

SodaStream's Retail Expansion Continues But Red Flags Persist

Companies: AMZN, BBBY, BBY, COST, COT, JCP, KFT, KO, KSS, PEP, SHLD, SODA, SPLS, WMT

January 12, 2012

Research Question:

How is SodaStream progressing with its U.S. retail expansion, and how were its holiday equipment and consumable sales?

Summary of Findings

- Heavy discounting, limited flavor selections, a lack of new customers and inconsistent use by current machine owners are troubling signs for [SodaStream International Ltd.](#) (SODA).
- SodaStream's retail expansion is increasing brand awareness but not resulting in steady sales of equipment and consumables.
- Customers remain interested in making mostly seltzer water with SodaStream CO₂ [carbonators](#) and are not regularly buying [Sodamix](#) flavor syrups. As a result, retail stores have cut back Sodamix inventory levels compared with six months ago.
- Preholiday visits to retail stores revealed little customer activity around SodaStream displays, low expectations for SodaStream holiday sales, and discounts ranging from 25% to 40%.
- Postholiday sales for SodaStream improved because of discounts of as much as 50%.
- Industry specialists said SodaStream's market penetration in the next six to 12 months will be determined by retail expansion and increased brand visibility, including through a new partnership with [Kraft Foods Inc.](#) (KFT).
- Supplier/distributor sources were lukewarm on SodaStream's 2012 growth potential because of the brand's relatively high price points, limited customer base, and unclear product position.
- A partnership with [Wal-Mart Stores Inc.](#) (WMT) is rumored and could boost sales of SodaStream's soda makers and consumables, according to suppliers/distributors and industry specialists.

Silo Summaries

1) PREHOLIDAY RETAIL STORE VISITS

Three of four sources said SodaStream sales activity has faded and reported low sales expectations for the holidays despite discounts of 25% to 40%. Best Buy offered superior product placement for SodaStream merchandise. Sources said SodaStream demonstrations created customer interest but few sales.

2) POSTHOLIDAY RETAIL STORE VISITS

Postholiday sales were more positive, with three of four stores reporting steady SodaStream sales. Sources credited discounts of as much as 50% and the inclusion of Sodamix sampler packs. One source said college-age consumers really liked the Sodamix flavors. Retail store inventory levels varied.

3) SODASTREAM USERS

Of these five sources, two remain loyal SodaStream users, two have seen their usage decrease, and the fifth was buying two soda makers as holiday gifts. The two regular users make both seltzer and soda. The two sources whose usage had declined said the product's novelty had worn off, but they still plan to buy more flavors and canisters this year. The purchaser of two SodaStreams said the recipients likely would use the product to make seltzer and would appreciate the environmental benefits. Additionally, a Blueshift trend researcher created an activity log based on observations within Chicago-area retail stores selling SodaStream. The log shows a lack of activity around the stores' SodaStream displays.

4) SUPPLIERS/DISTRIBUTORS

Both sources were lukewarm on SodaStream machines, noting the brand's somewhat upscale price point, limited demographic, and unclear product positioning. Sales have been steady for one source who positions SodaStream as a health/lifestyle item, but have been slow for a regional housewares distributor source who described the product as "gimmicky."

5) INDUSTRY SPECIALISTS

These four sources expect SodaStream to further penetrate the housewares market and post long-term growth, but varied in their expectations for the product within six to 12 months. Two sources said SodaStream will experience growth during 2012 through door expansion, a growing market, and its novelty factor.

	SodaStream Sales	Brand Awareness	Use of Sodamix Flavors
Retail Stores	➡	⬆	⬇
SodaStream Owners	➡	⬆	⬇
Suppliers/Distributors	➡	⬆	⬇
Industry Specialists	➡	⬆	⬇

Background

Sources in Blueshift's [Sept. 15, 2011, SodaStream report](#) reported growth in U.S. retail sales and in customer awareness and interest while sources at new doors [Kohl's Corp.](#) (KSS) and [Best Buy Co. Inc.](#) (BBY) cited increased traffic and sales for SodaStream. In-store demonstrations were effective, and more were planned for the fall. A CO₂ carbonator exchange [program](#) was believed to be on its way into more stores. However, eight of 10 U.S. SodaStream owners interviewed in September reported using the machine only for seltzer water.

