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# Sport Sector

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## Sport sector

### The Case of Red Bull

Exploring the sports industry by means of business model innovation

#### 1. History of Red Bull

In the summer of 1982, 36-year-old Austrian FMCG (fast-moving consumer goods) salesman Dietrich Mateschitz traveled to Thailand on a routine business trip. He began his career in the toothpaste business, which was anything but glamorous or sexy. At that time no one could imagine that Mateschitz would not only enter the global soft drink arena but climb up to the champions' league of business billionaires. What is mind boggling is that he managed to do so by marketing and selling a mundane product far beyond the high-tech appeal of rocket science innovations. Nevertheless, Mateschitz created a new species of corporation that focuses only on the downstream activities of the value chain while outsourcing operations management such as production, logistics, and supply chain activities.

On arriving in Thailand, Mateschitz was suffering from headaches and jet leg, which prompted locals to recommend that he try an energizing soft drink called Krating Daeng. Local residents frequently used the medicine-like drink to recover from illness, regain physical strength, and enhance their mental abilities. The brand name Krating Daeng means 'red bull,' which denotes power, prowess, and performance. Mateschitz was not only convinced of the efficacy of the product, but saw a global market for Red Bull. He therefore contacted the manufacturer to strike a joint venture deal. The deal resulted in the creation of Red Bull GmbH, which aimed to adapt the original formula to the European market. The target market can be described as 'young adventurers' (18- to 34-year-old males, sports enthusiasts particularly into adventure and outdoor activities). Austria served as the home base for the product's introduction in 1987, since the German authorities initially refused market access because ingredients such as taurine were not yet approved. But the brand took advantage of the German market ban, because it was imported 'illegally' by Red Bull freaks across the alpine border. Red Bull became a mystical brand in short supply, which created a viral pull effect. Red Bull was perceived as an 'outlaw brand' for outdoor and adventure freaks who rejected the narrow brand world of Coca-Cola

and Pepsi. These soft drink giants could benefit from deep pockets and thus outsold Red Bull financially by landslide proportions but they underestimated the strategic intent of the visionary founder Mateschitz who was experienced in marketing and sales and displayed entrepreneurial zest and genuine leadership qualities. From the outset, his dedication was not to soft drink cans but to a full commitment to a new and radical style of living and performing. Red Bull cans are the means to serve the overarching gestalt of believing, feeling, and expressing: being a rule breaker, pace maker, and frontrunner instead of being an 'also ran.' Aligning product with lifestyle became the mantra of Red Bull. The slogan 'Red Bull verleiht Flügel' means that if you drink Red Bull, it will 'give you wings.' Translated into real life, this surreal motto means that individuals should transcend their limits, place their benchmark against the best of the breed, and should outperform established standards. "Appreciate leisure and fun as well as hard work, but do not waste your time with mediocre performance" could be the overarching but unspoken slogan of the corporation.

The CEO, Mateschitz, has been highly committed to spectacular air shows and flying displays since the early 1990s, which fit comfortably with the corporate image of Red Bull. The spectacular jump of Stratos skydiver Felix Baumgartner in 2014, orchestrated and broadcasted by Red Bull's media division, vividly illustrated the constant message: "Go beyond straightjacketing limits and perform in unthinkable dimensions!" By supporting and sponsoring a jump from the stratosphere, Red Bull shifted public attention to the possibilities of radical event staging. In this way, the Red Bull business model converges with the media and entertainment industry to take advantage of digital marketing to enhance global brand awareness. A close parallel can be drawn with Virgin founder Richard Branson, who is always eager to take on a public issue by offering a new and dramatic service, such as commercial galactic space flights. What have both entrepreneurs in common? Instead of sober storytelling they employ 'story-performing' as a means and method to revolutionize orthodox marketing. Outstanding events do not only celebrate the brands, products, and services but are also the symbols and hallmarks of the corporate mindset and radical vision engineering. The strategic intent is: Morph your business model from packaged goods to unlimited business development through 'lifestyle and trend engineering.' While conventional corporations employ standard marketing procedures to boost returns and achieve brand awareness, 'storydoing' companies are guerilla fighters that make frequent use of an arsenal of innovative marketing weapons. Think of the social media options that align with storydoing which result in viral and self-enhancing communication effects. Return on marketing will be drastically improved. Despite



