

U.S. Energy Drink Industry Report

Reaching Uncapitalized Markets

Winter 2022

Presented by Morgan Presson



Lundquist College of Business



Oregon Consulting Group

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Industry Overview

Key Industry Statistics

Market Size (2020)
\$9.4 billion

Annual Growth Rate (2015-2020)
+2.7%

Annual Growth Rate (2020-2025)
+1.4%

Average Profit Margin
14.1%

Market Concentration
High

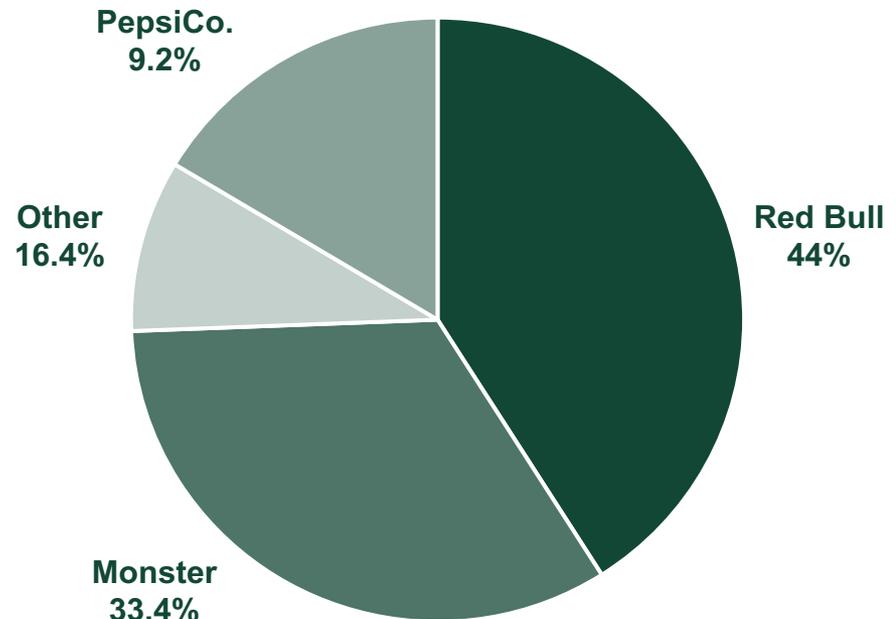
Total Businesses
83

Industry Lifecycle
Growth, approaching maturity

Energy Drink Industry Background

Energy drinks claim to increase energy while enhancing mental alertness and physical performance by providing consumers with 70 to 250 milligrams of caffeine per container.

Market Share Distribution

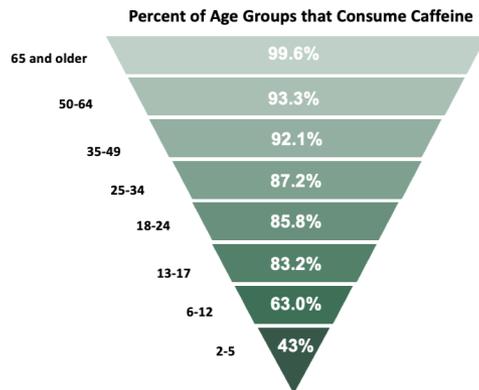


Identified Threats



External Competition

- ▶ Coffee is the central source of caffeine in the U.S.
- ▶ The coffee industry is projected to continue to grow at 0.9% annually
- ▶ Caffeine consumption increases with age, although the energy drink industry only maintains young consumers

