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**Dr Pepper Snapple Group, Inc**

**Energy Beverages**

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**Strategic Issues**

Currently, energy beverages (excluding coffee) in 2006 were the fourth largest nonalcoholic beverage category in the United States after soft drinks, sports drinks, and bottled water. While Dr Pepper Snapple is a major competitor within the flavored carbonated soft drink (CSD) market as well as the non-CSD market, they are only taking part in a small segment of the non-CSD market.

The company currently sells ready-to-drink tea, juice, juice drinks, and mixer categories. However, none of these segments are of the top four categories specified above. Therefore, they are missing out on a huge market/profit opportunity. It would be in Dr Pepper Snapple’s best interest to expand their portfolio to energy beverages which are the fourth largest nonalcoholic beverage market.

**Analysis and Evaluation of Entering the Energy Beverage Market**

Nature of the Industry, Market, and Buyer Behavior

The energy beverage market is expected to grow through 2011. In recent years, growth has slowed due to the maturing of the market as well as new entrants to the market (greater competition) of hybrid energy beverages. The major players in the market are Red Bull North America, Hansen Natural Corporation, Pepsi-Cola, Rockstar Inc., and Coca-Cola. While each player/competitor has their own strengths and weaknesses, one thing is sure about this market: brand loyalty will be a huge obstacle within this market for Dr Pepper Snapple.

Another thing to consider about the energy beverage industry is that (besides Redbull) marketing efforts are modest. Competitors rely on promotional vehicles such as brand Web sites, events, and sponsorship to promote their brand.

Most competitors offer very similar products which provide consumers with and energy boost, mental alertness, refreshment and a great taste. The differences lie in the packaging size, price per single-serve package, target market, and marketing initiatives.

* *Red Bull North America* – The market leader in dollar sales and unit volume. They however have seen a decline in their dollar market share in recent years due to new entrants to the market, aggressive competitors, and lower prices for other brands. Their niche in the industry is the fact that they were the energy beverage pioneers with a high customer loyalty and charge higher prices due to the fact that consumers will generally pay higher prices for their product because of customer loyalty. However, they do only offer two products to consumers: regular Red Bull and sugar free Red Bull.
* *Hansen Natural Corporation* – This company distributes Monster Energy drinks to wholesalers, retailers, and on-premise retailers (bars, nightclubs and restaurants). Their strength within the industry is their distribution agreement with Anheuser-Busch.
* *Pepsi-Cola* – They provide SoBE and Amp products to consumers. Their competitive edge is te fact that they market their products via the Pepsi-Cola distribution system.
* *Rockstar, Inc* – This company is distributed by the Coca-Cola Company.
* *Coca-Cola* – This competitor markets Full Throttle and sugar-free Tab Energy Brands. Their strength has been in acquiring licensing agreements (such as Rockstar).

After looking at the competitors within the industry, it would seem that in order to be successful within this market, a company must have a great distribution system and something new that distinguishes their product from other products on the market. While the current target market for most competitors within the industry is males between the ages of 12 and 34 who account for 70% of the markets consumption. However, there are other market segments that have a high consumption rating as well. For instance, adults (who are not currently a target market for any other competitors) between the ages of 35 and 54 consume energy beverages at a rate only slightly lower than consumers under the age of 24. Therefore, there is a market available that is not currently being marketed to.

Another important factor in the industry that is not currently being taken full advantage of is the push for healthier options. It seems that if more health conscious people felt that energy drinks were healthy and also provided them with energy, then they might become a possible target market for this industry.

The Organization

Dr Pepper Snapple Group prides itself on having the following strengths within the nonalcoholic beverage marketplace:

1. *Strong Portfolio* – They currently have a very diverse portfolio comprised of many CSD and non-CSD brands.
2. *Integrated Business Model* – They currently are integrated within brand ownership, bottling, and distribution and this provides them with a huge competitive advantage in the marketplace.
3. *Strong Customer Relationships* – They have long-standing relationships with many of their top customers and also have a very wide range of customers including retailers, foodservices (fast food chains), and convenience stores.
4. *Attractive Positioning* – They are currently the number three company within the beverage markets in both the US, Canada, and Mexico. They are well positioned to take advantage of growing consumer trends such as the demand for healthier options.
5. *Broad Geographical Manufacturing and Distribution Coverage* – They currently have 21 manufacturing facilities and approximately 200 distribution centers in the US. Their warehouses are strategically located near bottling plants and geographically dispersed to ensure that company products are available to meet consumer demands. They are able to better align their operations with customers, reduce transportation costs, and have greater control over the timing and coordination of new product launches.
6. *Strong Operating Margins With Stable Cash Flow* – The breadth and strength of their diverse portfolio has provided the company with strong operating margins which has create steady cash flows which in turn create stockholders value.

