Case

Dr Pepper Snapple Group, Inc.

Energy Beverages

In early September 2007, Andrew Barker emerged from a lengthy discussion on the energy beverage market in the United States. As a brand manager for Snapple beverages at the Dr Pepper Snapple Group, Inc., he was charged with assessing whether or not a profitable market opportunity existed for a new energy beverage brand to be produced, marketed, and distributed by the company in 2008. Dr Pepper Snapple Group, Inc. was the only major domestic nonalcoholic beverage company in the United States without a significant branded energy drink of its own.

Energy beverages are broadly defined as drinks that provide a consumer with a boost of energy. The central ingredient in most energy beverages is caffeine derived from the guarana bean. Other common ingredients include taurine, ginseng, carnitine, and B vitamins. Energy drinks are considered functional beverages. Other functional beverages include sports drinks, ready-to-drink tea, enhanced fruit drinks, soy beverages, and enhanced water.

The decision to explore a new energy beverage was made by senior company management as part of a corporate business strategy to focus on opportunities in high-growth and high-margin beverage businesses. As part of this strategy, Dr Pepper Snapple Group, Inc. launched the Accelerade RTD brand, a ready-to-drink sports drink, in late May 2007. Barker believed that the decision to introduce the Accelerade RTD brand into a new beverage market for the company (sports drinks) was similar to the situation he faced with recommending whether or not Dr Pepper Snapple Group, Inc. should introduce a new branded product into the energy beverage market.

The cooperation of Dr Pepper Snapple Group, Inc. in the preparation of this case is gratefully acknowledged. This case was prepared by Professor Roger A. Kerin, of the Cox School of Business, Southern Methodist University, as a basis for class discussion and is not designed to illustrate effective or ineffective handling of an administrative situation. Certain case information is disguised and not useful for research purposes. All financial, market, and other information is through 2007, unless otherwise noted. Brand names of Dr Pepper Snapple Group, Inc. are registered trademarks and used with permission. Copyright © 2009 by Roger A. Kerin. No part of this case may be reproduced without written permission of the copyright holder.

DR PEPPER SNAPPLE GROUP, INC.

Dr Pepper Snapple Group, Inc. is a major integrated brand owner, bottler, and distributor of nonalcoholic beverages in the United States, Mexico, and Canada. In 2007, the company posted net sales of $5.748 billion. Eighty-nine percent of company net sales were generated in the United States, 4 percent in Canada, and 7 percent in Mexico and the Caribbean.

Scope of Company Operations

In the United States and Canada, Dr Pepper Snapple Group, Inc. participated primarily in the flavored carbonated soft drink (CSD) market segment. The company's key brands are Dr Pepper, 7UP, Sunkist, A&W, and Canada Dry. The company also sells regional and smaller niche brands. In the CSD market segment, the company is primarily a manufacturer of beverage concentrates and fountain syrups. Beverage concentrates are highly concentrated proprietary flavors used to make syrup or finished beverages. The company manufactures beverage concentrates that are used by its own bottling operations as well as sold to third-party bottling companies. Dr Pepper Snapple Group, Inc. had an 18.8 percent share of the U.S. CSD market segment in 2007 (measured by retail sales), which increased from 18.5 percent in 2006 according to ACNielsen. The company also manufactures fountain syrup that is sold to the foodservice industry directly, through bottlers or through third parties.

In the non-CSD market segment in the United States, Dr Pepper Snapple Group, Inc. participated primarily in the ready-to-drink tea, juice, juice drinks, and mixer categories. The company's key non-CSD brands are Snapple, Mott's, Hawaiian Punch, and Clamato, in addition to regional and smaller niche brands. The company manufactures most of the non-CSDs as ready-to-drink beverages and distributes them through its own distribution network and through third parties or direct to customers' warehouses. In addition to non-CSD beverages, the company manufactures Mott's apple sauce as a finished product. Exhibit 1 displays representative company-owned brands in the United States.

EXHIBIT 1 **Representative Dr Pepper Snapple Group, Inc. Beverage Brands**

Source: Courtesy of Dr Pepper Snapple Group, Inc.

In Mexico and the Caribbean, Dr Pepper Snapple Group, Inc. participated primarily in the carbonated mineral water, flavored CSD, bottled water, and vegetable juice categories. Its key brands in Mexico include Peñafiel, Squirt, Clamato, and Aguafiel. In Mexico, the company manufactures and sells its own brands through both its own bottling operations and third-party bottlers. In the Caribbean, the company distributes its products solely through third-party distributors and bottlers.

