

Competition in Energy Drinks, Sports Drinks, and Vitamin-Enhanced Beverages

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Alternative beverages such as energy drinks, sports drinks, and vitamin-enhanced beverages were the stars of the beverage industry during the mid-2000s. Rapid growth in the category, coupled with premium prices and high profit margins made alternative beverages an important part of beverage companies' lineup of brands. Global beverage companies such as Coca-Cola and PepsiCo had relied on such beverages to sustain volume growth in mature markets where consumers were reducing their consumption of carbonated soft drinks. In addition, Coca-Cola, PepsiCo, and other beverage companies were intent on expanding the market for alternative beverages by introducing energy drinks, sports drinks, and vitamin drinks in more and more emerging international markets. Global beverage producers had not been the only ones to benefit from increasing consumer demand for alternative beverage choices. Entrepreneurs such as the founders of Red Bull GmbH, Rockstar, Inc., Hansen Natural Corporation (maker of Monster Energy), Living Essentials (maker of 5-Hour Energy), and Energy Brands (originator of glacéau vitaminwater) had become multimillionaires through their development and sale of alternative beverages.

However, the premium-priced alternative beverage market had been hit especially hard by the lingering economic downturn in the United States. Sales of sports drinks declined by 12.3 percent between 2008 and 2009, and sales of flavored and vitamin-enhanced waters had declined by 12.5 percent over the same period. The sales of energy drinks fared better, but 2009 segment sales exceeded sales in 2008 by only 0.2 percent. Industry analysts were undecided on what

percentage of the poor 2009 performance for alternative beverages was related to the overall economy and how much could be attributed to market maturity. Beverage producers had made various attempts at increasing the size of the market for alternative beverages by extending existing product lines and developing altogether new products. For example, PepsiCo had expanded its lineup of Amp Energy drinks to 12 flavors, expanded SoBe vitamin-enhanced beverages to 28 flavors and variations, and increased the Gatorade lineup to include dozens of flavors and variations. Beverage producers were also seeking additional growth by quickly launching concentrated two-ounce energy shots to garner a share of the new beverage category that originated with the development of Living Essentials' 5-Hour Energy. Some beverage producers were also moving to capture demand for new relaxation drinks that were designed to have a calming effect or help those with insomnia.

While attempting to expand the market for alternative beverages and increase sales and market share, beverage producers also were forced to contend with criticism from some that energy drinks, energy shots, and relaxation drinks presented health risks for consumers and that some producers' strategies promoted reckless behavior. Excessive consumption of high-caffeine-content beverages could produce arrhythmias and insomnia, while mixing alcohol with energy drinks could mask the consumer's level of intoxication and lead to increased risk-taking and other serious alcohol-related problems. In addition, many physicians warned consumers against consuming

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relaxation drinks that contained the potentially harmful ingredients melatonin and kava. But as 2011 approached, the primary concern of most producers of energy drinks, sports drinks, and vitamin-enhanced beverages was how to best improve their competitive standing in the marketplace.

INDUSTRY CONDITIONS IN 2010

The global beverage industry was projected to grow from \$1.58 trillion in 2009 to nearly \$1.78 trillion in 2014 as beverage producers entered new geographic markets, developed new types of beverages, and continued to create demand for popular drinks. A great deal of industry growth was expected to result from steady growth in the purchasing power of consumers in developing countries, since the saturation rate for all types of beverages was high in developed countries. For example, market maturity and poor economic conditions caused the U.S. beverage industry to decline by 2.1 percent in 2008 and by 3.1 percent in 2009. The 2.3 percent decline in the volume sales of carbonated soft drinks marked the

fifth consecutive year that U.S. consumers had purchased fewer carbonated soft drinks than the year before. Industry analysts believed that while carbonated soft drinks would remain the most-consumed beverage in the United States for some time, annual sales would continue to decline as consumers developed preferences for bottled water, sports drinks, fruit juices, ready-to-drink tea, vitamin-enhanced beverages, energy drinks, ready-to-drink coffee, and other types of beverages.

As consumer preferences shifted during the 2000s, sports drinks, energy drinks, and vitamin-enhanced drinks had grown to become important segments within the industry in 2010. In addition, such alternative beverages tended to carry high price points, which made them attractive to both new entrants and established beverage companies such as the Coca-Cola Company and PepsiCo. Sports drinks and vitamin-enhanced beverages tended to carry retail prices that were 50 to 75 percent higher than similar-size carbonated soft drinks and bottled water, while energy drink pricing by volume might be as much as 400 percent higher than carbonated soft drinks. While the alternative beverage segment of the industry offered opportunities for bottlers, the poor economy had decreased demand for higher-priced beverages, with sales of sports drinks declining by 12.3 percent between 2008 and 2009 and the sales of flavored and vitamin-enhanced waters declining by 12.5 percent over the same period. The economy had also impacted the sales of energy drinks, but only by slowing the growth in volume sales to 0.2 percent between 2008 and 2009. Among all types of beverages, only energy drinks and ready-to-drink tea experienced volume growth between 2008 and 2009. Exhibits 1 and 2 present sales statistics for the global and U.S. beverage industry.

