

CONFIDENTIAL FACTS FOR FRS

Since its formation in 1997, FRS has been very strategic in its plan for growth. Recently, FRS had a dramatic increase in sales and feels it is a result of teaming up with Lance Armstrong back in 2007. Since that time, FRS has tried to contract with endorsers that can drive the brand in local markets because of the attributes the selected athletes possess: such as trustworthiness, dedication, and a desire to want to be a part of something bigger than themselves. These local ads have featured Armstrong in Texas, Tim Tebow in Florida and the Rocky Mountain Region, and Derek Fisher in Southern California.

One thing that makes FRS products unique in the market is the use of Quercetin, for which the company holds a patent. Quercetin is not available in any other energy products. This ingredient has been a large selling point for other athletes entering into endorsement deals with FRS and the company is planning to run television and internet advertising highlighting this ingredient within the next year. This product has been deemed safe by the FDA and is similar to caffeine, so there is no worry the ingredient will be on a restricted substance list in the future. FRS is open to a contingency plan with Kershaw limiting bad press, marketing, distribution and/or exposure should the FDA make an unlikely change of opinion of its product. However, any such plan will increase the length of the contract and/or reduce the annual contract price because FRS needs assurances that Kershaw will be the face of FRS products for years to come, should it have to retract via the contingency plan. Essentially, the more inclusive and extensive the contingency plan, the longer the contract and/or lower contract price.

As a growing company, FRS is selling more product than in any other year, but it is using the funds from those sales to develop new products and advertising in order to grow. Because of this growth plan, FRS does not have as much money to give endorsers in the form of signing bonuses or annual payments, as is customary for companies such as Gatorade and Red Bull. Instead, FRS has been willing to work out deals that involve partial ownership in the company for high profile endorsers. This strategy is only used for the top-tier endorsers FRS has, including cyclist Lance Armstrong and football player Tim Tebow. The company has to be smart with these decisions in order to keep a deal of this nature mutually beneficial, by having an athlete that will continue to be a star, and a company that can grow in part because of the profile of its athlete-owners. The company modeled this deal after the strategy used by Vitamin Water when signing David Wright.

The market for energy drinks is vast with a number of companies and sports drinks. Currently, Gatorade has the largest market share and spends the most on advertising. Vitamin Water has also been spending significant money on advertising in the past few years, although Vitamin Water does not feature their endorsers on an individual basis, as does Gatorade or FRS. This is one of the reasons that FRS is not attempting to compete with other companies such as Gatorade, but is instead focused on marketing their products as “wellness and health” products.

Energy drink companies view FRS as a competitor, but FRS believes it can create a new product category where it can be the first company and take a large market share.

FRS has employed a unique marketing strategy for a company of this type. FRS currently looks for low cost ways to advertise that reach a high number of people. Recently, FRS has advertised on the back of bicycle cabs in major cities, as well as placing ads on shopping carts, and purchasing spots on 1,200 digital billboards that easily rotate the ads with others in a specified location in the 15 largest markets, with plans for more traditional advertisements—running the company’s first ad during the 2011 Super Bowl. Having Clayton Kershaw play a role, whether small or large in the Super Bowl commercial, is an option. Apart from the Super Bowl ad, the public advertising has reached millions of people. FRS utilizes their endorsers in local markets, and those markets in which their athletes will be featured in the future. For example, FRS spent several million dollars in the Charlestown, South Carolina area leading up to a cycling event that Lance Armstrong would be competing. These advertising and marketing techniques are available to Kershaw for the Kershaw contract. Kershaw could also make appearances in cities during the season and in the offseason.

Another marketing aspect FRS has seen successful in is the company’s use of digital media and the Internet. Using a company called *Cutwater Advertising*, FRS has been able to jump ahead of other drink companies with the use of affiliates on Twitter, Facebook, YouTube, ForeSquare, and other platforms the company has used to reach a demographic other companies have not yet been able to reach. FRS wants to continue this effort and increase its focus on advertising through page banners and pop-up ads featuring the new FRS endorsers because of the relatively low cost, yet high number of exposures these avenues provide. As part of the FRS marketing strategy, there are plans to increase distribution of its products in stores throughout the country including more supermarkets, smaller markets, and health and fitness stores.

Recently, FRS came up with a new flavor, “Red Rush.” Focus groups have liked the taste of the product and FRS believes it will be a success if launched at the right time with the right endorsement/endorsees. This new flavor has the identical ingredients as the current flavor with the exception of different flavoring ingredients. FRS is optimistic that with this new flavor, the company could nearly double its annual sales within five years, and triple the current sales numbers in ten years, if the company can create another flavor, which is a possibility.

FRS wants to launch Red Rush with an endorsement by Kershaw in August of 2013. FRS wants to sign Kershaw because he is a talented and young starting pitcher who provides longevity to the potential contractual relationship. Kershaw is the best pitcher on a team in a major media market (and possibly the number one or two starter in all of Major League Baseball). Kershaw’s price for endorsing is much lower than that of more celebrated stars like New York Yankees’ Derek Jeter and Alex Rodriguez, or St. Louis Cardinals’ Albert Pujols. Kershaw will enter the free agent market, which will likely set-off a bidding war where only large market teams have a realistic shot at landing him. This bidding war will generate substantial free publicity and increase his value to FRS. FRS looks at this as a perfect time in the

baseball season to launch an ad campaign because of the possibility of the Dodgers being in a pennant race and it could lead into a more high profile partnership with Kershaw (and more exposure of the company) if the Dodgers can once again reach the playoffs. This time frame also gives FRS enough time to construct several ads that can run on multiple platforms and solve any problems the company may discover with Red Rush.

The length of the endorsement deal is vital to FRS. FRS wants to enter into a deal of more than five years because the company wants a face that can be associated with the product, just as Michael Jordan was the face of Gatorade for a number of years.

To sign Kershaw as an endorser FRS needs to come to a long-term deal that will keep Kershaw a part of the company for five years or more. FRS only has enough money budgeted for endorsements that they can pay Kershaw a maximum of \$6 million over the next three years, but the company is willing to offer as much as two percent (2%) of stock in the company, if FRS can reach a deal with Kershaw for more than five years. Additionally, the company wants to feature the Dodgers ace in advertisements on television and the Internet beginning in early 2013 to coincide with the launch of Red Rush. The company wants to keep Armstrong and Tebow as their lead endorsers, but wants to feature Kershaw in west coast markets in which he is easily recognizable to baseball fans. FRS is open to utilizing other media markets for advertising Kershaw, specifically the big five major media and baseball cities (New York, Boston, Los Angeles, Philadelphia, and Chicago), but does not feel that the advertisements would be effective in markets that do not have constant exposure to the Dodgers. FRS is willing to discuss using Kershaw in other markets if the company can receive reasonable assurances the use of Kershaw in these markets would be beneficial to grow the exposure of its products. FRS is not able to move up the date of launch on the new flavor because of quality testing, but is willing to use Kershaw in ads featuring other FRS products if need be.

In terms of a second option, Felix Hernandez, starting pitcher for the Seattle Mariners, is also a potential candidate to replace Kershaw if a deal is not struck at the negotiation table. Many of the parameters are already in place and include most of the items requested by the FRS Board of Directors. Felix is also a young starting pitcher with great value as a future free agent, the difference being he is in a smaller market than Los Angeles and Kershaw is considered to have greater media appeal. If it cannot reach a reasonable deal with Kershaw, however, FRS does have this option of a somewhat less expensive deal with Hernandez.