Company Strengths

Dr Pepper Snapple Group, Inc. senior executives have identified seven key strengths that the company brings to the marketplace. Each is summarized below.

Strong Portfolio of Leading, Consumer-Preferred Brands Dr Pepper Snapple Group, Inc. owns a diverse portfolio of well-known CSD and non-CSD brands. Many brands enjoy high levels of consumer awareness, preference, and loyalty rooted in their rich heritage, which drive their market positions. This diverse portfolio provides bottlers, distributors, and retailers with a wide variety of products and provides a foundation for growth and profitability. The company is the number one flavored CSD company in the United States according to ACNielsen. In addition, it is the only major beverage concentrate manufacturer with year-over-year market share growth in the CSD market segment in each of the last four years ended 2007, according to ACNielsen. Its largest brand, Dr Pepper, is the number two flavored CSD in the United States, according to ACNielsen, and the Snapple brand is a leading ready-to-drink tea. Overall, in 2007, more than 75 percent of Dr Pepper Snapple Group, Inc. volume was generated by brands that hold either the first or second position in their category. The strength of these key brands has served as a platform for launching innovations and brand extensions such as Dr Pepper Soda Fountain Classics, Motts for Tots, and Snapple Antioxidant Waters.

Integrated Business Model Dr Pepper Snapple Group, Inc. management believes its brand ownership, bottling, and distribution are more integrated than the U.S. operations of its principal competitors and that this differentiation provides the company with a competitive advantage. The company's integrated business model also provides opportunities for net sales and profit growth through the alignment of the economic interests of its brand ownership and its bottling and distribution businesses.

Strong Customer Relationships Dr Pepper Snapple Group, Inc. brands have long-standing relationships with many of its top customers. Company products are sold to a wide range of customers, from bottlers and distributors to national retailers, large foodservice, and convenience store customers. The company has strong relationships with some of the largest bottlers and distributors, including those affiliated with Coca-Cola and PepsiCo; some of the largest and most important U.S. retailers, including Walmart, Safeway, Kroger, and Target; some of the largest foodservice customers, including McDonald's, Yum! Brands (KFC, Pizza Hut, Taco Bell, Long John Silver's, and A&W All-American Food), and Burger King; and convenience store customers, including 7-Eleven.

addition, the company participates in many of the growing categories in the liquid refreshment beverage market, such as ready-to-drink teas. The company does not participate significantly in colas, which have declined in CSD volume share from 70.0 percent in 1991 to 57.4 percent in 2006 in the United States, according to *Beverage Digest*, a major trade publication. Nor does the company participate significantly in the bottled water market segment, which is a highly competitive and generally low-margin market segment. Following its acquisition by Coca-Cola, Energy Brands, Inc. terminated its distribution agreement with the company on August 30, 2007, for Glacéau brand products, including vitamin water, fruit water, and smart water.

Broad Geographic Manufacturing and Distribution Coverage Dr Pepper Snapple Group, Inc. has 21 manufacturing facilities and approximately 200 distribution centers in the United States, as well as four manufacturing processes. Company warehouses are located at or near bottling plants and geographically dispersed across sales regions to ensure company products are available to meet consumer demand. The company manages transportation of its products using its own fleet of delivery trucks, as well as third-party logistics providers on a selected basis. Following recent bottling acquisitions and manufacturing investment, the company has broad geographic coverage with strategically located manufacturing and distribution capabilities, enabling it to better align its operations with customers, reduce transportation costs, and have greater control over the timing and coordination of new product launches.

Strong Operating Margins and Significant, Stable Cash Flows The breadth and strength of the Dr Pepper Snapple Group, Inc. product portfolio have enabled the company to generate strong operating margins which, combined with relatively modest capital expenditures, have delivered significant and stable cash flows. These cash flows create stockholder value by enabling the company to consider a variety of alternatives, such as investing in its business, reducing debt, and returning capital to its stockholders.

Experienced Executive Management Team The Dr Pepper Snapple Group, Inc. executive management team has an average of more than 20 years of experience in the food and beverage industry. The team has broad experience in brand ownership, bottling, and distribution, and enjoys strong relationships both within the industry and with major customers. In addition, the management team has diverse skills that support operating strategies, including driving organic growth through targeted and efficient marketing, reducing operating costs, enhancing distribution efficiencies, aligning manufacturing and bottling and distribution interests, and executing strategic acquisitions.