Worldwide dollar sales of alternative beverages (sports drinks, energy drinks, and vitamin-enhanced beverages) grew by more than 13 percent annually between 2005 and 2007 before slowing to about 6 percent annually between 2007 and 2009. Demand in the United States had contributed greatly to the worldwide growth in alternative beverage consumption, with the United States accounting for 42.3 percent of the industry's worldwide sales of \$40.2 billion in 2009. In the United States, sports drinks accounted for

Exhibit 1 Dollar Value and Volume Sales of the Global Beverage Industry, 2005–2009, with Forecasts for 2010–2014

Year	Dollar Value (\$ billions)	Volume Sales (billions of liters)
2005	\$1,428.4	391.8
2006	1,469.3	409.1
2007	1,514.1	427.3
2008	1,548.3	442.6
2009	1,581.7	458.3
2010*	1,618.4	474.9
2011*	1,657.6	492.1
2012*	1,696.1	508.4
2013*	1,736.5	525.8
2014*	1,775.3	542.5

*Forecast.

Source: Global Beverages Industry Profile, Datamonitor, March 2010.

Exhibit 2 U.S. Beverage Industry Volume Sales by Segment, 2009

Category	Volume (millions of gallons)	Market Share	Growth	Share Point Change
Carbonated soft drinks	13,919.3	48.2%	-2.3%	+0.4
Bottled water	8,435.3	29.2	-2.7	+0.1
Fruit beverages	3,579.2	12.4	-3.7	-0.1
Sports drinks	1,157.8	4.0	-12.3	+0.4
Ready-to-drink tea	901.4	3.1	1.2	+0.1
Flavored or enhanced water	460.0	1.6	-12.5	-0.2
Energy drinks	354.5	1.2	0.2	0.0
Ready-to-drink coffee	51.5	0.2	-5.4	0.0
Total	28,859.0	100.0%	-3.1%	0.0

Note: Totals may not match data reported by Datamonitor because of differences in research methods.

Source: Beverage Marketing Corporation, as reported in "A Market in Decline," *Beverage World*, April 2010, p. 52.

nearly 60 percent of alternative beverage sales in 2009, while vitamin-enhanced drinks and energy drinks accounted for about 23 percent and 18 percent of 2009 alternative beverage sales, respectively. Exhibit 3 presents alternative beverage dollar value and volume sales for 2005 through 2009 and forecasts for alternative beverage sales for 2010 through 2014. Exhibits 4–7 present statistics on the relative sizes of the regional markets for alternative beverages.

Exhibit 3 Dollar Value and Volume Sales of the Global Market for Alternative Beverages, 2005–2009, with Forecasts for 2010–2014

Year	Dollar Value (\$ billions)	Volume (billions of liters)
2005	\$27.7	9.4
2006	31.9	10.3
2007	35.5	11.1
2008	37.8	11.9
2009	40.2	12.7
2010*	42.8	13.5
2011*	45.5	14.4
2012*	48.0	15.1
2013*	50.8	16
2014*	53.5	16.8

*Forecast.

Source: Global Functional Drinks Industry Profile, Datamonitor, April 2010.

Even though energy drinks, sports drinks, and vitamin-enhanced drinks were all categorized as alternative beverages, the consumer profile varied substantially across the three types of beverages. While the profile of an energy drink consumer was a teenage boy, sports drinks were most frequently purchased by those who engaged in sports, fitness, or other strenuous activities such as outdoor manual labor jobs. It was quite common for teens to consume sports drinks after practicing or participating in school sports events and for manual laborers to consume sports drinks on hot days. Vitamin-enhanced beverages could substitute for sports drinks but were frequently purchased by adult consumers interested in increasing their intakes of vitamins. Even though enhanced waters offered potential benefits, there

Exhibit 4 Geographic Share of the Alternative Beverages Market, 2009

Country	Percentage
United States	42.3%
Asia-Pacific	31.5
Europe	22.2
Americas (excluding U.S.)	4.0
Total	100.0%

Source: Global Functional Drinks Industry Profile, Datamonitor, April 2010, and United States Functional Drinks Industry Profile, Datamonitor, April 2010.

Exhibit 5 Dollar Value and Volume Sales of the U.S. Market for Alternative Beverages, 2005–2009, with Forecasts for 2010–2014

Year	Dollar Value (\$ billions)	Volume (billions of liters)
2005	\$9.2	2.8
2006	12.4	3.3
2007	14.8	3.7
2008	15.9	4.0
2009	17.0	4.2
2010*	18.2	4.5
2011*	19.5	4.7
2012*	20.8	5.0
2013*	22.2	5.3
2014*	23.6	5.5

*Forecast.

Source: United States Functional Drinks Industry Profile, Datamonitor, April 2010.

were some features of enhanced waters that might cause consumers to limit their consumption of such products, including the need for sweeteners to disguise the taste of added vitamins and

Exhibit 6 Volume Sales and Dollar Value of the Asia-Pacific Alternative Beverages Market, 2005–2009, Forecasts for 2010–2014

Year	Dollar Value (\$ billions)	Volume (billions of liters)
2005	\$10.2	4.80
2006	10.7	5.10
2007	11.2	5.44
2008	12.0	5.81
2009	12.7	6.20
2010*	13.5	6.63
2011*	14.3	7.09
2012*	14.9	7.41
2013*	15.7	7.82
2014*	16.5	8.23

*Forecast.

Source: Asia-Pacific Functional Drinks Industry Profile, Datamonitor, April 2010.