As of 2011's fourth quarter, SodaStream had expanded its retail footprint to nearly 10,000 stores, offering its products at locations including [Sears Holdings Corp.](#) (SHLD), Kohl's, [J.C. Penney Co. Inc.](#) (JCP), [Costco Wholesale Corp.](#) (COST), [Staples Inc.](#) (SPLS) and, most recently, [Target Corp.](#) (TGT). SodaStream is not yet available in Wal-Mart, but a partnership is [expected](#) to develop this year.

CURRENT RESEARCH

In this next study, Blueshift set out to monitor SodaStream's expansion into more and newer U.S. retail locations and to follow up on sales of SodaStream soda makers and consumables, especially during the holiday season. We employed our pattern mining approach to establish and interview sources in six independent silos:

- 1) Preholiday retail store visits (4)
- 2) Postholiday retail store visits (4)
- 3) SodaStream owners (6)
- 4) Suppliers/distributors (2)
- 5) Industry specialists (4)
- 6) Secondary sources (3)

We interviewed 20 U.S. primary sources, including two repeat sources, and included three of the most relevant secondary sources focused on SodaStream's new distribution and marketing deal with Kraft Foods, the company's U.S. retail expansion, and SodaStream user reviews on the company's Facebook page.

Silos

1) PREHOLIDAY RETAIL STORE VISITS

Three of four sources said SodaStream sales activity has faded and reported low sales expectations for the holidays despite discounts of 25% to 40%. The exception to this trend, a Florida Best Buy source, reported steady SodaStream sales through the fall and into the holidays, and said the store had to reorder soda makers. Compared with J.C. Penney and [Bed Bath & Beyond Inc.](#) (BBBY), Best Buy offered superior product placement for SodaStream merchandise. Sources said SodaStream demonstrations created customer interest but few sales.

➤ Bed Bath & Beyond sales associate in Southern California

This source conducts SodaStream demos and said sales are not as high six months ago and likely will not increase that much during the week before Christmas. He surmised that most SodaStream purchases were for gifts. Sodamix purchases have been low because many customers use the machine for unflavored seltzer. The top-selling flavors are diet cola and root beer. The Genesis soda maker was on sale for \$99. Although it reportedly was the most popular model, the source said he had only sold four since Dec. 1.

- "Sales have slowed a little since fall and definitely since we first started carrying them."
- "Expectations for sales through Christmas are low. We aren't selling as many machines as I think we expected to. The most popular model is the Genesis for \$99. It's a great deal because you get all you need to

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*Sales Associate, Bed, Bath & Beyond
Southern California*

SodaStream International Ltd.

get started, and the price point is doable for people who want to buy a great gift for someone.”

- “We seem to sell more of the canisters than we do the flavors. I think a lot of people like the idea of being able to make their own carbonated water at home and they just add a lime or drink it plain.”
- “We have a lot of flavors on the shelves right now because they really aren’t selling that well. SodaStreams are more of a gift item rather than a must-have in every home kind of thing.”
- “The diet cola does the best. Also, we sell a good amount of the root beer.”
- “We do the demos of the SodaStreams every two hours on weekends. People like them, they love getting a sample, but frankly I’m not selling that many machines. I’m getting people to stop and watch the process, but the demos are not translating to sales.”
- “It’s an environmental thing for some people. They like not having all those cans and bottles out there. On the other hand, I’m not sure it isn’t also seen as a gimmicky kind of luxury item.”
- “This is not something we are going to start seeing on every counter in every home. It’s a great environmentally supportive product, but practicality is a little questionable. You have to find a retailer that carries the refillables, and then you have to go and get them on top of where you normally shop.”

Reporter Observations: We noted no customer activity or noticeable signage in the SodaStream display area. Inventory of SodaStream soda makers was full, and a video demo was playing. Flavor selection was a little thin, and the kiosk shared space with other appliances and kitchen gear.

➤ J.C. Penney store associate in a Chicago suburb

SodaStream holiday sales had not yet met expectations despite discounts of 25% to 40%. The source said the product was too confusing for the average customer. Most SodaStream purchasers are parents with young kids. Top-selling flavors are root beer and lemon lime.