Company Business Strategy

There are six key elements of the Dr Pepper Snapple Group, Inc. business strategy as described by executive management. Each capitalizes on company strengths.

Build and Enhance Leading Brands Dr Pepper Snapple Group, Inc. has a well-defined strategy to allocate marketing and sales resources. The company uses an ongoing process of market and consumer analysis to identify key brands that have the greatest potential for profitable sales growth. For example, in 2006 and 2007, the Snapple product portfolio was enhanced by launching brand extensions with functional benefits, such as super premium teas and juice drinks and Snapple Antioxidant Waters. Also, in 2006, 7UP was relaunched with 100 percent natural flavors and no artificial preservatives, thereby differentiating the 7UP

brand from other major lemon-lime CSDs. The company intends to invest most heavily in its key brands to drive profitable and sustainable growth by strengthening consumer awareness, developing innovative products and brand extensions to take advantage of evolving consumer trends, improving distribution, and increasing promotional effectiveness.

Focus on Opportunities in High-Growth and High-Margin Categories Dr Pepper Snapple Group, Inc. is focused on driving growth in its business in profitable and emerging categories. These categories include ready-to-drink teas and functional beverages. For example, the company recently launched Snapple super premium teas and juices, Snapple enhanced waters, and Accelerade RTD, a protein-enhanced sports drink. The company also intends to capitalize on opportunities in these categories through brand extensions, new product launches, and selective acquisitions of brands and distribution rights. Senior management believes the company is well positioned to enter into new distribution agreements for emerging, high-growth third-party brands in new categories that can use its bottling and distribution network. The company can provide these brands with distribution capability and resources to grow. These brands, in turn, can provide the company exposure to growing segments of the market with relatively low risk and capital investment.

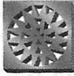
Increase Presence in High-Margin Channels and Packages Dr Pepper Snapple Group, Inc. is focused on improving its product presence in high-margin channels, such as convenience stores, vending machines, and small independent retail outlets, through increased selling activity and significant investments in coolers and other cold drink equipment. The company intends to significantly increase the number of branded coolers and other cold drink equipment over the next few years, which is expected to provide an attractive return on investment. The company also intends to increase demand for high-margin products like single-serve packages for many key brands through increased promotional activity and innovation.

Leverage the Company's Integrated Business Model The company's integrated brand ownership, bottling, and distribution business model provides opportunities for net sales and profit growth through the alignment of the economic interests of its brand ownership and its bottling and distribution businesses. The company intends to leverage its integrated business model to reduce costs by creating greater geographic manufacturing and distribution coverage and to be more flexible and responsive to the changing needs of large retail customers by coordinating sales, service, distribution, promotions, and product launches.

Strengthen the Company's Route-to-Market Through Acquisitions The recent acquisition and creation of the Dr Pepper Snapple Bottling Group is part of a longer-term initiative to strengthen the route-to-market for the company's products. Additional acquisitions of regional bottling companies will broaden geographic coverage in regions where the company is currently underrepresented, enhance coordination with large retail customers, more quickly address changing customer demands, accelerate the introduction of new products, improve collaboration around new product innovations, and expand coverage of high-margin channels.

Improve Operating Efficiency The company's recently announced restructuring will reduce selling, general, and administrative expenses and improve operating efficiency. In addition, the integration of recent acquisitions into the

company's bottling group has created the opportunity to improve manufacturing, warehousing, and distribution operations. For example, the company has created multiproduct manufacturing facilities that can provide a sales region with a wide variety of products at reduced transportation and co-packing costs.



THE ENERGY BEVERAGE MARKET IN THE UNITED STATES

Excluding coffee, energy beverages were the fourth largest nonalcoholic beverage category in the United States in 2006 after carbonated soft drinks, sports drinks, and bottled water. However, it was the fastest growing beverage category.

Energy Beverage Sales Growth

As a practical matter, the energy beverage market is defined by major brands, including Red Bull, Monster Energy, Rockstar, and literally hundreds of similarly positioned brands. These brands produced estimated retail dollar sales of $6.2 billion in 2006 according to the market research firm Packaged Facts. Off-premise sales through convenience stores, supermarkets, and mass merchandisers accounted for 71 percent of total retail sales in 2006. On-premise retailers, such as restaurants and nightclubs, accounted for 29 percent of total retail sales. From 2001 to 2006, total energy beverage retail sales grew at an average annual rate of 42.5 percent. In 2006, an estimated 153 million energy beverage cases were sold across all retail channels (one case is equivalent to 36 8-ounce containers, or 288 ounces).