resource constraints, huge awareness effects can be achieved through innovative marketing redesign, thus empowering Red Bull to command a high communication value compared to its media investments. Customers do not regard themselves as ordinary consumers, but as an integral part of a user and lifestyle community. Firms like Red Bull perform and portray real 'acts,' in sharp contrast to storytelling corporations. The latter talk while others walk or even race to preempt the future. In short, Red Bull aims at competing on emotions and good flows rather than appearing as a solid soft drink corporation. Red Bull's zest for disparaging the old while praising the new might also have negative side effects because of the perils of extreme sports. Lethal crashes and accidents involving young athletes made the Red Bull business model vulnerable to negative press. Red Bull bashing should be avoided because there are other threats that also endanger the business model. Binge drinking, obesity, insomnia, and diabetes are negative outcomes of harmful lifestyles that are increasingly traced back to excessive Red Bull consumption. Red Bull is often a core ingredient of cocktails and drinks preferred by youngsters. From a strategic viewpoint Red Bull will have to consider if it should 'stick to the knitting' (traditional 'red oceans' strategy) or aggressively diversify to tap 'blue oceans,' in the form of unexplored business models and consumer wants. But the risk of value destruction through over-diversification, conglomerating, and loss of strategic direction should not be ignored. Strategic experience shows that arrogance and overconfidence often lie at the heart of economic downturn. Charismatic leaders like Dietrich Mateschitz may grow Red Bull to greatness, but they run the permanent danger of falling prey to the Icarus effect.

## **2. Corporate evolution of Red Bull: From soft drinks to team and extreme sport**

Originally, the Red Bull corporation started as a minor player in the fast moving consumer goods industry, producing a caffeine and taurine containing energy drink that challenged the orthodox business logic of dominant incumbents such as Coca-Cola, Pepsi, and Dr. Pepper. Within a few years the Austrian-based Red Bull corporation managed not only to establish a new soft drink category, but became a pacemaker, game changer, and rule breaker with respect to entrenched consumer habits. Instead of adopting and improving market and product standards by means of imitation, benchmarking, and piecemeal product differentiation, Red Bull has proven capable of positioning the Red Bull brand as a cornerstone of a radical, risk-taking, and limit-transcending lifestyle philosophy. The unspoken brand motto is "Do not respect limits, constraints, and predefined lifestyle settings, but

create new ones beyond mediocre mainstream habits.” What the Red Bull corporation sells is not primarily soft drinks, but extreme attitudes towards life, as can be demonstrated by its sponsoring strategy. Red Bull is strategically aiming to benefit from a positive image transfer from extreme sports to energy drinks. For this reason the Red Bull Corporation sponsors athletes, events, and sports activities with a crazy, risky and trendy image.

Historically, Red Bull started as an FMCG company that strategically followed a path of ‘guided evolution’ driven by the radical business mindset of the charismatic founder Dietrich Mateschitz. He is obsessed with the dream of creating not only a brand portfolio but a Red Bull World orbiting around sporting and adrenaline-driven ‘flow experiences.’ Professional sports events are the means to serve economic ends. The latter are no longer constrained by Red Bull’s soft energy drink family, but increasingly include service-focused business models. Opposite Coca-Cola, Pepsi, and Dr. Pepper, the Red Bull corporation gains and sustains competitive advantages by means of business model innovation rather than classic brand portfolio management. Red Bull did not only excel in creating a new product category through highly caffeinated soft drinks, addressing the expectations of high-performance market segments; it also reconceived and redesigned postmodern living, because customers celebrate youth while dismissing the orthodox lifestyles reflected by the traditional soft drink giants. The Red Bull business model is strongly focused on downstream activities (marketing, sales, and service) rather than being R&D or assembly-line driven, because competition for spectacular orchestrations, breathtaking events, and multi-media coverage seem to be more relevant than functional product items. To sum it up, Red Bull sells emotions, and lifestyles through an expanding product and service portfolio.