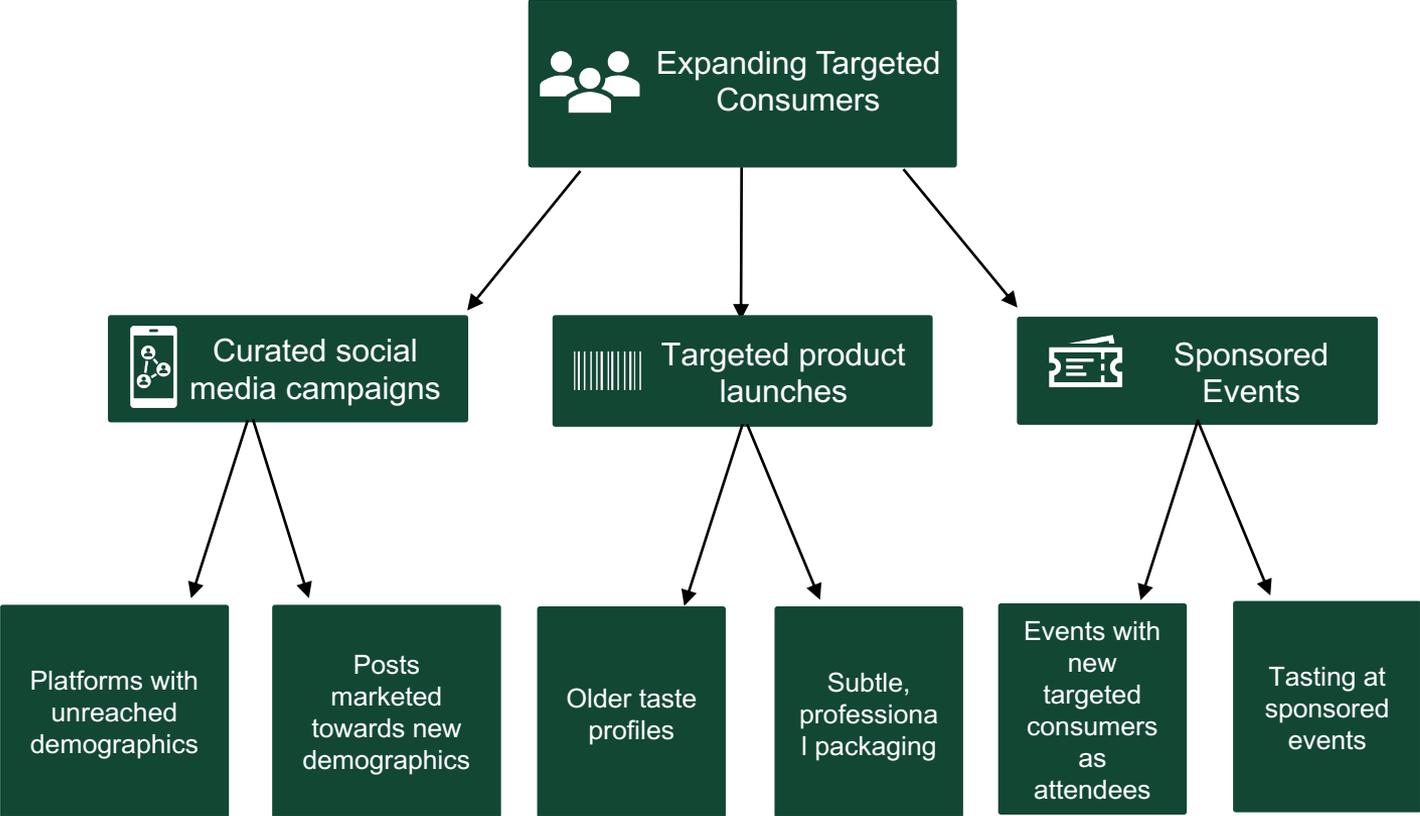


Legislation and Bans on Caffeine

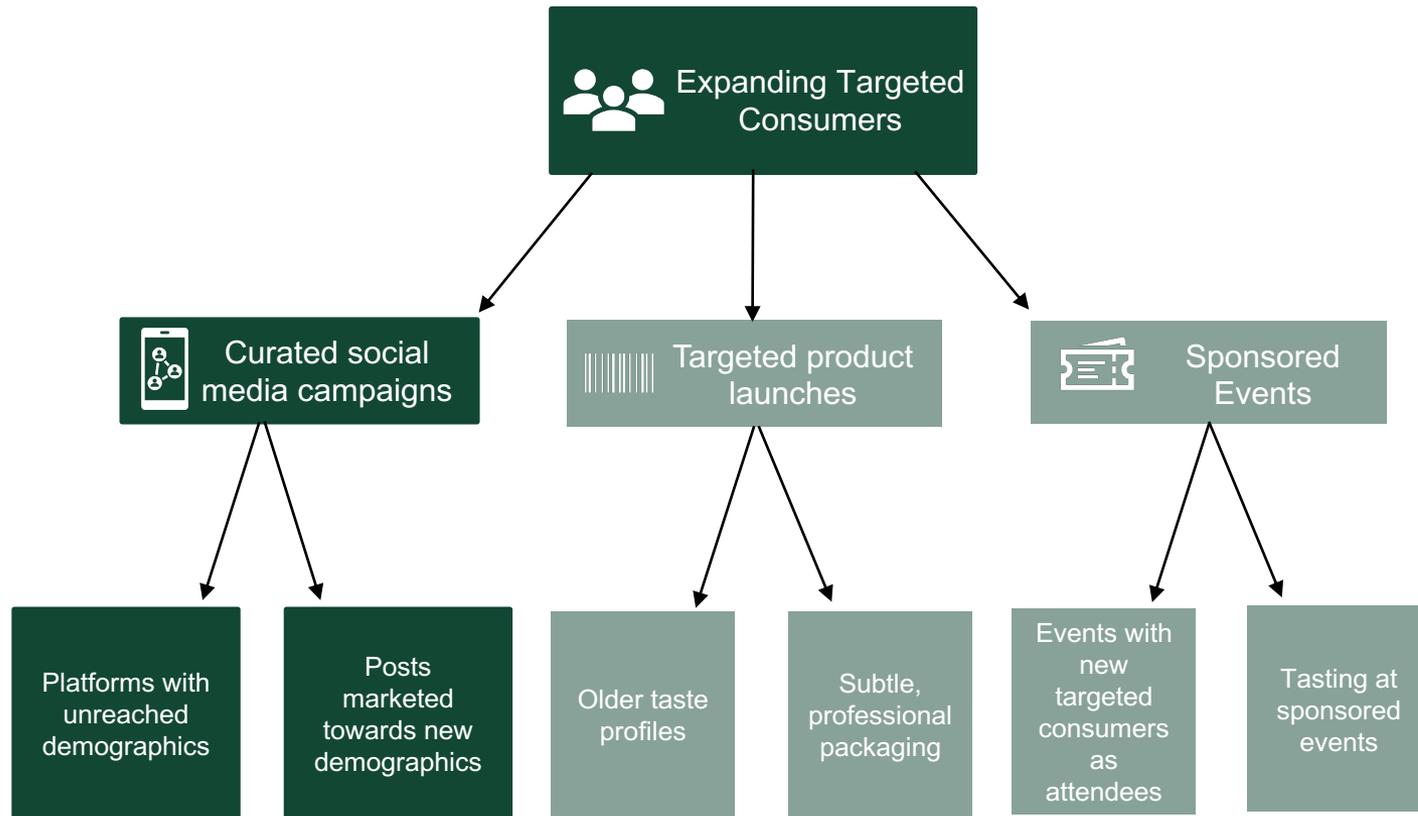
- ▶ The FDA only has laws on caffeine in soda beverages
- ▶ Energy drinks are marketed as dietary supplements
- ▶ Rising hospitalizations from misuse of caffeine and excessive caffeine consumption
- ▶ The U.K. banned the sale of energy drinks to children under the age of 16 in 2019
- ▶ The U.S. has no current information on potential regulations or bans, although this would drastically alter the industry