Industry analysts were projecting an average annual growth rate of 10.5 percent from 2007 to 2011. The slower growth rate was attributed to market maturity, increased price and packaging competition, and the entrance of hybrid energy beverages, such as energy water, energy fruit drinks, ready-to-drink energy teas, and energy colas.

Energy beverage sales in 2006 were dwarfed by CSD sales of $72 billion according to *Beverage Digest*. However, CSD sales posted an average year-over-year growth rate of 2.5 percent between 2001 and 2006 and were projected to decline 1 to 2 percent annually through 2011.

The Energy Beverage Consumer

The heavy user of energy beverages consists of males between the ages of 12 and 34 (see Exhibit 2). Average U.S. per capita consumption of energy beverage drinkers increased by 14 percent since 2004, reaching 4.32 8-ounce servings per month in 2006. Energy beverages are most often consumed in the afternoon followed by morning consumption. Most consumers drink energy beverages at home, in the car, and at work/school. The major reasons why consumers drink energy beverages include an energy boost, mental alertness, refreshment, and taste. Energy beverage consumers limit their choice to only 1.4 different brands, on average, which suggests brand loyalty in this market.

Energy Beverage Off-Premise Retail Channels

Convenience stores and supermarkets are the dominant off-premise retail channels for energy beverages. In 2006, convenience stores accounted for 74 percent of off-premise retail dollar sales, down from 81 percent in 2004. Supermarkets recorded 14 percent of off-premise retail sales in 2006, up from 11 percent

EXHIBIT 2 U.S. Population Profile and Energy Beverage Users in 2006

Age				*Gender*				*Race and Ethnicity*			
Age Category	*% of U.S. Population*[1]	*% Users*[2]	*Servings/ Month*[3]	*Gender Category*	*% of U.S. Population*[1]	*% Users*[2]	*Servings/ Month*[3] *Category*	*Race & Ethnic Category*	*% of U.S. Population*[1]	*% Users*[2]	*Servings/ Month*[3]
12–17	10%	31%	4.92	F Adult	39%	10%	NA	Hispanic	15%	27%	4.48
18–24	9%	34%	4.93	F Teen	5%	27%	NA	African American	13%	21%	4.69
25–34	14%	22%	4.29	M Adult	34%	17%	NA	Asian	4%	16%	3.49
35–44	15%	25%	4.16	M Teen	6%	34%	NA	Caucasian	66%	12%	4.31
45–54	14%	9%	4.14	F Total	51%	19%	3.87	Others	2%	NA	NA
55+	23%	3%	2.83	M Total	49%	26%	4.60				

Notes: [1] % of U.S. Population is based on U.S. Census estimates for 2006.

[2] % Users represents the percentage of individuals in a specific user category that have consumed an energy beverage in the past year. Therefore, the percent user figures do not total 100 percent. (Source: Mintel/Simmons National Consumer Survey, Fall 2006)

[3] Servings/Month is the average number of 8-ounce servings consumed per month by a specific user category. (Source: Mintel/Simmons National Consumer Survey, Fall 2006)

EXHIBIT 3 Estimated 2006 Dollar Sales and Unit Volume Market Share of U.S. Energy Beverage Competitors

Competitor (Major Brands)	Estimated Market Share	
	Dollar Sales	Unit Case Volume
Red Bull (Red Bull)	43%	30%
Hansen Natural Corporation (Monster Energy)	16	27
Pepsi-Cola (SoBe Adrenaline Rush; AMP Energy)	13	10
Rockstar (Rockstar)	12	17
Coca-Cola (Full Throttle; Tab Energy)	10	10
Others (including private labels)	6	6
	100%	100%

Source: Mintel Energy Drinks, March 2007; *Beverage Digest Fact Book*, 2007; and "Energy Drinks Boost U.S. Beverage Market," Beveragedaily.com, March 12, 2007.

in 2004. Industry analysts expected continued sales erosion in the convenience channel in the future. Wal-Mart's share of energy beverage off-premise retail sales increased from 5.4 percent in 2004 to 7.4 percent in 2006.