On the one hand, Red Bull is closely aligned to the business logic of the fast-moving consumer goods sector (FMCG), while on the other hand this traditional industry classification does not encompass Red Bull’s event, entertainment, and media aspirations. Red Bull has not only actively engaged in sponsorship of top sports events, but has also orchestrated them and invested in team ownership (i.e., RB Leipzig, RB Salzburg, RB Formula One). Sponsorships cover corporate entities, events, and top athletes in the extreme sports sector. Infrastructure sponsorships could also be taken into consideration as viable business options when drawing a parallel with the Anschutz Management Group (AMG). AMG professionally takes advantage of a fully integrated entertainment and media value chain that ranges from infrastructure establishment and the resulting management models to team ownerships, broadcasting arrangements, and contract management. AMG



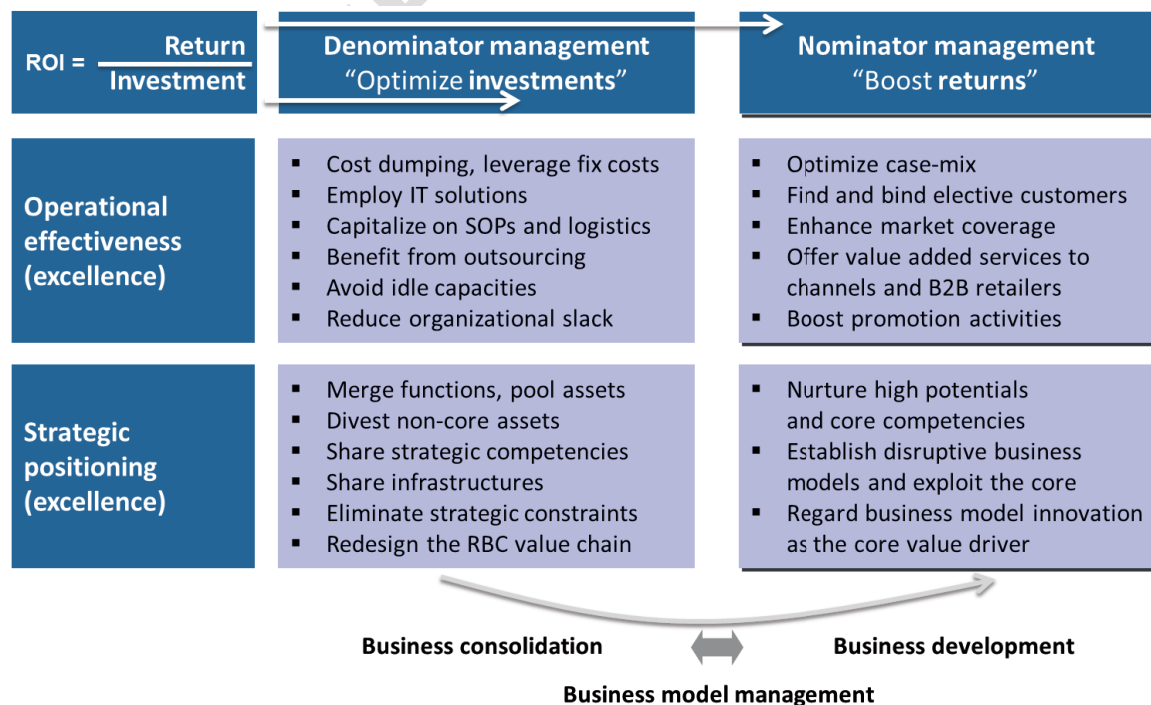
does not restrict itself to team sports but capitalizes on multiple 'cross-over' options arising from the convergence of the leisure, entertainment, and media industry. The often cited acronym TIME, which stands for the (digital) convergence of the telecommunications, information, media and entertainment industry, increasingly becomes TIMES, with the S standing for sport, because e-sport and live sport are important ingredients of the TIME logic. The strategic logic of Red Bull can be boiled down to TIMES instead of TIME, because sport underpins and enhances value creation opportunities alongside classic TIME businesses. Professional sport is an investment opportunity for Red Bull and financial institutions such as KKR (Kohlberg, Kravis & Roberts), who wish to achieve a high return on sport. These investors bear in mind a short-term financial dimension and a long-term strategic dimension when it comes to global brand awareness.

The Abu Dhabi United Group for Development and Investment (ADUG), which manages a multi-billion dollar fund, systematically screens the market for attractive investment opportunities that lie outside the volatile energy sector. The success story of the former Premier League 'underdog' Manchester City would not have happened without massive ADUG spending to assemble a team of international star players. To turn full circle, German soccer frontrunner FC Bayern Munich came up with an innovative business model to tackle the sweeping changes with respect to the PESTEL-dimensions (political, ecological, social, technological, economic, legal) that significantly affected professional sport and its commercial options within the aforementioned TIMES-paradigm. Udinese Calcio, a solid first division soccer club, capitalizes on a business model which is akin to the Red Bull soccer investment strategy: the acquisition of other clubs such as Spanish Granada CF and English Watford FC to profit from human capital lifecycle management. Young players underperforming in the hub team—Udinese Calcio—will be given the chance to gain the relevant soccer skills by playing for affiliated satellite teams ('farming model'). Outstanding top players are transferred to champions' league winners such as CF Barcelona or Real Madrid when reaching their individual peak. Transfer fees are skyrocketing and are one of the core pillars of revenue management to thrive on a balanced portfolio of income streams from ticketing, sponsoring, merchandising, and media franchises. Beyond professional team sports, Red Bull expanded its business model to extreme sport as vividly illustrated in the *Red Bulletin* magazine, a product of the Red Bull Media House. What is the core message of these soccer examples? Red Bull evolved from a small/medium-sized 'freak corporation' to a respected, extreme lifestyle corporation, which aims to cover global mass markets by means of such sport disciplines that are broadcasted via mass