Reaching New Consumers

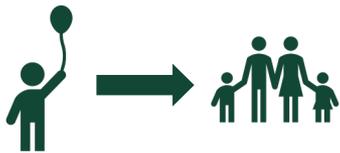
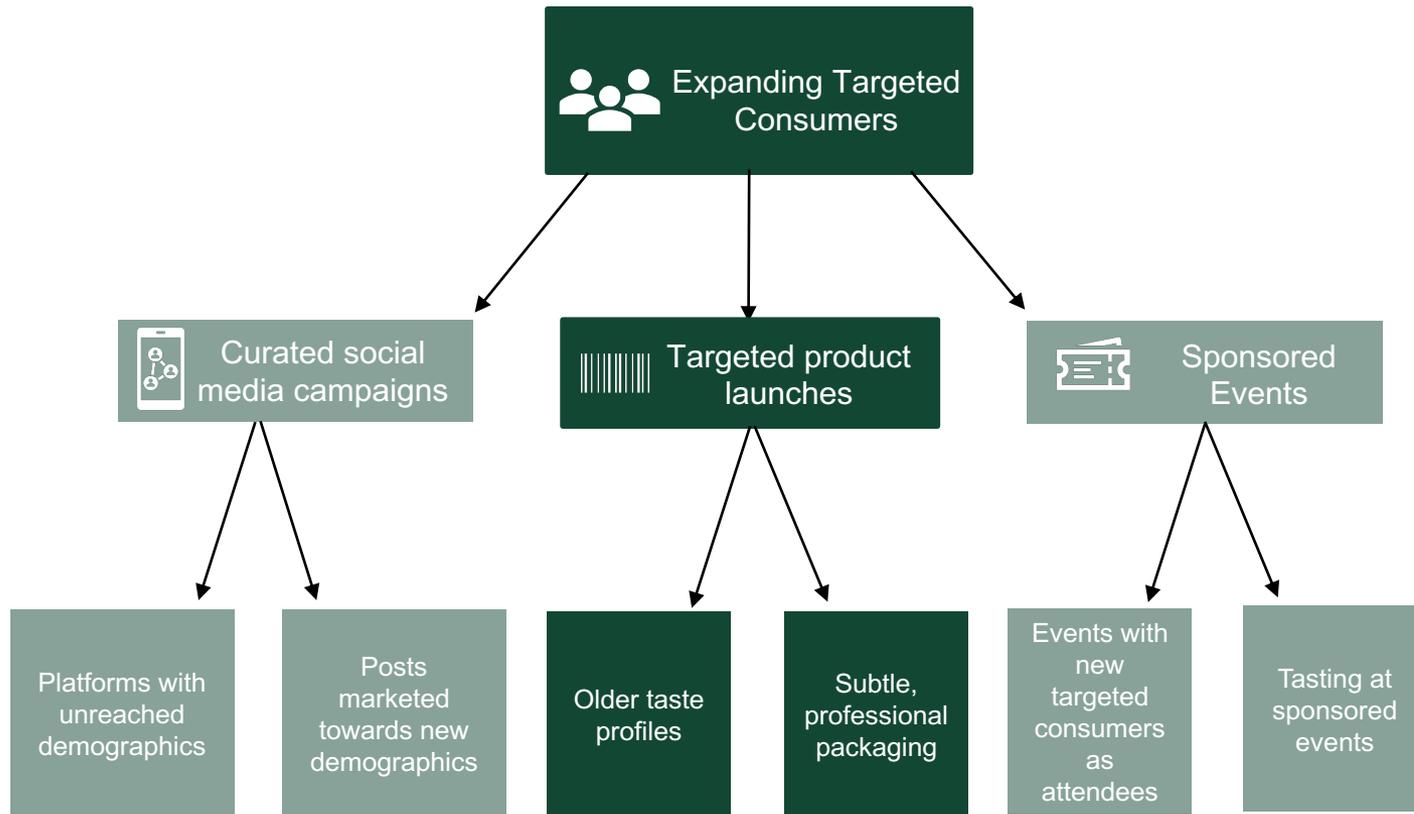