Exhibit 7 Volume Sales and Dollar Value of the European Alternative Beverages Market, 2005–2009, with Forecasts for 2010–2014

Year	Dollar Value (\$ billions)	Volume (billions of liters)
2005	\$7.4	1.27
2006	7.8	1.34
2007	8.2	1.43
2008	8.6	1.51
2009	9.1	1.60
2010*	9.5	1.69
2011*	9.9	1.78
2012*	10.4	1.88
2013*	10.8	1.98
2014*	11.3	2.08

*Forecast.

Source: Europe Functional Drinks Industry Profile, Datamonitor, April 2010.

supplements. As a result, calorie counts for vitamin-enhanced beverages ranged from 20 calories per 16-ounce serving for Propel to 100 calories per 16-ounce serving for glacéau vitaminwater. In addition, some medical researchers had suggested that consumers would need to drink approximately 10 bottles of enhanced water each day to meet minimum dietary requirements for the vitamins promoted on the waters' labels.

Distribution and Sale of Alternative Beverages

Consumers could purchase most alternative beverages in supermarkets, supercenters, natural foods stores, wholesale clubs, and convenience stores. Convenience stores were a particularly important distribution channel for alternative beverages since sports drinks, vitamin-enriched drinks, and energy drinks were usually purchased for immediate consumption. In fact, convenience stores accounted for about 75 percent of energy drink sales in 2010. Although energy drinks were typically purchased in convenience stores, sports drinks and vitamin-enhanced beverages were also available in most delis and many restaurants, from vending machines, and sometimes at sporting events

and other special events like concerts, outdoor festivals, and carnivals.

Pepsi-Cola and Coca-Cola's soft drink businesses aided the two companies in making alternative beverages available in supermarkets, supercenters, wholesale clubs, and convenience stores. Soft drink sales were important to all types of food stores since soft drinks made up a sizable percentage of the store's sales and since food retailers frequently relied on soft drink promotions to generate store traffic. Coca-Cola and Pepsi-Cola were able to encourage their customers to purchase items across its product line to ensure prompt and complete shipment of key soft drink products. Smaller producers typically used third parties like beer and wine distributors or food distributors to make sales and deliveries to supermarkets, convenience store buyers, and restaurants and delis. Most distributors made deliveries of alternative beverages to convenience stores and restaurants along with their regular scheduled deliveries of other foods and beverages.

Because of the difficulty for food service distributors to restock vending machines and provide alternative beverages to special events, Coca-Cola and Pepsi-Cola were able to dominate such channels since they could make deliveries of sports drinks and vitamin-enhanced drinks along with their deliveries of carbonated soft drinks. Coca-Cola and Pepsi-Cola's vast beverage distribution systems made it easy for the two companies to make Gatorade, SoBe, Powerade, and glacéau vitaminwater available anywhere Coke or Pepsi could be purchased.

Convenience stores were aggressive in pressing alternative beverage producers and food distributors for low prices and slotting fees. Most convenience stores carried only two to four brands of alternative beverages beyond what was distributed by Coca-Cola and PepsiCo, and required sellers to pay annual slotting fees in return for providing bottle facings on a cooler shelf. Food and beverage distributors usually allowed alternative beverage producers to negotiate slotting fees and any rebates directly with convenience store buyers.

There was not as much competition among producers of sports drinks and vitamin-enhanced drinks to gain shelf space in delis and restaurants, since volume was relatively low—making per unit distribution costs exceedingly high unless other beverages were delivered along with alternative beverages. PepsiCo and Coca-Cola were among the better-suited alternative beverage producers to economically distribute sports drinks and vitamin-enhanced beverages to restaurants, since they likely provided fountain drinks to such establishments. Exhibit 8 presents worldwide and regional market shares for the three largest producers of alternative beverages in 2009. Distributors for the leading energy drink brands sold in the United States are listed in Exhibit 9.

Suppliers to the Industry

The suppliers to the alternative beverage industry included the makers of such nutritive and non-nutritive ingredients as sugar, aspartame, fructose, glucose, natural and artificial flavoring,

Exhibit 8 Worldwide and Regional Market Shares for the Three Largest Producers of Alternative Beverages, 2009

Company	Worldwide	United States	Asia-Pacific	Europe
PepsiCo	26.5%	47.8%	12.4	12.9%
Coca-Cola	11.5	10.2	13.7	n.a.
Red Bull	7.0	10.6	n.a.	10.1
Others	55.0	31.5	73.9	77.0
Total	100.0%	100.0%	100.0%	100.0%

n.a. = Not available

Sources: Global Functional Drinks Industry Profile, Datamonitor, April 2010; United States Functional Drinks Industry Profile, Datamonitor, April 2010; Asia-Pacific Functional Drinks Industry Profile, Datamonitor, April 2010; and Europe Functional Drinks Industry Profile, Datamonitor, April 2010.

Exhibit 9 Market Shares for the Leading Energy Drink Brands in the United States, 2006–2009

Brand	Distributor	2006 (% of dollar sales)	2007 (% of dollar sales)	2008 (% of dollar sales)	2009 (% of dollar sales)
Red Bull	Independent	43%	35%	40%	40%
Monster	Coca-Cola	15	27	23	27
Rockstar	PepsiCo	11	11	12	8
NOS	Coca-Cola	n.a.	2	2	4
Amp	PepsiCo	4	5	8	3
DoubleShot	PepsiCo	n.a.	n.a.	2	3
Full Throttle	Coca-Cola	7	7	4	2
Others		20	13	9	13
Total		100%	100%	100%	100%

n.a. = Not available.

