ENERGY/SPORTS DRINKS IN INDIA

Long and erratic working hours and the increasing occurrence of social gatherings are driving Indian consumers towards the consumption of energy drinks which are primarily classified as non-alcoholic, caffeinated beverages and sports drinks. The popularity of energy drinks in India is not merely due to its functional aspect as perceived in other countries. Over the past few years, the sales of energy drinks have been driven by changing consumer lifestyle and increasing demand for alcohol mixers. Their association with high octane sports such as the Indian Grand Prix and with eating out has further boosted sales and increased consumer awareness.

The global energy drink market grew 14-15% in 2011 to ~USD 4.1 billion, accounting for 8-9% of the global soft drinks industry. In the US, the energy drinks segment continued its strong success reaching ~USD 700 million, growing at a CAGR of 6-7%. Red Bull, Hansen Natural's Monster energy drink and Rockstar remain the top 3 brands in the US. In the UK, energy drinks sales grew to ~USD 159.1 million at a CAGR of 6-7% as energy shots continue to expand the consumer base for energy drinks.

This growth is also witnessed in volume and is fuelled by the increasing emphasis on packaging convenience and design to attract consumers. Although the US and Japan are considered to be the key markets for energy drinks, the most dynamically growing markets are India, China and Brazil.

The Indian energy drinks market is currently estimated at ~USD 154.5 million and is expected to grow at a CAGR of 28-30%. This growth was mainly driven by an extraordinary performance by Red Bull, which has been the most dominant player in the caffeinated energy drink segment, and Gatorade, which is the leader in the sports drink segment. In order to offset the increasing raw material price, fluctuation in foreign exchange rates and rise in electricity costs, the current unit prices have increased for energy drinks.

Energy drinks account for 14-15% of the non-alcoholic beverage segment and compete with other non-alcoholic beverages such as soda and brewed coffee, both of which contain caffeine for energy boost, even if the caffeine content is relatively lower than in energy drinks. Soda is the most consumed non-alcoholic beverage while ready-to-drink tea also offers stiff competition as it provides the benefits of anti-oxidants in addition to a boost of caffeine. Unlike the US and the UK markets, energy shots are currently unavailable in the Indian market and could serve as a potential business opportunity to expand the consumer base for the energy drinks players.

There seems to be a growing acceptance for the consumption of energy drinks in India. Affordability and visibility are likely to encourage impulse purchases and increase the frequency of consumption. As energy drinks are one of the most expensive beverages available in the market, consumers consider price as a key attribute for its purchase. Energy drinks which are priced at INR 75-85 are usually available at a much higher price of INR 150-250 at a nightclub or a premium lounge. Consumers are brand loyal and with Red Bull's first mover advantage, it has been able to maintain its stronghold in the market. Due to increasing safety concerns amongst consumers regarding the ingredients used in energy drinks, a number of new entrants are offering all-natural products that provide a long-lasting energy boost. Packaging size and flavor variety are other criteria for brand selection.

Furthermore, increased urbanization, rising disposable incomes and growing health consciousness among the Indian youth has fuelled the demand for non-carbonated drinks market such as energy drinks. All products in the energy drinks category are usually priced at the level of premium products, in the range of INR 75-85 for 250 ml, and are targeted at high income urban consumers aged 15-39. This target age group accounted for over ~60% of the national gross income in 2011.

The energy drinks category is still at a nascent stage of development with existing players competing for a bigger slice in the market. Gatorade (PepsiCo) is spearheading the sports drink segment and has captured a significant share of the market. Other notable brands in this segment are Amul Stamina (GCMMF), Powerade (Coca-Cola), Glucon D Isotonik (Heinz) and Lucozade (GSK).

Red Bull's top position in the caffeinated energy drink segment remains unassailable as it has positioned itself as the market leader. The other notable players in this segment are Cloud 9 (Goldwin Healthcare), Burn (Coca-Cola) and Power Horse. In the last 4 years, owing to the attractiveness of this segment created and revolutionized by Red Bull, new entrants such as Amway XL (Amway International), Sobe (Pepsico), XXX (JMJ group), Romanov Red, Fighter and Xtazy are aiming to gain a foothold in this small but thriving market.

NourishCo, a joint venture between PepsiCo India and Tata Global Beverages, has plans for a national rollout of its first fully-developed energy drink, Lehar Gluco Plus. Red Bull's global competitor Monster has also initiated talks for a potential entry into the Indian market with Rahul Narang Group (RNG) as its distribution partner. Prior to 2008, Rahul Narang Group (RNG) was selling and importing Red Bull in India on its own. Most of the energy drink products are imported with the exception of Cloud 9 which is manufactured in India.

Red Bull, with its first mover advantage and its unique product, is a brand built on marketing. The company spends 20-30% of its annual turnover on all sorts of regular and extreme sports, entertainment and events around the world. On the other hand, the JMJ group has engaged Bollywood star Shah Rukh Khan as its brand ambassador and has also entered into an agreement with Amalgamated Bean Coffee to promote its brands at all Café Coffee Day outlets across the country. Energy drinks manufacturers are continuously taking up new initiatives to connect with their young target audience and create awareness beyond the major cities in India.

Companies are effectively trying to communicate with their target audience through promotions at nightclubs and parties and are taking concrete measures to avoid being compared to other soft drinks products in terms of unit price. Energy drinks manufacturers are using both above and below the line advertisements to enhance their market share. Coca-Cola, manufacturers of Burn, and Red Bull are entering into exclusive associations with fashion and music events for sponsorship and product sampling to attract consumer attention.

With some recent deaths being preliminary linked to the consumption of energy drinks in the US, the Indian government is stepping up to ensure strict regulations in that industry. In June 2012, the Food Safety and Standards Authority of India (FSSAI) announced the mandatory use of statutory safety warnings and that all energy drinks should be renamed as "caffeinated beverages". This impending change in regulations is expected to cause a short term ripple effect on India's energy drinks market. Nevertheless, any long term effect on the major players in the country is ruled out as energy drinks are considered as a lifestyle choice. Although there is no confirmation on the upper limit of caffeine content in the energy drinks, the permissible limit in carbonated beverages is set at 145 parts per million, or ppm. Based on these figures, Red Bull and Burn seem to surpass the upper limit. This regulation may force the industry players to consider modifications in the formulation for their products and could also allow potential entrants into the market.

The energy drinks segment is more of an urban phenomenon limited to the metros and mini metros. The distribution largely takes place through organized channels which is relatively easy. However, bagging a place for their product on retail shelves, vis-à-vis popular brands, can be challenging for the new entrants. The fate of the industry relies on a single brand that controls the majority of the market. Nevertheless, there is scope for a new entrant given the huge potential in the market. Setting up a manufacturing plant requires a moderate investment which could range between USD 7.3 and 10.9 million. The biggest challenge for this segment will be to ensure that its distribution system is flexible enough to cater to spikes in demand and encourage consumption through marketing while adhering to regulatory measures relating to permissible levels of caffeine content. As Indians are not too fond of extreme sports, energy drinks brands in India will need to find a niche of their own and market their products accordingly. Promotional strategies could be built around areas such as fashion, lifestyle and other consumption occasions to boost sales. Overall, the energy drinks market is an exciting segment that will continue to grow on the strength of innovations and changing lifestyle in India.

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