Reaching New Consumers



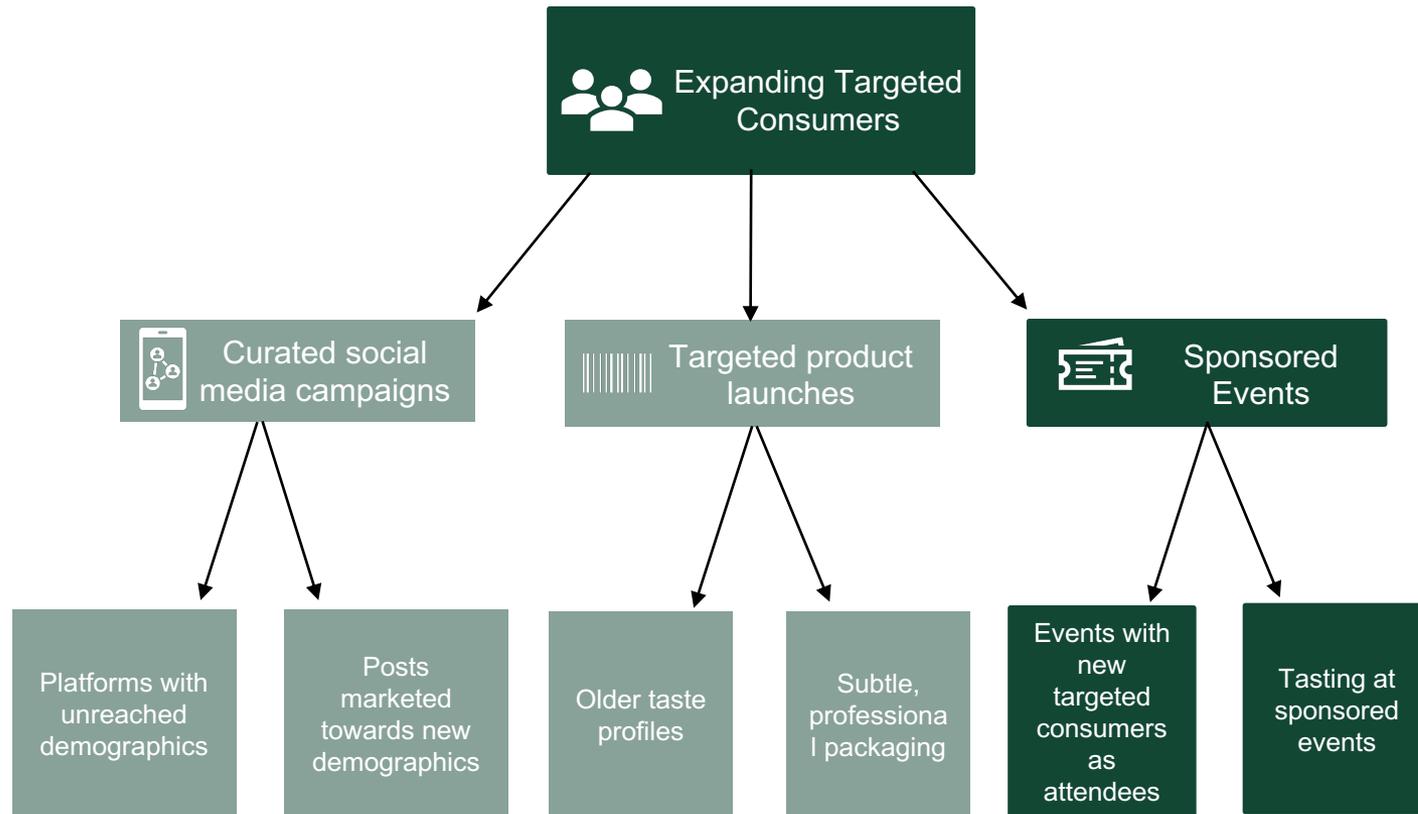
- ▶ Energy drinks are currently only marketed towards younger demographics
- ▶ Current marketing has been successful with these consumers
- ▶ Expand marketing more heavily into other social media platforms based on target demographics
- ▶ Use current social media algorithms to place advertisements on posts already marketed towards these consumers

Reaching New Consumers



- ▶ Current energy drinks appeal to children, young adults, and athletes
- ▶ Bold flavors and bright packaging can be seen as unprofessional
- ▶ New products that account for older taste profiles
- ▶ Subtle, professional packaging that adults and professionals feel comfortable bringing to everyday events and not only the gym

Reaching New Consumers



- ▶ Energy drinks brands have had success with marketing through sponsorships
- ▶ Most sponsorships are currently through athletic events (Red Bull)
- ▶ Expand sponsorships into new events with different consumer profiles
- ▶ Concerts, corporate events, fashion shows, etc.
- ▶ Allow attendees to sample or leave with a product

Further Stimulating Energy Drink Growth

Background

While coffee has powered Americans for the last 400 years, their source of caffeination has recently shifted with the millennial preference towards energy drinks rather than a cup of joe. Energy drinks claim to increase energy while enhancing mental alertness and physical performance by providing consumers with 70 to 250 milligrams of caffeine per container, allowing Americans to work harder and longer than their noncaffeinated counterparts (U.S. Department of Health and Human Services, 2018). With coffee only providing roughly 100 mg and soda roughly 35 mg of caffeine per 12 ounce serving (U.S. Department of Health and Human Services, 2018), the unmatched caffeine content in energy drinks has stimulated industry growth to \$9.4B in revenue in 2020 (Holcomb, 2021).