Dr Pepper Snapple also has a strong business strategy which includes:

1. *Focus on Opportunities in High-Growth and High-Margin Categories* – The energy beverage market has been a high growth industry. It is true that they are slowing down in recent years due to maturity of the market, but growth is still there.
2. *Increase Presence in High-Margin Channels* – Such as convenience stores, vending machines, and small independent retail outlets. They also intend to increase the demand for high-margin single serve packages through promotional activity and innovation.
3. *Leveraging the Company* – New channels or new products.

A Plan of Action

It is clear that there are profitable markets within the nonalcoholic industry that Dr Pepper Snapple is not currently taking advantage of. However, pursuing these markets would make sense for the company because it aligns with their business strategies. By launching a new line within a growing and profitable market, the company would achieve increasing their presence in high-margin channels as well as leveraging the company by providing a new product.

It seems that launching a new product with the energy beverage market would be a good idea for Dr Pepper Snapple because their strengths are strategically aligned with what makes a competitor successful within this market. The biggest challenges within the energy beverage market seem to be distribution, advertising, and the target market. Any of these challenges, if approached correctly can be a competitor’s advantage within the industry. This could be true in the following ways for Dr Pepper Snapple:

* *Distribution and Bottling* - The companies impressive operation/distribution chain would allow them to provide a product to consumers and be readily available to meet any rising demands.
* *Customer Relationships* – They currently have strong relationships with their long-standing customers which would provide them with a likely advantage to gain shelf space within all different types of channels including retailers, foodservices, and convenience stores. This is an advantage to the company since the energy beverage market is dominant within the convenience stores and supermarkets channels.
* *Stable Cash Flow and Diverse Portfolio* – The mere fact that the company operates at a high level within multiple segments of the beverage market means that the funding for introducing a new product is a possibility and will not be detrimental if it does not generate high profits for the company. This makes sense as well because one of their greatest acknowledged strengths as a company is their strong and diversified portfolio; this move would only enhance that strength.
* *Advertising* - Since the company is stable and well know within the beverage industry, the option to offer promotional items to market their product will be possible.

Potential Outcomes

The company can enter the energy beverage market by providing a similar product to what is currently on the market. They can provide options such as regular, sugar-free, etc… However, their strategy is what will make the difference in whether or not they succeed or fail within the market. However, even if the fail, their portfolio is so diversified that it will not be detrimental to the company as a whole. The fact that brand loyalty is a huge factor within this market may hinder their entrance to the market. However, if they find a way to amp up the competition (per say) then they may be able to make a good profit within the energy beverage market.

**Recommendations**

Product

Provide a product within the energy beverage market that not only addresses the current target market of the energy beverage industry but also addresses target market opportunities. They can provide a regular energy drink but also an option for the growing health conscious segment and penetrate a target market (possibly women or adults) not currently being serviced within this industry.

Price

The price of the product should be the cost of the product, plus the channels mark-up, plus the percentage of profits the company wishes to see. They should not start too high since their product will be new in a market with high brand loyalty to competitors. As time progresses and the brand gains awareness and loyalty however, the price can be adjusted accordingly.

Promotion

Since the company currently has thriving products within the beverage industry, it would be beneficial to make use of promotional pricing with their current products in order to persuade consumers to purchase their new products within the energy beverage market. For example: if you purchase a mature product, you can get the new product half off.

Place

This might be the company’s biggest advantage. They currently have long-term customers who already have their products on their shelves in convenience stores and retail chains. Therefore, asking these loyal customers for shelf space to advertise a new product would be beneficial to the company. It is also very important that they use their current distribution chain to get the new product to the consumers as demand increases. Since the energy beverage industry is thriving in the US, it would be beneficial for Dr Pepper Snapple to launch their new product within the US and then move to international markets if it is a success.