Sources: "2010 State of the Industry Report," *Beverage World*, April 2010; BevNET.com.

artificial colors, caffeine, taurine, glucuronolactone, niacin, sodium, potassium, chloride, and other nutritional supplements. Suppliers to the industry also included the manufacturers of aluminum cans, plastic bottles and caps, label printers, and secondary packaging suppliers. While unique supplements like taurine might be available from only a few sources, most packaging supplies needed for the production of alternative beverages were readily available for a large number of suppliers. The numerous suppliers of secondary packaging materials (e.g., cardboard boxes, shrink-wrap, six-pack rings, printed film or paper labels) aggressively competed for the business of large alternative beverage producers. All but the largest sellers of alternative beverages contracted procurement and production activities to contract bottlers who produced energy drinks and other alternative beverages to the sellers' specifications.

Key Competitive Capabilities in the Alternative Beverages Market

Product innovation had been among the most important competitive features of the alternative beverage industry since the introduction of Gatorade in 1967. Alternative beverages competed on the basis of differentiation from traditional drinks such as carbonated soft drinks or fruit juices and

were also positioned within their respective segments on the basis of differentiation. For example, all energy drink brands attempted to develop brand loyalty based on taste, the energy-boosting properties of their ingredients, and image. An energy drink's image was a factor of its brand name and packaging, clever ads, endorsements from celebrities and extreme sports athletes, and sponsorships of extreme sports events and music concerts. Differentiation among vitamin-enhanced beverages tended to center on brand name and packaging, advertising, unique flavors, and nutritional properties. Because of the importance of brand recognition, successful sellers of alternative beverages were required to possess well-developed brand-building skills. The industry's largest sellers were global food and beverage companies—having built respected brands in snack foods, soft drinks, and fruit juices prior to entering the alternative beverage industry.

Alternative beverage sellers also needed to have efficient distribution systems to supermarket and convenience store channels to be successful in the industry. It was imperative for alternative beverage distributors (whether direct store delivery by bottlers or delivery by third-parties) to maximize the number of deliveries per driver since distribution included high fixed costs for warehouses, trucks, handheld inventory tracking devices, and labor. It was also critical for distributors and sellers to provide on-time deliveries and offer responsive customer service to large

customers. Also, volume and market share were key factors in keeping marketing expenses at an acceptable per-unit level.

Recent Trends in the Alternative Beverage Market

Despite the impact of the ongoing U.S. recession on the entire beverage industry, alternative beverage producers were optimistic about prospects for the industry. Demand was expected to grow worldwide as consumer purchasing power increased, and even though volume was down in the United States for sports drinks and vitamin-enhanced drinks, alternative beverages offered profit margins much higher than those of other beverages. Innovation in brands, flavors, and formulations was expected to be necessary for supporting premium pricing and volume increases. Industry analysts believed that such exotic flavors as cardamom, hibiscus, and cupuacu might prove to be hits in 2011 and 2012.

The emergence of two-ounce energy shots sold on convenience store counters had proved to be an important growth category for the industry. The category was created with the introduction of Living Essentials' 5-Hour Energy in 2004. 5-Hour Energy contained amino acids and taurine plus 2,000 percent of the daily requirement for vitamin B₆, 8,333 percent of the daily requirement for B₁₂, and 100 milligrams of caffeine (the equivalent of a cup of coffee). By comparison, the caffeine content of energy drinks ranged from 160 milligrams for Red Bull to 240 milligrams for Rockstar Punched. Unlike energy drinks that focused on teens, energy shots were targeted to office workers, parents, and other adults who might need a boost of energy during a demanding day. Red Bull, Coca-Cola's NOS, Hansen's Monster, PepsiCo's Amp, and Rockstar had all developed competing energy shots, but none were a serious threat to Living Essentials' 5-Hour Energy in 2010. 5-Hour Energy held an 85 percent market share in the category in 2009. Exhibit 10 presents annual revenues for the top five energy shot brands in the United States in 2009. Analysts believed that Europe, Australia, South America, and the Middle East were attractive markets for the expansion-minded makers of energy shots.

Unlike carbonated soft drinks, the caffeine content of energy shots and energy drinks was

Exhibit 10 Annual Revenues for the Top Five Energy Shot Brands in the United States, 2009

Brand	Revenues (\$ millions)	Revenue Growth (2008–2009)
5-Hour Energy	\$494.6	+58.6%
Stacker2 6-Hour Power	30.4	+32.9
Red Bull Energy Shot	22.1	n.a.
Monster Hitman	19.7	+611.7
NOS Energy Shot	11.8	–10.4

n.a. = Not available

Source: *Beverage World* 2010 State of the Industry Report, April 2010.