Despite significant growth, the energy drink industry has maintained a high market share concentration with 86.6% of the market being consumed by three major players. Smaller companies have attempted to outcompete their larger counterparts, yet Red Bull, Monster, and PepsiCo. have steadily maintained 44%, 33.4%, and 9.2% of the market, respectively (Holcomb, 2021). Red Bull dominates the industry with their 8.4 oz cans in an array of flavors and varieties, including sugar free and total zero (Fontinelle, 2021). Red Bull's leading competitor, Monster, markets a handful of various energy drink names in addition to the Monster drink itself, including NOS, Full Throttle, Burn, and Predator (Thomson, 2021). Monster's strategic partnership with Coca-Cola company in 2015 has provided both a distribution advantage and decreased competitive pressure, as Monster and Coca-Cola entered into an agreement to avoid competition

with one another's brands (Pysh, 2017). In third place, far behind both Red Bull and Monster, PepsiCo. claims nearly half of the remaining market. PepsiCo. continues to grow as it starts to acquire additional energy drink names, including Rockstar, AMP energy, Bang, and Mountain Dew Kickstart (Fontinelle, 2021). Despite the domination by these companies, approaching maturity and recent events pose a threat to the industry as a whole.

Recent Market Trends

Prior to 2020, which was marked by global shutdown in the wake of COVID-19, the energy drink market grew exponentially. With rising incomes, increased American interest in sports activities, and urbanization, the industry was able to capitalize on these marketing outlets (Research and Markets, 2021). Red Bull, for example, has utilized a sports-based marketing strategy (Bush, 2021). By sponsoring large athletic teams in a wide range of sports, from football to surfing to Formula 1 teams, the brand has effectively become associated with athletics and athletes. Additionally, as people have moved into larger cities with the rise of urbanization, convenience stores, supermarkets, and online markets have become more readily available. The increased availability of energy drinks in these outlets coupled by rising per capita disposable income has helped to drive impulse purchases, and therefore the demand for discretionary packaged beverages such as energy drinks (Holcomb, 2021). These trends have led to low market volatility and high profit margins, up to 14.1% of revenue in 2020, which have been of great benefit to major players (Holcomb, 2021). Despite these advantages, the market still grinded to a halt with the abrupt challenges presented with COVID-19.

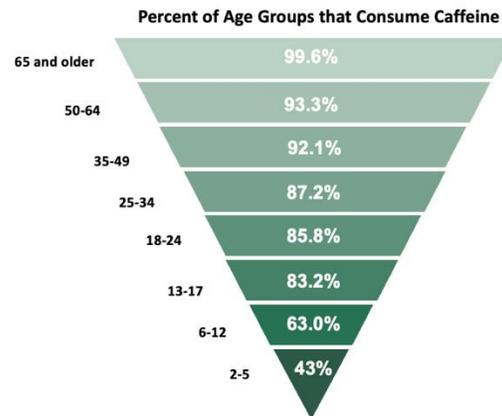
Just as the industry began approaching its peak, COVID-19 struck, and the world was sent into lockdown. As athletics and other activities were restricted in the heat of the pandemic, which made up a large sector of the industry's consumers, sales quickly took a turn (United States Energy Drink Market: 2021-26). As Americans were confined to their houses in 2020, consumer spending declined a steep 7.3% (Holcomb, 2021). Additionally, industries shut down production for the health and safety of their workers, creating low inventory. With both decreased demand and low inventory, the energy drink industry recorded a 2.2% decrease in revenue over the course of 2020 (Holcomb, 2021).

Risk Factors in Maturity

As the world continues to experience and recover from the impacts of COVID-19, the energy drink industry is expected to continue to experience growth, yet at a slower rate than before the pandemic. The industry has a projected CAGR of 1.4% between 2020 and 2025 and is forecast to reach a revenue of \$10.1B in 2025 (Holcomb, 2021). While the United States slowly emerges from lockdown, stimulating sales once again, the energy drink industry emerges alongside the rapidly developing coffee industry and growing concern regarding the health and safety of caffeine.