media to reach large target groups. Compared with skydiving or proximity flying, soccer is not that risky, deadly, or spectacular, but it arouses emotions among the masses, who are the economic bedrock on which an innovative business model can be built. But are there any caveats concerning this expansion logic? Conventional management wisdom states that competition and strategic position are a matter of industries, value chains, core competencies and macro-environmental dynamics, which together display the dynamic fit imperative of the well-known SWOT model. But who cares about the translation of visions into concrete actions on the operational level to meet financial targets? Business models are deemed to fill this gap in light of the ‘exploitation-exploration challenge’: expanding and exploiting the core business through profit-reaping business models while at the same time exploring new profit zones by means of disruptive business models. To put it in a nutshell, Red Bull undoubtedly competes for markets, customer segments, channel dominance, brand awareness and last but not least for dynamic capabilities to flexibly readjust its strategies to ‘business tsunamis.’ But Red Bull additionally competes for the business models of the future—reflecting complex systems of strategies, resources, structures, market dynamics, and processes to create customer perceived value resulting in sustainable profits. Figure 1 reflects in a rather generic manner the balance of business consolidation (exploitation) and business development (exploration), namely the core pillars of business

Figure 1: How Red Bull can boost its ROI



model management. Red Bull should consider operational as well as strategic steps to score high on both the exploitation and exploration issues to forge ahead with value-creating business models. Sometimes denominator management is a precondition for nominator management because growth options will have to be funded by releasing capital through divestments, operational effectiveness, and value chain consolidation.

Substantial changes in the growth vector system amount to a new business model definition. Figure 2 represents a modified version of the Business Model Canvas (BMC) according to the logic of Osterwalder & Pigneur, which has been broadly applied to the Red Bull corporation—although it needs fine-tuning. We modified the BMC insofar as it does not include visions, missions, strategies, or implementation issues, as these are not explicit parts of the BMC. Sound visions will only reveal their usefulness if they incorporate milestones, steps, and responsibilities as proposed by the Balanced Score Card (BSC)—demanding commitment and metrics to create financial and customer value.