In general, energy beverage manufacturers with a broad product line and an extensive distribution network have had the greatest success in gaining shelf space in supermarkets and mass merchandisers for their brands. Product turnover is a key consideration among convenience stores. Brands with a limited product line that can demonstrate high turnover are stocked while those with low turnover are discontinued by convenience stores.

Major Energy Beverage Competitors

Five competitors dominate the U.S. energy beverage market: Red Bull North America, Hansen Natural Corporation, Pepsi-Cola, Rockstar, Inc., and Coca-Cola. These companies, and their individual brands, account for 94 percent of dollar sales and unit volume in the United States. Exhibit 3 shows the dollar sales and unit volume market shares for the five competitors.

Red Bull North America Red Bull North America markets the Red Bull brand in the United States through a network of independent distributors. The company is a subsidiary of Red Bull GMBH headquartered in Austria. The brand was the energy beverage market pioneer when it was introduced to the United States in 1997. It remains the market leader in dollar sales and unit volume. However, its dollar market share has declined in recent years from 82 percent in 2000 to 43 percent in 2006. This decline has been attributed to the entry of new, aggressive competitors, and brands with lower prices. The Red Bull brand was supported by a $39.6 million U.S. media expenditure in 2006 and an estimated $60.9 million media expenditure in 2007.[1]

Hansen Natural Corporation Hansen Natural Corporation markets a variety of nonalcoholic beverages in the United States. Monster Energy is its most prominent energy drink. The brand was introduced in 2002. Monster Energy sales have benefited from recent distribution agreements. For example, Anheuser-Busch

[1] Media expenditure figures for individual brands were reported in company Form 10-K documents and TNS Media Intelligence, AdSpender Online at tns-mi.com.

wholesalers distributed the brand to retailers in different territories in the United States in 2007. Anheuser-Busch also distributes Monster Energy to on-premise retailers including bars, nightclubs, and restaurants in territories selected by Hansen. In early 2007, Hansen announced that PepsiCo Canada would be the exclusive master distributor of Monster Energy throughout Canada. The Monster Energy brand was supported by a $61,100 U.S. media expenditure in 2006 and an estimated $153,800 media expenditure in 2007.

Pepsi-Cola Pepsi-Cola, a division of PepsiCo, markets AMP Energy and SoBe Adrenaline Rush energy beverage brands. AMP Energy was introduced in 2001. SoBe Adrenaline Rush entered the market in 2003. Both brands are marketed through the Pepsi-Cola distribution system in the United States. In addition, Pepsi-Cola markets a wide range of juice-based energy drinks and Mountain Dew MDX, a carbonated energy drink. Neither AMP Energy nor SoBe Adrenaline Rush was supported by significant U.S. media expenditures in 2006.

Rockstar, Inc. Rockstar, Inc. is a producer of alcoholic, juice, cola, and energy drinks. Its Rockstar Energy brand was introduced in 2001. The brand is distributed in the United States and Canada by the Coca-Cola Company, except in the Pacific Northwest and Northern California where Rockstar retains its original distributors. U.S. media expenditures for the Rockstar brand were minimal in 2006. The estimated media expenditure in 2007 was $41,500.

Coca-Cola The Coca-Cola Company markets the Full Throttle and sugar-free Tab Energy brands through its distribution network. Full Throttle was introduced in 2003, Tab Energy in 2006. The company has been acquiring smaller energy beverage brands and pursuing licensing agreements to distribute independent energy brands, such as Rockstar. Full Throttle was supported by $7.3 million in U.S. media expenditures in 2006 and an estimated $492,300 in 2007. The Tab Energy introduction was supported by a $12.6 million U.S. media expenditure in 2006, which resulted in a 2.3 percent dollar market share. The estimated media expenditure in 2007 was $20,500.

Product Proliferation and Price Erosion

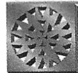
The energy beverage market has experienced product proliferation and price erosion in recent years. Product proliferation resulted from line extensions, new packaging and sizes, and market segmentation. Major competitors have extended their product lines and now offer beverages in regular and sugar-free varieties and different flavors. They have introduced multi-packs and increased single-serve package sizes, from the original 8.3-ounce Red Bull package to 16-ounce and 24-ounce packages. (Tab Energy came in a 10.5-ounce package.) Finally, competitors are targeting segments in the energy beverage market. For example, women were the target market for Tab Energy; Coca-Cola is believed to be developing a brand called "Rehab" for people with hangovers; industry analysts expect Rockstar to introduce Rockstar 21, which is premixed with alcohol; and the Full Throttle Demon sub-brand is targeted at young Hispanic men.