not regulated by the U.S. Food and Drug Administration and could contain as much caffeine as the producer thought appropriate. There was concern among some health professionals over the high caffeine content of energy drinks and the effects of large doses of caffeine on individuals, especially children. The most significant health problems related to high caffeine consumption were heart arrhythmia and insomnia. It was not unheard of for adults with heart arrhythmias to be admitted to emergency rooms after consuming three or more energy drinks in one day. Also, physicians attributed a New Mexico man's appendicitis and gallstones to excessive consumption of energy drinks. Physicians also warned that the combination of energy drinks and over-the-counter drugs such as NoDoz could cause seizures. However, clinical studies had shown that, in moderate doses, caffeine contributed to healthy weight loss, was an effective treatment for asthma and headaches and reduced the risk of Parkinson's disease, depression, colon cancer, and type 2 diabetes. As a precaution, Monster Energy placed the following warning on its labels: "Limit 3 cans per day, not recommended for children, pregnant women or people sensitive to caffeine."¹

There was also concern over the tendency of some individuals to mix alcohol with energy drinks. It was not uncommon at all for partiers to use energy drinks as a mixer to help offset the depressive effects of alcohol and keep their energy levels high throughout the evening. It was

estimated that more than 25 percent of college-age drinkers mixed alcohol with energy drinks. The frequency of the practice led MillerCoors to develop an alcohol energy drink that contained caffeine, taurine, guarana, and ginseng in addition to alcohol. Anheuser-Busch sold two similar drinks called Tilt and Bud Extra. Both companies removed the caffeine from the drinks after attorneys general in several states had written the U.S. Food and Drug Administration (FDA) to ask that the federal government force the removal of the products from the market. The attorneys general argued that the addition of caffeine to alcohol masked a drinker's level of intoxication and could lead to "increased risk-taking and other serious alcohol related problems such as traffic accidents, violence, sexual assault, and suicide."²

The relaxation drink niche within the alternative beverage industry also caused some concern among health professionals and members of law enforcement. Relaxation drinks such as Vacation in a Bottle (ViB) and Dream Water contained the hormone melatonin, which was produced by humans, plants, and animals and had many known and unknown effects on the human body. Melatonin had been associated with rapid-eye movement (REM) sleep and was used by some as a supplement to help treat insomnia. A Harvard Medical School sleep expert warned against the consumption of relaxation drinks by stating that hormones "should not be put in beverages, since the amount people drink often depends on thirst and taste rather than being taken only when needed like any other drug."³ Kava and valerian root were two other common ingredients of relaxation drinks; the FDA warned against the use of kava and had not approved valerian root as a food additive.

Controversy also surrounded some relaxation drinks because of their association with the abuse of prescription cough syrup. The practice of mixing a prescription cough syrup whose ingredients included promethazine and codeine with Sprite or other carbonated soft drinks had become common in some inner-city areas, especially in southern U.S. states. The purple-colored cough syrup drink, which was commonly called "purple drank" or "sizzurp," was said to have been originated by Houston, Texas, disc jockey and rapper DJ Screw, who died from an overdose of purple drank in 2000. Purple drank was frequently

mentioned in hip-hop and rap songs such as those performed by Three 6 Mafia, Eminem, Lil' Wyte, Lil Boosie, Mike Jones, Lil' Wayne, Ludacris, T.I., and Kanye West. The use of sizzurp was also a problem in professional sports, and possession of the controlled substances used to make sizzurp had led to the arrests of a number of professional athletes, including Green Bay Packers defensive lineman Johnny Jolly and former Oakland Raiders quarterback JaMarcus Russell. Legal authorities believed that the purple-colored relaxation drinks Drank and Purple Stuff attempted to exploit the street use of purple drank. Innovative Beverage Group, the maker of Drank, had built its marketing plan on product placements in rap and hip-hop videos and launched a competition in summer 2010 that would award prizes to those who wrote the best new rap songs about the company's product.

PROFILES OF THE LEADING ALTERNATIVE BEVERAGE PRODUCERS

PepsiCo

In 2010, PepsiCo was the world's fourth-largest food and beverage company, with 2009 sales of about \$43 billion. The company's brands were sold in more than 200 countries and included such well-known names as Lay's, Tostitos, Cheetos, Mountain Dew, Pepsi, Doritos, Lipton Iced Tea, Tropicana, Aquafina, SoBe, Gatorade, Quaker, and Cracker Jack. The company held commanding market shares in many of the food and beverage categories where it competed. In 2009, it was the number one seller of beverages in the United States and its Frito-Lay division was four times as large as the next-largest seller of snacks in the United States. PepsiCo had upset Coca-Cola to become the largest seller of beverages in the United States, not by selling more carbonated soft drinks than Coke (Coca-Cola was the largest seller of carbonated soft drinks in 2009), but by leading in most other beverage categories. For example, Aquafina was the best-selling brand of water in the United States, Frappuccino was the number one brand of ready-to-drink coffee, Tropicana was ranked first in orange juice sales,

and Gatorade held a commanding lead in sports drinks. The company's strength in noncarbonated beverages made it the world's largest seller of alternative beverages, with a global market share in 2009 of 26.5 percent. PepsiCo held more than a 2-to-1 worldwide market-share lead over industry runner-up, Coca-Cola, which had a global market share in alternative beverages of 11.5 percent in 2009. However, PepsiCo's greatest strength was in the United States, where it held a 47.8 percent share of the total alternative beverage market in 2009.