- “We have had the SodaStream in our store for about a year.”
- “SodaStream does not really sell. It has not taken off as we expected. Sales are just average during nonholiday times.”
- “Sales have picked up slightly for SodaStream this holiday season though not as much as we anticipated and wanted.”
- “Right now, our SodaStream products are anywhere from 25% to 40% off. Even with the sale, they are not really moving.”
- “SodaStream is a unique product. We don’t have anything like it on the floor, but the appeal must just not be there since it is not one of our best sellers.”
- “The problem with SodaStream is that it is too confusing and involved for your average customer.”
- “People who buy SodaStream are usually parents with younger kids around age seven or eight.”
- “Parents buy them for their kids so they can make their own drinks.”
- “Our best-selling pop flavors are root beer and lemon lime.”

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*Store Associate, J.C. Penney
Chicago Suburb*

Reporter Observations: SodaStream products were toward the back of the home electronics area, in a freestanding, self-contained display. Sodamix stock was low. We noted no overhead sign for SodaStream.

➤ J.C. Penney sales associate in Florida

SodaStream sales were expected to be the same as in 2010; interest and sales were mediocre through the fall and into the holiday season. Inventory had decreased year to year for all SodaStream products. This store orders directly from SodaStream. Sale prices on soda makers started a week before Christmas and continued into the New Year.

- “SodaStream sales are on par with last year. We have sold them here and there, but it is not the most popular small home appliance. It has a specific market.”
- “We have fewer products in every area of the store compared to last year, less stock on the machines and flavors. We will have enough to meet the demand.”
- “The flavors are selling slowly, but that was the case last year too. Not a big demand for them.”

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- “We don’t sell the CO₂ cartridges; this is a problem sometimes when people ... come back thinking we have them. We send them to Bed Bath & Beyond.”
- “The storage containers have not sold well. I don’t know if people just don’t use them or have other things they store the water in.”
- “The display moves around the store. We try to keep it fresh and in places where people see it. I see people interested in it and read how it works and what it is all about. The signage is so informative.”
- “We have a rep come every weekend and do demos and gives shoppers samples. People like it, and it is good way to introduce them to the product.”
- “We order from the company directly and have since we started to sell them.”
- “No competition at our store. This is the only soda maker we carry.”
- “SodaStreams have been on sale for about a week now. They will stay on sale though New Year’s.”

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Store Associate, J.C. Penney
Florida

Reporter Observations: The rolling cart display of SodaStream was at the entrance to the home goods area. It featured one display model of the Jet Starter Kit. Two shelves of four flavor bottles were fully stocked on two sides of the display. MyWater Essence flavors and sample flavor boxes were fully stocked on the remaining shelves. On the top of the cart was a sale sign listing the original price and the sale price on all SodaStream products, with discounts ranging from 33% to 50%. No one stopped at the display during our 30-minute visit.

► Best Buy store associate in Florida

SodaStream sales were steady through the fall and into the holidays, and the store had to reorder from the company once already during December. The source has high holiday sales expectations for SodaStream. Flavors are selling well, but inventory had been cut back compared with six months ago. CO₂ cartridges are not kept in stock but can be ordered for customers. Prices have stayed the same in the last six months, and no discounts have been given. The only competitor was iSi North America Inc.’s [Twist ‘n Sparkle](#), which had not yet required a reorder.

- “We have had to reorder the [SodaStream] machines once already. They sell and have been selling since I started here six months ago. I expect them to do well over the next few weeks.”
- “We moved SodaStream up to the front before the holidays to give them more exposure. They make a good gift, and people like them. I expect them to do well. A lot of people come in asking for them.”
- “When I started in this department, SodaStream was in the back with the other small appliances, and we had more flavors. As we started to sell more, we just stopped ordering as many flavors and only order the cola, diet cola, root beer and ginger ale.”
- “I don’t know how customers are using them, but the flavors have slowed down. I don’t know if they were ever really that popular. We had a ton of flavors; now we just have the ones that sell.”
- “We don’t sell many cartridges because we don’t stock them in the store. If someone wants one, we can order it.”
- “Prices have stayed the same from six months ago. We don’t discount them unless the company tells us to, and there has not been any so far.”
- “We have the Twist ‘n Sparkle too. ... I can’t comment on whether one is selling more than another. ... I will say we have not had to reorder the Twist ‘n Sparkle.”

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Store Associate, Best Buy
Florida

Reporter Observations: SodaStream products were located at the front of the store on a shelving unit near the checkout area. The Jet and the Genesis models were out on display. The cola flavor and a Jet machine were being demonstrated in the appliance area. Customers seemed to like the product, and two visited the SodaStream shelves but did not make a SodaStream purchase.