Caffeine Competition

While caffeinated beverage consumption increases with age, from 43% of children under the age of five to nearly 100% of those older than 65 (Verster, 2017), the energy drink industry only successfully maintains teens aged 12-17, men aged 18-34, and the nightlife crowd as regular



consumers (U.S. Department of Health and Human Services, 2018). The industry has exploded in these select markets previously, although it has struggled to expand into other sectors of consumers. Further, regardless of age, coffee is the central source of caffeine in the U.S. (Verster, 2017). With per capita coffee consumption anticipated to grow at 0.9% annually over the next five years (Ross, 2020), the energy drink industry will likely feel the effects of coffee industry growth.

Caffeine Bans and Legislation

In recent years, the United States has experienced a trend towards an organic diet, creating increasing concern surrounding energy drink consumption (Holcomb, 2021). U.S. health and safety committees have also recognized these concerns and are currently in the process of enacting legislation to place regulations on the sale of caffeine (Pysh, 2017). While caffeine is currently nationally recognized as safe for use in soda beverages only up to 200 parts per million (roughly 71 mg per 12 oz serving) (Pysh, 2017), energy drinks have historically been marketed as part of the dietary supplement category. By marketing under dietary supplements, energy drink containers

have no requirement to be labeled with their caffeine content or to cap the caffeine content at 200 ppm (C.M.T., 2021). However, the Food and Drug Administration has slowly begun placing stricter regulations on caffeinated goods. While the United States currently has overly relaxed laws regarding the sale of caffeine, the U.K. took action to ban sales of energy drinks to children under the age of 16 in 2019 (Aurthur, 2019).

Currently, the FDA has not made any official decisions surrounding the sale of caffeinated non-Cola goods in the U.S., although they have numerous options as to enacting regulations or education surrounding caffeine. Given that Europe tends to have stricter regulations surrounding food production than the United States, it is safe to assume that any ban or regulation on caffeine sales will be more relaxed than the ban enacted in the U.K. in 2019.

Expanding into Uncapitalized Markets

While the growth of the coffee industry and potential caffeine regulation appear to be very different issues for the energy drink industry, expansion of the industry into uncapitalized markets would be a natural solution to both challenges. Energy drinks have been marketed heavily towards young consumers through targeted advertising, although they have not reached into other demographics. After college graduation, many adults no longer have time or interest to participate in athletics or nightlife, making energy drink consumption appear unprofessional or unnecessary. However, target marketing towards older consumers, including busy mothers, the corporate workforce, and retirees with declining energy, will help to diversify the industry. Specifically, moving marketing more heavily into different social media platforms will help to grasp the attention of these underreached classes. While only 8% of people over 65 use

Instagram, 35% of the same age group use Facebook and 58% use YouTube (*The 2021 Social Media Users Demographics Guide, 2021*). By shifting advertising towards these mediums, and specifically onto posts and videos targeted towards working generations, the industry can expand their market share.

Further, as U.S. consumers exhibit a preference for coffee over energy drinks, the energy drink industry should use these taste preferences when launching new products. While adolescents prefer the bold, fruity tastes and bright containers often present in current energy drinks such as Bang energy, older generations often prefer more mild tastes and subtle packaging. As some flavors, such as ginger and mint, attract older consumers over adolescents, integrating these taste preferences into new products will help to diversify the energy drink consumer profile (Michail, 2016). Further, although children and millennials are often attracted to the bold, bright containers of current energy drinks, this packaging may often be associated with immaturity and adolescence, given the energy drink industry's current consumer profile. A business executive would not feel comfortable in a meeting with C-suite professionals holding a bright red can of Rockstar energy but would naturally hold a paper coffee cup. By launching products with more subtle containers and neutral colors that consumers can naturally bring to work, a get together, or to a child's playdate, similar to a cup of coffee, the industry can draw the attention of more diverse consumers and pull from the coffee industry's consumers.

Finally, the energy drink industry should sponsor events made for these new targeted age demographics. As Red Bull has clearly displayed through its athlete sponsorships which attract athletic consumers, further expanding into concerts,

corporate business events, or even fashion events would help to translate this success into other populations. These sponsorships would also give energy drink companies an opportunity to provide attendees with a sample of their product, allowing consumers in attendance to depart the event with an entirely new understanding of the company.

Given that regulations on caffeine sales will likely impact older age groups far less than adolescents and children, moving into these markets will help to minimize the effects of any actions by the FDA as well as creating an edge on external competition from the coffee industry.

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