PepsiCo's best-selling alternative beverages included Gatorade (which held a 75 percent share of the \$1.57 billion U.S. sports drink market), Propel, SoBe Lifewater, and Amp Energy. PepsiCo produced 12 flavors of Amp Energy drinks and two flavors of No Fear energy drinks. Its SoBe brand included both energy drinks and vitamin-enhanced drinks. In 2010, PepsiCo bottled and marketed 2 varieties of SoBe Adrenaline Rush energy drinks and 28 varieties of SoBe vitamin-enhanced beverages. PepsiCo also marketed a line of DoubleShot Energy drinks that complemented its Starbucks Frappuccino drink line.

The company expanded its lineup of alternative drinks in 2009 with the launch of Charge,

a lemon-flavored energy drink containing L-carnitine; Rebuild, a black tea drink fortified with amino acids and antioxidants; Defend, a drink fortified with antioxidants and betalanine; and Bloodshot, a juice drink containing 150 percent of the daily recommended dosage of vitamins B and C. The company also had a multiyear distribution agreement with Rockstar to distribute Rockstar energy drinks in the United States and Canada.

A summary of PepsiCo's financial performance between 2007 and 2009 is presented in Exhibit 11.

The Coca-Cola Company

The Coca-Cola Company was the world's leading manufacturer, marketer, and distributor of nonalcoholic beverage concentrates, with 2009 revenues of nearly \$31 billion and sales in more than 200 countries. The company was best known for Coca-Cola, which had been called the world's most valuable brand. Along with the universal appeal of the Coca-Cola brand, Coca-Cola's vast global distribution system—which included independent bottlers, bottlers partially owned by Coca-Cola, and company-owned bottlers—made

Exhibit 11 Financial Summary for PepsiCo, 2007–2009 (\$ millions, except per share information)

	2009	2008	2007
Net revenue	\$43,232	\$43,251	\$39,474
Cost of sales	20,099	20,351	18,038
Selling, general and administrative expenses	15,026	15,877	14,196
Amortization of intangible assets	63	64	58
Operating profit	8,044	6,959	7,182
Bottling equity income	365	374	560
Interest expense	(397)	(329)	(224)
Interest income	67	41	125
Income before income taxes	8,079	7,045	7,643
Provision for income taxes	2,100	1,879	1,973
Net income	5,979	5,166	5,670
Less: Net income attributable to noncontrolling interests	33	24	12
Net income attributable to PepsiCo	\$5,946	\$5,142	\$5,658
Net income attributable to PepsiCo per common share			
Basic	\$3.81	\$3.26	\$3.48
Diluted	\$3.77	\$3.21	\$3.41

Source: PepsiCo, 2009 10-K report.

Coke an almost unstoppable international powerhouse. Coca-Cola, Diet Coke, Fanta, and Sprite all ranked among the top five best-selling nonalcoholic beverages worldwide in 2009.

The strength of the Coca-Cola brand also aided the company in gaining distribution for new beverages. In the United States, Coca-Cola produced, marketed, and distributed Minute Maid orange juice products, Dasani purified water, Powerade sports drinks, an assortment of energy drink brands, Fuze vitamin-enhanced beverages, Nestea ready-to-drink teas, and glacéau vitaminwater. The company also produced and sold country- and region-specific beverages such as Bonaqua sparkling water in Europe, Georgia ready-to-drink coffee in Japan, and Hugo fruit and milk protein drinks in Latin America.

Even though Coca-Cola was the worldwide leader in carbonated soft drink sales, it had struggled to build market share in alternative beverages and trailed PepsiCo by a significant margin worldwide in energy drinks, sports drinks, and vitamin-enhanced beverages. Asia was the only geographic market where Coca-Cola's sales of alternative beverages exceeded the sales of PepsiCo's energy drinks, sports drinks, and vitamin-enhanced beverages. As of 2009, Coca-Cola had yet to gain strong demand for its alternative beverages in Europe and, as a result, was not listed among the leading sellers of alternative beverages in that market. In the United States, Coca-Cola was the third-largest seller of alternative beverages, with its combined sales of Powerade, Full Throttle, NOS, Rehab, TaB, and Vault energy drinks; glacéau vitaminwater; and Fuze vitamin-enhanced drinks, falling just short of the sales of Red Bull energy drinks.

Much of the company's efforts to build market share in 2009 and 2010 centered on new-product development and the introduction of existing brands into new country markets. In 2009, Coca-Cola introduced glacéau vitaminwater in South Africa, France, South Korea, Japan, Belgium, Portugal, Hong Kong, China, and Sweden; in that same year it also launched Cascal, a fermented fruit drink, in the United States and Burn energy drink in India. The company had introduced its newly developed Gladiator energy drink in Latin America in 2008. Among Coca-Cola's greatest resources in the energy drink category was its

multiyear distribution agreement with Hansen Natural Corporation to distribute Hansen's Monster energy drink in parts of the United States, Canada, and six European countries.

A summary of the Coca-Cola Company's financial performance between 2007 and 2009 is presented in Exhibit 12.