2) POSTHOLIDAY RETAIL STORE VISITS

Postholiday sales were more positive, with three of four stores reporting steady SodaStream sales. Sources credited discounts of as much as 50% and the inclusion of Sodamix sampler packs. One source said college-age consumers really liked the Sodamix flavors. Retail store inventory levels varied.

➤ J.C. Penney sales associate in a Chicago suburb

SodaStream sales were steady before and during Christmas. Soda makers were out of stock because of a 50% discount promotion.

- “We did not have SodaStream in the store last Christmas. We have had it less than a year.”
- “Christmas sales were pretty good. They sold fairly steadily.”
- “We have sold both machines and flavors post Christmas—not as many as before but they have moved.”
- “We had some this morning, and now they are gone. We are also pretty low on the flavors too.”
- “I actually sold two machines this morning to a lady who came in and also got the taster sampler.”
- “They are good for the person who has everything else.”
- “We are running a better sale now on SodaStream than we were before Christmas. This is as low as it gets in price. It is a real good buy now.”
- “The machines are half off now at \$79.99. Before Christmas, they were \$10 more at \$89.99.”
- “We have not had any returns or exchanges of SodaStream after Christmas.”
- “People say the soda tastes better than what you can get at the store.”
- “Our best-selling flavors are lemon lime and cola.”

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*Store Associate, J.C. Penney
Chicago Suburb*

Reporter Observations: The SodaStream display was located with the holiday décor and toys, across the aisle from home electronics. An overhead sign read “SodaStream. Turn H₂O into soda in seconds.” SodaStream products were 25% to 50% off, compared with 25% to 40% off before the holidays.

	Sale Price	Regular Price
Sodamix flavors:	\$4.99	\$7.99
2-pack bottles:	\$24.99	\$34.99
Jet soda maker:	\$79.99	\$159.99

➤ Best Buy store associate in Florida

SodaStream soda makers sold well during the holidays, and the store had to reorder more than once to keep up with demand. Popular Sodamix flavors also were reordered, but the source said no reorders were necessary for competitor Twist ‘n Sparkle. Activity has slowed, but customer interest remains.

- “They sold well. We ended up reordering a few times to keep them in stock.”
- “The demonstrations went well too. It got customers interested in the machines, and they liked the soda. We used the cola flavor.”
- “There were no returns that I know of.”
- “Not a lot of activity since Christmas.”
- “There is one Jet left in stock, and that is it. What you see is what we have. We have reordered, and more are on the way.”
- “The flavors I reordered only once and not all of them, just the cola and root beer. We have the MyWater Essence and the sample flavor packs still from the first order. I don’t think it is about the flavors. It’s great for people who like carbonated drinks, and this saves them money and time.”
- “We didn’t reorder any of the Twist ‘n Sparkles.”

Reporter Observations: Only one Jet Starter Kit SodaStream Machine was on display, which was located at the front of the store. Flavors and Essences packs were mostly full. No demos were taking place, and no one was interested in the machines during our visit. We also did not see any signs, sales or other promotions for SodaStream.

➤ **Bed Bath & Beyond sales associate in New Jersey**

Holiday sales were strong, and customers returned after Christmas to purchase canisters and flavors. Sampler flavor packs were an attractive add-on. College-age customers appear to like the Sodamix flavors. In-store demonstrations helped to drive interest. The source had not seen any returns since Christmas, and had sold at least one soda maker since the holidays.

- “I started working here around this time last year. Sales have held steady. There has been an increase with the holidays.”
- “Machines did well during the holiday season. They make a great gift.”
- “People who get them come back for containers and gifts.”
- “We held in-store demonstrations on the weekends leading up to the holiday that seemed to increase interest. People buy the machines and come back for flavors. ... Some people also just use it for seltzer.”
- “People liked the flavor sample packs.”
- “College students love it. They come in to buy the flavors, particularly the root beer and the lemon lime.”
- “I haven’t seen any returns since Christmas. I sold a machine this morning to a woman who was buying it for her New Year’s party.”

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*Sales Associate, Bed, Bath & Beyond
New Jersey*

Reporter Observations: SodaStream was in a center-aisle display toward the back of the store but near other kitchen appliances. The video demonstration was not running, and activity in the area was low during our 30-minute visit. The display was well-stocked with both Genesis and Fizz models (12 each), flavors, extra bottles, canisters, sample packs and tops.