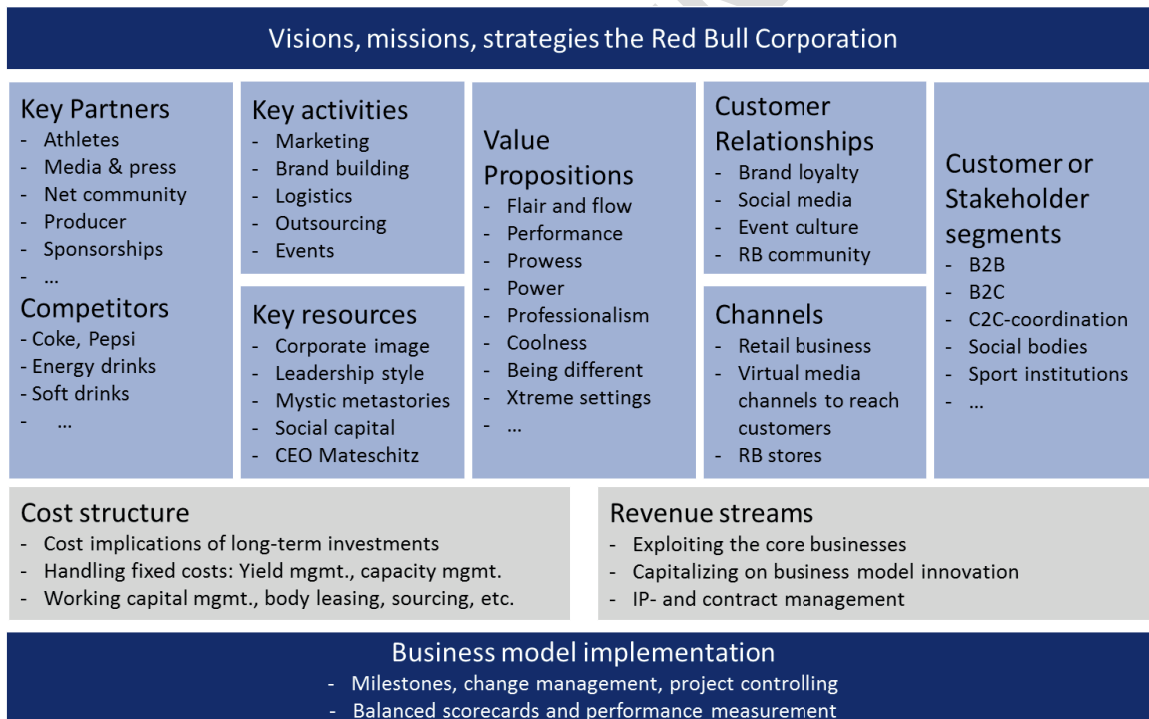


Figure 2: How the apply the Business Model Canvas to the Red Bull Corporation

Adopting the FMCG-logic, Red Bull presides over a brand family portfolio consisting of the following products:

#### 1. Red Bull Family:

- Red Bull Energy Drink
- Red Bull Sugar-free
- Red Bull Cola
- Red Bull Energy Shot
- Red Bull Energy Shot Sugar-Free

#### 2. Carpe Diem Family

- Carpe Diem Kefir
- Carpe Diem Kombucha
- Carpe Diem Gingko

#### 3. Red Bull Sport Investments

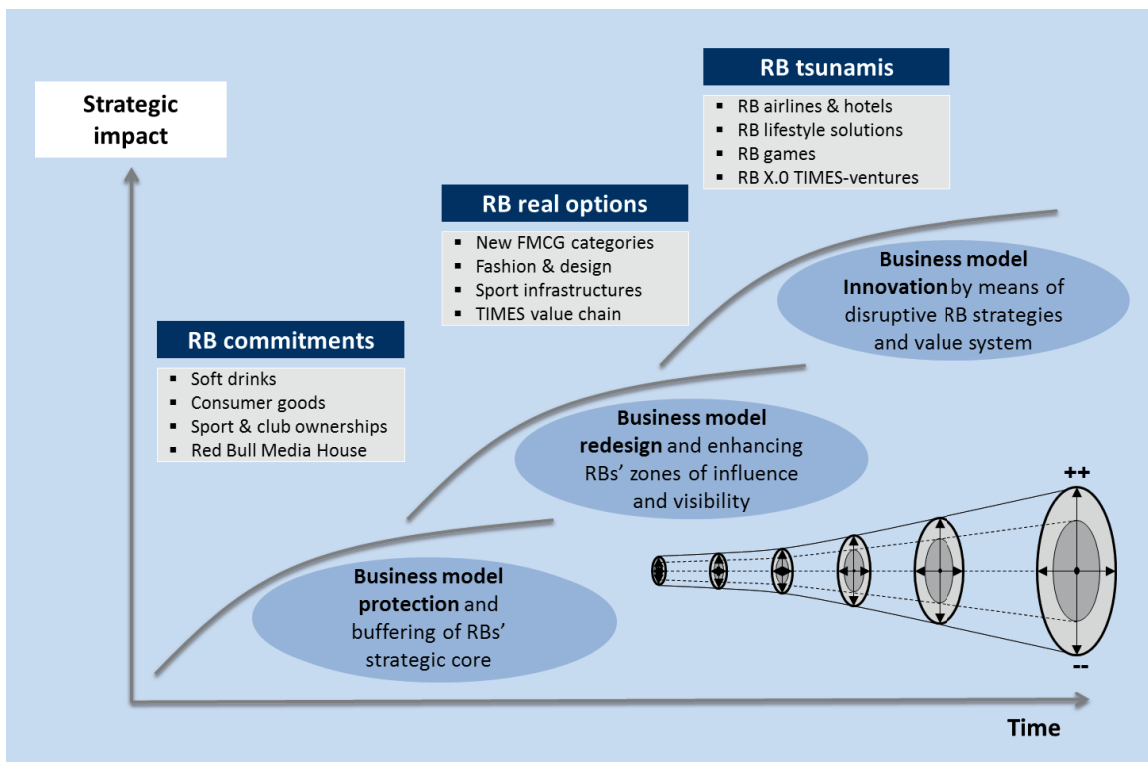
- Club Ownerships
- Athlete Sponsorships
- Employed professionals
- Events

