Bull as a company is truly self-sufficient. It is one product, with one united driven sales force, represented by distributors who only handle their account, and engage in purely secretive marketing strategies. To compete with Coca-Cola and Pepsi while keeping up with changes in consumer's preferences, Red Bull launched its own cola version in a limited number of countries and a sugar free version²¹:



Red Bull continues to dominate the energy drink market in the USA and throughout the world. Despite the negative publicity surrounding this product, many young people are still consuming Red Bull in mass quantities without paying any attention to its potential harm and it is surprising that consumers do not demand more information about post-consumption effects prior to purchase. What exactly are the health risks (or benefits) associated with mass consumption? Certainly this has been a market success, especially in the USA, but regulatory obstacles could hinder future growth as more information is obtained (if possible).

Presumed Innocent—Ethical Questions

“Ross Cooney, 18, was a healthy basketball player, but died in 2000 just hours after drinking Red Bull. The student from Limerick, Ireland, died after sharing four cans of the drink with friends before a basketball game. At his inquest, the coroner called officials from the Austrian-based company to give evidence about their product. They said that no adverse effects had been proven in connection with the drink. The inquest jury later ruled that the teenager had died as a result of Sudden Adult Death Syndrome, but called for an inquiry into high-caffeine energy drinks.”²²

Energy drinks have exploded into the global market. Their unique characteristic makes them difficult to classify between foods and dietary supplements. Red Bull has managed to fall through the regulatory cracks in many of its international markets and has taken this to its advantage. In the United States, for example, the FDA did not issue any warning for Red Bull despite suspicious correlations between deaths and injury related to the drink. According to the FDA, average amounts of ingredients are used, enabling Red Bull to be classified under the food category.²³ Additionally, research has not been conducted to prove health risks associated with Red Bull.²⁴ The lack of cohesive information about the long-term effects for teenagers and adolescents raises some ethical questions with regard to targeting young consumers. Red Bull avoids using ephedrine and guarana, which are potentially hazardous ingredients in competitor drinks and instead uses products with FDA approval such as caffeine and taurine.²⁵ Consumers of the product are encouraged by the FDA and Red Bull officials to exercise “common sense” and not to misuse the product. Several health experts in the United

States and abroad believe there are potential harmful effects from Red Bull consumption, especially when mixed with alcohol. Medical experts claim that alcohol is a depressant, which affects the nervous system, while caffeine (coupled with other ingredients) is a stimulant. The combined effect can lead to heart failure.²⁶ Alcohol poisoning and dehydration are other concerns because Red Bull masks feelings of drunkenness and drowsiness with alertness. Consumers may use an excessive amount without realizing their intoxication. Lynn Willis, professor of pharmacology and toxicology at Indiana University School of Medicine, described energy drinks as “drugs sold as food.”²⁷ Beyond the United States, in 2000, the Irish government requested further research into Red Bull following Ross Cooney’s death.²⁸ The British Dietetic Association responded by increasing research efforts to raise awareness. The European Union is supposed to investigate the issue as well, responding to several deaths linked to the drink in Sweden. Compared to the size of the market, the phenomena of injury and death are extremely rare.²⁹ Despite its success, Red Bull’s long-term effects are still unknown. The potential market success is tarnished by some basic ethical questions that have yet to be answered. Is Red Bull really concerned about the health of its consumers? Is it similar to the tobacco industry in the United States: marketing a product it knows is detrimental to the health of the young cohort it targets? Where is the line drawn between successful marketing strategies and corporate social responsibility? Red Bull’s vague responses to these issues, either on their web site or in interviews, do not shed any light. Should Red Bull be subjected to stricter regulations? Will they continue to dominate the market with a potentially hazardous product expanding their market share infinitely? Only time will tell if Red Bull market savvy strategies can withstand the threat of regulations and investigations around the globe.

Discussion Questions

1. Discuss the advantages and disadvantages of Red Bull’s distribution and targeting strategy in the United States.
2. How could Red Bull have effectively and actively dealt with the rumors of health risks and deaths associated with the drink?

3. What other target markets Red Bull may have neglected? What are the potential of those “untapped” markets?
4. Should (or should not) Red Bull be concerned by Corporate Social Responsibility (CSR) issues? Given the unknown information regarding its safety, is it moral to give free samples to young consumers?

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