Significant price erosion also exists. Energy beverage prices declined 30 percent from 2001 to 2006. Industry analysts attribute this decline to (1) larger package sizes that have a lower price per ounce; (2) the introduction of multi-packs, which offer a lower price per ounce, and (3) increasing availability in supermarkets and mass merchandisers, including Walmart, that operate with lower retail gross margins than convenience stores.

According to ACNielsen, the average retail selling price per case for brands in major off-premise retail channels in late 2007 is shown below.[2]

Brand	*All Off-Premise Channels*	*Supermarkets and Mass Merchandisers Only*	*Convenience Stores Only*
Red Bull	$68.00	$63.00	$70.00
Monster Energy	37.00	32.00	39.00
Rockstar	37.00	32.00	38.00
Full Throttle	36.00	32.00	38.00
AMP Energy	38.00	35.00	39.00
Tab Energy	49.00	45.00	55.00
Channel Average	44.00	40.00	46.00

Red Bull enjoyed a price premium in off-premise retail channels. Other brands were competitively priced with each other.



THE ENERGY BEVERAGE MARKET OPPORTUNITY

Andrew Barker and his team recognized that senior executives at Dr Pepper Snapple Group, Inc. expected that energy beverages presented a profitable market opportunity for the company. Therefore, any proposal to enter the energy beverage market would require a marketing strategy for a branded energy drink, including a first-year sales and profit projection.

Marketing Plan Considerations

The introductory marketing plan for a branded energy drink would require the identification of a target market and marketing mix as well as a recommended budget for the launch.

Target Market Industry analysts estimated that there were about 43 million energy drink users in the United States, or about 18 percent of the U.S. population 12 years of age or older. Males, between the ages of 12 and 34, were the heaviest users of energy beverages. They were estimated to account for about 70 percent of energy beverage consumption. Energy brands, except for Tab Energy with its focus on female consumers, targeted this population demographic.

Product Line and Brand Positioning Existing brands typically offer regular and sugar-free varieties. Regular energy beverages have an 80 percent share of the market; sugar-free has 20 percent. Single-serve package sizes range from 8.3 ounces to 24 ounces. The 8.3-ounce size is the most popular due largely to Red Bull, the market leader, which uniquely markets this size. The 16-ounce size, representing about 50 percent of case sales in convenience stores, has posted the fastest growth, increasing 150 percent since 2004. Multi-packs represent a small portion of case sales and typically are marketed through supermarkets and mass merchandisers.

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[2] The average retail case prices reflect all available package sizes and multi-packs for each brand. All prices are rounded to the nearest dollar. Channel average price is rounded to the nearest dollar and represents a simple column average.

Brand positioning in the energy beverage market typically emphasizes an energy boost, mental alertness, refreshment, and taste. Brand slogans reflect this positioning:

Red Bull:	"Red Bull Gives You Wings"
Monster Energy:	"Unleash the Beast"
Full Throttle:	"Go Full Throttle or Go Home"
Tab Energy:	"Fuel to Be Fabulous"

Rockstar Energy positions itself as the most powerful energy drink with an "edgier" message focusing on "active and exhausting lifestyles—from athletes to rock stars."

Marketing Channel Dr Pepper Snapple Group, Inc. bottlers and distributors deliver to all types of off-premise retailers where energy beverages are sold. However, company bottlers and distributors did not serve all areas of the United States. By early 2008, the company expected to have bottlers and distribution centers in place that would serve 80 percent of the U.S. market for energy beverages. Historically, new energy beverage brands were introduced exclusively to the convenience store channel in single-serve packages because of higher profit margins and then migrated to other channels.

Dr Pepper Snapple Group, Inc. distributed Monster Energy in selected U.S. territories on behalf of Hansen Natural Corporation in 2007.[3] Monster Energy distribution would end effective November 10, 2008.

Manufacturer's Suggested Retail Selling Price and Channel Margins Single-serve energy beverage drink retail prices have generally settled at roughly $2.00 per single-serve package, regardless of package size. As a consequence, larger single-serve packages are priced lower on a per-ounce basis than smaller packages.