➤ **Best Buy sales associate in New Jersey**

People did purchase SodaStream products as gifts over the holidays, but interest had since waned. Most people seem to use the soda makers for seltzer.

- “The SodaStream is not a big seller. I haven’t seen any big changes in sales in the last few months. People did buy it as gifts for the holidays.”
- “There have not been any returns since Christmas. I haven’t seen much additional interest.”
- “We do not sell many of the flavors. Lots of people use it for seltzer water.”

Reporter Observations: The product was at the front of the store but on a shelf facing away from the door and with no signage. It was mixed in with a competitor’s product. No soda maker stock was available, and flavor selection was limited. The store was very busy during our 20-minute visit, but no customers stopped by the SodaStream display.

3) SODASTREAM USERS

Of these five sources, two remain loyal SodaStream users, two have seen their usage decrease, and the fifth was buying two soda makers as holiday gifts. The two regular users make both seltzer and soda. The two sources whose usage had declined said the product’s novelty had worn off, but they still plan to buy more flavors and canisters this year. The purchaser of two SodaStreams said the recipients likely would use the product to make seltzer and would appreciate the environmental benefits. Additionally, a Blueshift trend researcher created an activity log based on observations within Chicago-area retail stores selling SodaStream. The log shows a lack of activity around the stores’ SodaStream displays.

➤ **Woman in her mid-50s, owner of a SodaStream Jet, Pennsylvania**

This customer received the Jet as a gift. Although she did not request the product, she said her family has enjoyed consuming the carbonated drinks and that she appreciates the low-environmental impact. She will buy flavors when needed, but prefers to flavor her water with juice. She did purchase more carbonating bottles after receiving the Jet.

- “I got the Jet as a gift from my mother. I had used hers and loved it. I really like carbonated water, and this is any easy way to make it without the waste.”
- “My son and husband drink soda, and there is always so much waste from the cans and bottles, not to mention all the sugar and calories. I flavor mine with juice or fruit but even like it plain. The guys flavor theirs with the

soda flavors, and they like them. They aren't much better for you, but you can't win all the battles at once. At least they have a choice now."

- "If we had a party or were entertaining for a lot of people I would probably buy canned soda just because it's easy and I know everyone will like it. I will definitely stop buying soda for my house though; this is enough to keep they guys happy. The cola and the root beer are their favorites."
- "I will buy the flavors my son and husband like if they keep drinking it."
- "I have not had to replace the cartridge yet and not sure where to do that either."
- "I did purchase the set of the carbonating bottles after I got the soda maker so that I could keep some flavored water ready for them and plain water for myself. It's working out fine that way."
- "I haven't seen any other soda maker out there."
- "I see the SodaStream everywhere now. A lot of stores have it. I think it's gaining in popularity."

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*SodaStream Customer
Pennsylvania*

➤ **Woman in her late 40s who received a SodaStream Genesis for Christmas, New Jersey**

This source has used the Genesis at least once a day for soda and seltzer and expects her usage to continue throughout 2012. She has begun pricing out flavors and canisters at local stores. She likes the ability to control the level of carbonation, the convenience, and the product's environmental footprint.

- "I love, love, love the SodaStream. It is awesome. I received it as a gift for Christmas and have been using it at least once a day."
- "I have been using the sample flavors that came with the machine. We all like the soda. I really like the diet grapefruit. I also use the machine to make plain seltzer. I'm a seltzer addict."
- "I plan on buying more of the flavors. I've actually seen the flavors on display at a stores. I'm not sure if I'll buy them at the store or online."
- "I absolutely think that we will be using the machine a year from now. I've wanted this for a while."
- "I like that we can adjust the level of carbonation; I use a lot. I also like that we don't have to go to the store and that we aren't using bottles. I've already noticed that the amount we are recycling has gone down."
- "I don't have any complaints. I guess the only thing I would change or add is the ability to know how much carbonation is going into the soda—a low, medium and high setting. The noise it makes was startling at first. I guess it is just a matter of trial and error."

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*SodaStream Customer
New Jersey*

➤ **Woman in her mid-80s, gift purchaser of two Jet soda makers, Pennsylvania**

This source purchased two Jet machines as Christmas gifts, but did not purchase any flavors or canisters. She believes the initial investment is worthwhile and will save her family members money. She also thinks SodaStream will gain in popularity because of its environmental and health benefits.

