Primed for performance

In the highly competitive global market for fast-moving consumer goods, companies are constantly trying to grow product sales. One way to achieve this is to make your product addictive. For ingestible products, the four most popular (legal) addictive stimulants used are alcohol, nicotine, caffeine and sugar.

All of these stimulants trigger a significant dopamine release in the brain, which is the underlying response people can get addicted to.

Due to negative side effects associated with overexposure to these additives, society generally prohibits children from ingesting alcohol and nicotine, and tries to limit their ingestion of caffeine and sugar.

Sports drinks

Prime Hydration is an example of a sports drink, a functional beverage with the main aim of rehydration during or after physical exercise. While the highly successful social media craze surrounding the product has introduced an army of preteens to the category, something more is required to convert them into regular Prime consumers, or the brand will just fizzle out. The established sports drinks brands include South Africa's Energade (owned by Tiger Brands), Britain's Lucozade (today owned by Japanese beverage conglomerate Suntory), and US brands Powerade (owned by Coca-Cola) and Gatorade (owned by Pepsi). These brands have kept consumers coming back for more due to their functional benefits such as offering added vitamins, minerals, electrolytes and carbohydrates (usually a moderate amount of sugar). While they have many fans, it is doubtful that consumers could become addicted to these sports drinks.

Red Bull

So if sugar isn't enough, what can be added to a drink to promote some level of addiction and boost sales?

Dietrich Mateschitz, an Austrian marketing director for a toothpaste company, travelled to Thailand in 1982 and stumbled upon a popular local drink when trying to cure his jet lag. The drink, Krating Daeng, Thai for "Red Bull", contained dollops of sugar and caffeine.

Mateschitz was hooked, and partnered with the Yoovidhya family behind Krating Daeng to bring Red Bull to the West. Today, the Yoovidhya and Mateschitz families still jointly own the private Austrian holding company for Red Bull energy drinks. Mateschitz died in 2022, which was a record-breaking year for Red Bull in terms of cans sold (11.6-billion), revenue (€9.7bn) and net profit (not disclosed). Red Bull shares would certainly have wings if they were publicly traded.

Monster Energy

In 2002, a small US-listed beverage company controlled by two South African emigrants, Rodney Sacks and Hilton Schlosberg, launched a new energy brand — Monster. Since then, Monster shares have been the single best performer in the S&P 500 index, rising by more than 1,000-fold to date. The company's fortunes were boosted by Coca-Cola buying about 16% of Monster in 2015, while also concluding a global distribution deal to satisfy voracious consumer appetite.

A can of Monster contains more caffeine than a can of Red Bull, helping Monster to home in on Red Bull's 40% market share in the global energy drink market. This year will be a photo finish to see who will take the title for No 1 in annual global energy drink sales. At a market cap of $62bn and p:e of about 40, Monster shares might be due for a breather, but are worth accumulating on weakness.

Celsius Holdings

Despite being around since 2004, Celsius started getting traction as a "healthier" energy drink brand only three years ago, when the health craze picked up steam and its social media strategy started paying off. Celsius shares have risen 14-fold in the past three years, with growth being supercharged by Pepsi investing $550m in late 2022, becoming Celsius's preferred global distribution partner.

Celsius claims to contain no sugar and no preservatives, though the company recently settled a class action suit which alleged that its energy drinks do contain preservatives. And US rapper Flo Rida won a civil suit against Celsius in January for an endorsement contract breach, which cost the company $83m. These controversies don't seem to have dented the brand's image, with Celsius showing a doubling of revenue from last year, moving it to third place in the US energy drinks market. Celsius now sports a market cap of $10bn and a p:e of almost 100, which is a bit rich (to say the least).

You'd be better off sticking to hydrating sports drinks when training for (or competing in) events such as this weekend's Comrades Marathon, rather than energy drinks, which are detrimental to hydration. When it comes to a market-beating investment, however, energy drinks are the clear winner. x

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