Estimated retail, wholesale, and manufacturer energy beverage margins, on a per-case basis, vary within a fairly tight range.[4] Retailers, such as supermarkets and convenience stores, typically report gross margins in the range of 40 percent (for supermarkets) to 50 percent (for convenience stores), based on the manufacturer's suggested retail price. Wholesalers (distributors and bottlers) typically report a gross margin of 30 to 36 percent of the price sold to retailers. Finally, energy beverage manufacturers typically obtain a gross margin between 60 and 66 percent on sales to wholesalers. Industry sources indicate that the manufacturer's cost of goods sold consisted of a packaging cost (which included cans, trays, shrink wrap, and freight) and a content cost.

Advertising and Promotion Except for Red Bull, brand media advertising in the energy beverage market is modest. Instead, competitors rely on promotional vehicles such as brand Web sites, events, and sponsorships to promote their brands. In 2006, the top five competitors spent an estimated $70 million for measured advertising media.[5] Industry analysts estimated that expenditures for other promotional vehicles were 4 to 6 times higher than media expenditures.

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[3] Hansen Natural Corporation Form 10-K for the fiscal year ended December 31, 2007, p. 10.

[4] The margin structure estimates are based on interviews with individuals knowledgeable about the industry and are useful for case discussion purposes only.

[5] TNS Media Intelligence, AdSpender Online at tms-mi.com.

For example, Red Bull spends about $300 million annually on sports sponsorships alone.[6]

The Sports Drink Market and the Accelerade RTD Launch

Andrew Barker believed there was a strategic similarity between the launch of Accelerade RTD and the possible introduction of a new energy beverage brand. In both cases, Dr Pepper Snapple Group, Inc. was introducing a new branded product into a new beverage market for the company.

U.S. Sports Drink Market The U.S. sports drink market posted total retail sales of $7.5 billion in 2006 and a year-over-year growth rate of about 13 percent. Gatorade, marketed by the Pepsi-Cola division of PepsiCo, was the sports drink market pioneer and the perennial market share leader. The brand commanded a market share of 81 percent in 2006 and was supported by $183 million in media expenditures. Powerade, marketed by Coca-Cola, had an 18 percent market share. Gatorade and Powerade offer broad product lines and are competitively priced with each other with Gatorade holding a modest price premium. Each brand was distributed through its company's extensive distribution network that serves convenience stores, supermarkets, mass merchandisers, and a variety of other retailers.

Accelerade The Accelerade brand was part of an asset purchase agreement by the company whereby Pacific Health Laboratories, Inc., the original brand owner, received an upfront payment, a royalty payment for a period of time, and a royalty-free license to continue selling Accelerade and Endurox in power and gel forms through health and nutrition outlets. Accelerade was already popular with hard-core athletes given its 4:1 ratio of carbohydrate to protein and documented benefits in terms of improved endurance, enhanced rehydration, faster muscle recovery, and less postexercise muscle damage.

Accelerade RTD Brand Launch Dr Pepper Snapple Group, Inc. introduced the Accelerade RTD, a ready-to-drink sports drink, in late May 2007 to convenience stores, supermarkets, and mass merchandisers through its distribution network. The target market for Accelerade RTD was the 35 million Americans who exercised regularly and were concerned about being competitive.

Accelerade RTD was launched with a 20-ounce single-serve package in four flavors: Citrus Grapefruit, Fruit Punch, Mountain Berry, and Peach Mango. The manufacturer's suggested retail price was $2.79—roughly twice the price of a 20-ounce Gatorade single-serve package. The premium price was attributed to Accelerade RTD's unique point of difference—the first protein-enhanced sports drink. Neither Gatorade nor Powerade had this attribute.

A large marketing budget supported the Accelerade RTD launch, including new-media elements, such as a brand Web site, podcasts, search-engine marketing, and a chat room. The campaign's theme was "Sweat Smarter" to distinguish Accelerade RTD from its rivals by promoting the brand's protein content.[7]

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[6] Melanie Ho, "For Red Bull, It's Here, There and Everywhere," *The Washington Post* (August 23, 2006), p. E1ff.

[7] Stuart Elliott, "Cadbury Bets on Protein to Promote Its New Sports Drink," *The New York Times*, downloaded June 29, 2007.

Marketing Decisions

Andrew Barker realized that numerous marketing decisions were required in the development and launch of a branded energy drink.

Target Market Selection He would need to first recommend the target market for the brand. For example, should the target market include all energy drink users or only heavy users? Alternatively, should a select customer group be targeted, as Coca-Cola had done with Tab Energy in 2006?