Red Bull GmbH

Red Bull was the world's number one seller of energy drinks, which made it the third-largest producer of alternative beverages worldwide and the number two seller of alternative beverages in the United States and Europe. Red Bull's distinctive taste and formula of vitamins, taurine, and caffeine launched the energy drink market in the Western world in the late 1990s. Energy drinks similar to Red Bull had been produced and marketed in Asia since the 1970s. In fact, Red Bull's formula was modeled after Krating Daeng, a popular energy drink sold in Thailand that was recommended as a jet lag remedy to Austrian businessman Dietrich Mateschitz. Mateschitz had been in Thailand to call on T.C. Pharmaceutical, which was a client of his employer at the time and the manufacturer of Krating Daeng. Mateschitz was so impressed with the flavor and energy-boosting capabilities of Krating Daeng that he left his job and formed a partnership with T.C. Pharmaceutical's founder in 1984 to market the drink in Europe. The energy drink's formula was modified slightly to better appeal to Western palates and was renamed Red Bull, which was the English translation of Krating Daeng. Red Bull was launched in Austria in 1987 and sold more than 1 million cans during the year. The company expanded into Hungary and Slovenia in 1992, Germany and the United Kingdom in 1994, and the United States in 1997. In 2010, the company exported its energy drinks to more than 160 countries and delivered to retailers by independent distributors.

The company's slogan, "Red Bull gives you wings," signaled its energy-boosting properties, and the company's endorsements involved almost every high-energy sport worldwide. In 2010, Red Bull sponsored not only athletes and teams competing in sports ranging from auto racing to free-style biking to wakeboarding to snowboarding to golf but also a number of music events around the

Exhibit 12 Financial Summary for the Coca-Cola Company, 2007–2009 (\$ millions)

	2009	2008	2007
Net operating revenues	\$30,990	\$31,944	\$28,857
Cost of goods sold	11,088	11,374	10,406
Gross profit	19,902	20,570	18,451
Selling, general, and administrative expenses	11,358	11,774	10,945
Other operating charges	313	350	254
Operating income	8,231	8,446	7,252
Interest income	249	333	236
Interest expense	355	438	456
Equity income (loss)—net	781	(874)	668
Other income (loss)—net	40	39	219
Income before income taxes	8,946	7,506	7,919
Income taxes	2,040	1,632	1,892
Consolidated net income	6,906	5,874	6,027
Less: Net income attributable to noncontrolling interests	82	67	46
Net income	\$ 6,824	\$ 5,807	\$ 5,981

Source: Coca-Cola Company, 2009 10-K report.

world featuring hip-hop, rap, and hard rock groups. In addition, Red Bull fielded company-sponsored soccer teams in New York City; Salzburg, Austria; Leipzig, Germany; and São Paulo, Brazil. The company owned the Salzburg, Austria, hockey team that played under the Red Bull name.

Red Bull also promoted a series of Flugtag (flight day) events held around the world, during which participants were encouraged to fly their homemade human-powered flying machines—most of which seemed more comically designed than flightworthy. Teams of five designed and piloted their crafts to the end of a 30-foot-high ramp positioned over a body of water. Each team was scored for flight distance, creativity, and showmanship to determine a winner. The appeal of attending the events for spectators was to watch the vast majority of the flying machines merely crash off the end of the ramp.

In 2010, the company produced Red Bull Energy Drink, Red Bull Sugarfree, Red Bull Cola, Red Bull Energy Shots. The privately held company did not disclose financial information to the public, but it did announce shipments of 3.906 billion cans in 2009 and shipments of 3.921 billion cans in 2008.

Hansen Natural Corporation

Hansen Natural Corporation developed and marketed a variety of alternative beverages including natural sodas, blended fruit juices, energy drinks, sports drinks, fruit juice smoothies, ready-to-drink teas, and vitamin-enhanced drinks. The Corona, California, company was founded in 1935 by Hubert Hansen to produce a line of natural sodas and fruit juices and was acquired by South Africans Rodney Sacks and Hilton Schlosberg in 1992 for \$14.5 million. Under the leadership of Sacks and Schlosberg, Hansen's sales steadily grew from about \$17 million in 1992 to \$80 million in 2001. However, the company's sales skyrocketed after its launch of Monster Energy drinks in 2002. By 2004, the company's revenues had increased to \$180 million and its profits had grown from \$3 million in 2001 to \$20 million in 2004. In 2009, Monster was the second-best-selling energy drink brand in the United States and the company's annual revenues and net earnings had grown to more than \$1.3 billion and \$208 million, respectively. A summary of the company's financial performance between 2005 and 2009 is presented in Exhibit 13.

Exhibit 13 Financial Summary for Hansen Natural Corporation, 2005–2009
(\$ thousands, except per share information)

	2009	2008	2007	2006	2005
Gross sales	\$1,309,335	\$1,182,876	\$1,025,795	\$696,322	\$415,417
Net sales	1,143,299	1,033,780	904,465	605,774	348,886
Gross profit	612,316	538,794	468,013	316,594	182,543
Gross profit as a percentage to net sales	53.6%	52.1%	51.7%	52.3%	52.3%
Operating income	337,309	163,591	230,986	158,579	103,443
Net income	\$208,716	\$108,032	\$149,406	\$97,949	\$62,775
Net income per common share:					
Basic	\$2.32	\$1.17	\$1.64	\$1.09	\$0.71
Diluted	\$2.21	\$1.11	\$1.51	\$0.99	\$0.65
Cash, cash equivalents, and investments	\$427,672	\$375,513	\$302,650	\$136,796	\$73,515
Total assets	800,070	761,837	544,603	308,372	163,890
Debt	206	959	663	303	525
Stockholders' equity	584,953	436,316	422,167	225,084	125,509

Source: Hansen Natural Corporation, 2009 10-K report.