#### 4. (4) Red Bull Media House

- Print
- TV
- Online
- Mobile
- Music
- Games
- Cinema

The Red Bull Media House institutionally reflects the strategic shift from TIME to TIMES because sport represents the sounding board of the TIME-ecosystem. Bearing in mind the strategic imperative of corporate coherence, Red Bull faces the challenge of handling a loosely linked product and service portfolio ranging from soft drinks to sports and media. Taking the present as the starting point, Red Bull is committed to high-performing core businesses that should be confronted with a portfolio of real options in order to enhance the spheres of influence via **buy, build or partner (bbp)** strategies, while at the same time buffering the established 'powerhouse of brands and services.' Beyond this mid-term approach, Red Bull will have to preempt the future via long-term horizon management. Instead of falling prey to business model tsunamis, Red Bull will have to trigger the latter by means of innovation and





*Figure 3: Defining and designing a strategic roadmap for the Red Bull Corporation Foreshadowing the future of Red Bull by means of business model innovation*

by obsoleting its own business models. Figure 3 will provide you with some ‘embryonic’ ideas for how to define and design a Red Bull roadmap. Please put special emphasis on realistic scenarios under conditions of risk, uncertainty, and complexity to prepare for multiple futures.

Strategic studies reveal that disruptive technologies, innovations, and business models will cannibalize and replace economic strongholds and spheres of influence in the near future. Being industry, market and competence focused will not be enough to compete in the future. Former category champions such as Microsoft, Nokia, Blackberry, IBM, Eastman Kodak or even McKinsey face severe disruptions, have ceased to exist, or are desperately bridging legacy business models with prospective ones. Since industrial sectors converge, corporations merge, and aggressive newcomers emerge, buffering the core businesses via entry barriers and core competences can only be a defensive mid-term strategy *to play for time*. Red Bull vigorously wants *to use time* as a means of spearheading competition through a constant process of business model innovation. But keep in mind that market forces, industry structure, and core competences are anything but old-fashioned. Moreover, they complement entrepreneurial leadership style as reflected by business models: “Do not talk! Walk!”

Steering logic Characteristics	Strategic business units (1980 – 1990)	Core competences (1990 -2000)	Business models (2000 – now)
<b>Core feature</b>	Product-/market-combinations	Competence-/task combinations	Skill-/process-/value-/margin combinations
<b>Theory foundation</b>	Market-based view Industrial organization	Resource-based view Institutional economics	Emergent ‘mesh-up’ theories/ presumptions
<b>Dominant focus</b>	Markets, customers and competitors	Unique hard-, soft-, brain-peopleware deployments	Entrepreneurial blueprints and profit regimes
<b>USP/SCA foundation</b>	Superb industry positions/ unique value propositions	VRIO-paradigm + asset renewability	Implementation focus and business development
<b>Managerial implication</b>	Growth, risk, return adjusted SBU portfolio	Competence share beats market/customer share	Translate competences into actions and results
<b>Criticism/ caveats</b>	Encapsulated talents, lost synergies, strategy myopia	Strong inside-out impetus (customer alienation?)	Semantic fuzziness and plethora of meanings
<b>Breakthrough impetus</b>	Competitive strategy Competitive advantage	The core competence of the corporation	Business Model Canvass

Figure 4: Linking business models to core competences and business units

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**Rasche** was born in 1965 in Münster, Germany. He is Head of the Professional Services Department at the University of Potsdam, he spent several years as an executive director of the Institute of Sports Science, and is a professor of sports management and sports economics. Professor Rasche has a double membership at the Human Sciences Faculty and the Faculty of Social and Economic Science of the University of Potsdam. From 1995 to 1998, Professor Rasche was a top management consultant at DROEGE & Comp. AG Consultants. He has been a visiting professor at the University of Innsbruck, Alcalá de Henares (Madrid), Jena, and the University Osnabrück as part of an MBA education program. Professor Rasche is a management consultant and executive coach in stimulating discourse between science and practice. His research and consulting interests include the following topics: Multifocal Management, Corporate Restructuring, Professional Services, Sports and Health Management. His thesis was on “Competitive advantage through core competencies”; the title of his habilitation thesis is “Multifocal Management.”