Product Line and Positioning Choice Andrew Barker would also need to decide on a product line. Should he introduce the brand in a single-serve package or in a multi-pack? What package size(s) should he choose: 8-ounce, 16-ounce, or 24-ounce? Should he offer both a regular and sugar-free version? How many flavors should be introduced: one or two? He recognized that some trade-offs would be required. For example, he believed that bottlers and distributors and retailers would initially not produce and stock more than two stock-keeping units (SKUs) of a new energy drink brand.[8] Therefore, choosing the appropriate mix of packaging (single-serve, multi-pack), package size(s) (8-, 16-, 24-ounce), versions (regular, sugar-free), and flavors (one, two) was foremost on his mind. Looking forward, Andrew Barker believed that additional SKUs could be introduced.

Brand positioning also required attention. Barker believed that energy brands on the market lacked meaningful differentiation. Energy drink positioning typically focused on providing an energy boost, mental alertness, refreshment, and taste for males 12 to 34. Following discussions with research and development personnel, he wondered whether an opportunity existed to differentiate a new energy brand on the basis of packaging or ingredients. Specifically, manufacturing personnel showed him a 16.9-ounce (0.5 liter) single-serve aluminum bottle shape with a resealable screw cap. The idea of a bottle shape with a resealable screw cap intrigued him. No brand had such packaging. "It would certainly stand out on a store shelf among the cylinder-shaped cans sold by competitors," he said.

An opportunity also existed to differentiate a new brand on the basis of ingredients. Specifically, a new brand could augment the "energy" and "mental alertment" benefits by increasing the amount of caffeine, herbs, and B vitamins per 8-ounce serving.

Alternatively, no brand had positioned itself as an adult energy drink. An adult energy beverage might require a different drink, such as lower carbohydrates in the product formulation. Although adults were less frequent users than teens, such a positioning deserved consideration. Adults, for instance, between the ages of 35 and 54 consumed energy beverages at a rate that was only slightly less than consumers under 24.

Other positioning approaches were also a possibility, including a head-to-head positioning against competitors. Barker knew that his recommendation would require a brand positioning statement that would resonate with energy drink consumers.

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[8] A stock-keeping unit (SKU) is a specific unit of inventory that is carried as a separate identifiable unit. An 8-ounce can and a 16-ounce can of the same product would be separate SKUs for inventory purposes. Similarly, different flavors for a single brand would each represent a separate SKU. Therefore, two new flavors packaged in two different size packages would be counted as four SKUs for inventory purposes.

distribution system supplied both off-premise and on-premise retailers. Barker believed that off-premise retailers represented the best choice. However, a decision had to be made about which retailers to serve initially. Should all off-premise retailers be served or should distribution for a new energy drink brand focus on convenience stores only or supermarkets and mass merchandisers only?

Advertising and Promotion Barker recognized that an introductory media advertising and promotion expenditure necessary to launch a new energy drink brand would be expected as part of his recommendation. "We don't have media advertising funds available to even come close to Red Bull," he said. "At the same time, a new energy brand will require a higher media advertising expenditure than an established brand to create consumer awareness and stimulate brand trial." Expenditures for other promotional vehicles also warranted consideration and funding. He believed that a reasonable "ballpark" expenditure for media advertising and promotion, without specific details, would be sufficient as part of his analysis and recommendation.

Pricing and Profitability

Ultimately, Andrew Barker knew that an analysis of whether or not a market opportunity existed for a new energy brand had to include a manufacturer's suggested retail selling price and a profitability analysis. Retail prices in the energy beverage market had settled in a range around $2.00 per single-serve package, regardless of package size. However, he could recommend a higher or lower price with justification.

The pricing decision, expected unit volume, trade and brand margins, and marketing plan decisions and expenditures would factor into his assessment as to whether or not a profitable market opportunity existed for a new energy beverage brand. A pro forma income statement detailing revenues and costs would reflect his marketing decisions and expectations.

Strategic Marketing Problems

Cases and Comments

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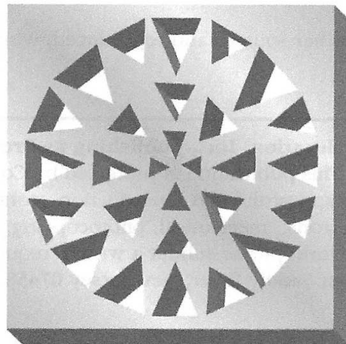

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