In 2010, Hansen's energy drink lineup included Monster Energy, X-Presso Monster Hammer, Nitrous Monster Energy, Monster Hitman Energy Shooter, Hansen Energy Pro, and Lost Energy. The company also produced and sold Hansen's natural juices and iced tea; Peace Tea, Rumba, Samba, and Tango energy juices; Blue Sky natural sodas; SELF Beauty Elixir; and Vibration enhanced alternative beverages. Sales of Monster energy drinks accounted for approximately 90 percent of Hansen Natural Corporation's total revenues in 2009.

Hansen Natural's rapid success in the energy drink market came about in large part because of its decision in 2002 to match Red Bull on price while packaging Monster drinks in 16-ounce containers (nearly double the size of Red Bull's 8.3-ounce container). The company also imitated Red Bull's image-building and marketing approaches through eye-catching in-store promotions and point-of-sale materials and extreme sports endorsements in snowboarding, BMX, mountain biking, skiing, snowmobiling, skateboarding, and automobile and motorcycle racing. In addition, Hansen and Vans co-sponsored music festivals featuring hard rock and alternative bands.

Hansen Natural outsourced 100 percent of its production of energy drinks and other beverages to contract bottlers throughout the United States. Distribution of the company's energy drinks and other beverages in the United States was split between Anheuser-Busch and Coca-Cola. Coca-Cola also distributed Monster energy drinks in Great Britain, France, Belgium, the Netherlands, Luxembourg, and Monaco. Hansen Natural had also entered into distribution agreements with beverage producers in Mexico and Australia to make Monster energy drinks available in those countries. While its energy drinks were sold in supermarkets, convenience stores, bars, nightclubs, and restaurants, Hansen's other beverage brands were typically found only in health food stores.

Other Sellers

In addition to the industry's leading sellers of alternative beverages, there were hundreds of regional and specialty brands of energy drinks, sports drinks, and enhanced beverages in the United States and internationally. Most of these companies were privately held bottlers with distribution limited to either small geographic regions

or specialty grocers and health food stores. In some cases, regional brands were produced by divisions of large corporations and might have a commanding market share in one particular country but limited distribution outside that market. For example, global pharmaceutical giant GlaxoSmithKline did not sell alternative beverages in North America or Asia, but its sales of Lucozade Energy, Lucozade Sport, and Lucozade Alert energy shot made it the second-largest seller of alternative beverages in Europe, with a 2009 market share of 11.4 percent. GlaxoSmithKline's sales of alternative beverages accounted for \$1.3 billion of its 2009 annual revenues of \$44.2 billion. The majority of the company's revenues came from the sale of prescription drugs and over-the-counter medicines and oral care products such as Contact, Nicorette gum, Tums, and Aquafresh. Japanese pharmaceutical company Otsuka Pharmaceutical was the third-largest seller of energy drinks, sports drinks, and vitamin-enhanced beverages in the Asia-Pacific region, with a 9.4 percent market share in 2009.

Other than Red Bull, Rockstar was the most noteworthy privately held alternative beverage company. The Las Vegas, Nevada-based company entered the energy drink market in 2001 using a strategy that would be imitated by Hansen's Monster brand a year later. Rockstar was packaged in a 16-ounce can and priced comparably to Red Bull's pricing for its 8.3-ounce can. Rockstar's image, like that of Red Bull and Monster, was built on extreme sports endorsements and hard rock promotions. Among the company's

annually sponsored music festivals was the Mayhem Festival, which in 2010 included such musical acts as Rob Zombie, Five Finger Death Punch, Korn, In This Moment, Chimaira, and 3 Inches of Blood. The company also sponsored other hard rock and metal tours such as Taste of Chaos, the Warped Tour, and the Uproar Festival. In 2010, Rockstar energy drinks were available in 11 flavors and Rockstar energy shots were available in two flavors. Rockstar beverages were distributed in the United States and Canada by PepsiCo and were distributed in Australia, New Zealand, Japan, Germany, Switzerland, Finland, Spain, the Netherlands, and the United Kingdom through agreements with beverage distributors in those countries.

The number of brands competing in the sports drinks, energy drinks, and vitamin-enhanced beverage segments of the alternative beverage industry continued to grow each year. In 2009, 231 new vitamin-enhanced beverages were introduced in the United States. The relative maturity of the sports drink segment and the dominant market position held by Gatorade limited the number of new sports drink introductions to 51 in 2009. Launches of new energy drink brands had grown steadily from 172 in 2005 to 380 in 2008, but energy drink introductions fell to 138 in 2009 as the segment matured and financially squeezed consumers became more price conscious. Overall, the relative strength of the energy drink, enhanced beverage, and sports drink beverage segments would likely attract additional entrants over the next several years.

ENDNOTES

¹ Quoted in "Energy Boost a Bummer? Hospital Study Raises Alarm about Drinks," *Chattanooga Times Free Press*, April 9, 2009, p. E6.

² Quoted in "FDA Questions Safety of Alcoholic Energy Drinks," Associated Press, November 13, 2009.

³ Quoted in "These Drinks'll Knock You Out!" *Daily News* (New York), February 7, 2010, p. 6.