- "I have bought two now as gifts from Bed Bath and Beyond. One for my daughter and one for my daughter-in-law."
- "They both drink carbonated water a lot, and I thought it was a great gift."
- "One daughter asked for it; the other didn't. But I know she wanted one, so I got it for her anyway."
- "I think the flavors and canister purchases won't be an issue. They usually drink it plain or with fruit juice, so I didn't get them any flavoring to add."
- "I haven't seen any discounts on the machines. I think they are worth the cost because of the way my daughters drink the carbon water. It will save them money in the long run."
- "SodaStream is getting more and more popular. It is good for the environment, better for you than soda, and cheaper than buying carbonated water from the store."

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➤ Woman in her mid-40s, owner of SodaStream for two years, New Jersey

This source used the soda maker frequently at first, but usage since has tapered off. She purchased the product to make seltzer, but she has gone back to buying premade seltzer. Still, she thinks SodaStream is a good idea and has recommended it to friends. She likes the SodaStream bottles and uses them for flat water, and plans to replace them this year.

- “I don’t use the SodaStream very often. I used to use it a lot, but I’ve been drinking [Pellegrino](#) much more over the past year. It has a more subtle level of carbonation and it’s so easy to open a bottle than to fill and carbonate a bottle of water. However, I use the SodaStream bottles everyday just to bring flat water with me to the gym and pretty much everywhere I go.”
- “I really prefer plain seltzer rather than flavored, so I haven’t purchased any new flavor bottles. Since I’ve reduced how often I use the unit, I haven’t bought any canisters recently. My refillable bottles will reach their ‘use until’ date this year, and I definitely plan to purchase more.”
- “In the past I bought canisters via the SodaStream website. But when I do buy more, I will probably do so via Bed, Bath & Beyond since I’ve noticed they carry the whole line of supplies.”
- “I find the products to be very reasonable in cost, and was initially influenced to purchase the SodaStream because it seemed like a very wise economical choice. I haven’t bought it as a gift for anyone, but have recommended it to friends.”

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*SodaStream Customer
New Jersey*

➤ Man in his late 30s, SodaStream owner for one and a half years, New Jersey

This source only uses the SodaStream to make seltzer, which he sometimes flavors with juice. He likes the convenience, and has recommended the machine to others and has given it as a gift. That said, his usage has dropped off since he first purchased the machine.

- “We bought our SodaStream after we visited a friend who had one. We purchased it from [Amazon\[.com Inc./AMZN\]](#) about a year and a half ago.”
- “We currently use it two or three times a month. We did use it a lot more when we first bought it—at least once or twice a week. I think part of it is that we use it more in the warm weather.”
- “We only use it to make seltzer. Sometimes we mix it with juice or a slice of lemon or lime.”
- “We have never made soda. When we purchased it, they didn’t offer samples of the soda mix. We aren’t big soda drinkers anyhow.”
- “I like the convenience. My four-year-old loves it and thinks that ‘bubbles and juice’ is a big treat.”
- “It is a little awkward connecting the bottle to the machine.”
- “It doesn’t feel particularly well-made. The plastic on our coffee maker and food processor seems more durable and better quality. That said, we haven’t had any problems with it. We actually just bought a kit for a family member for Christmas and have recommended it to friends.”
- “Price doesn’t affect our use that much. I don’t know that there is that much of a difference in the cost of purchasing bottles of seltzer at the store versus making it at home.”
- “We buy our canisters at Bed Bath & Beyond. When we purchased the kit over the holidays, we bought it at Sears.”

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*SodaStream Customer
New Jersey*

➤ Visits tracking consumer interest in SodaStream products, 22 Chicago-area stores

A Blueshift trend researcher was at each location for a minimum of 15 minutes and saw no purchases of or consumer interest in SodaStream products.

Store name	City	Date visited	Time of day
Carson’s	Bloomington, IL	Mon 12/19	afternoon
J.C. Penney	Bloomington, IL	Mon 12/19	afternoon

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Kohl's	Bloomington, IL	Mon 12/19	afternoon
Costco	Bloomington, IL	Mon 12/19	afternoon
Bed Bath & Beyond	Niles, IL	Tues 12/20	morning
Carson's	Lincolnwood, IL	Tues 12/20	morning
Kohl's	Lincolnwood, IL	Tues 12/20	late morning
Target	Bartlett, IL	Thurs 12/22	late afternoon, early evening
J.C. Penney	Bloomington, IL	Thurs 12/22	late afternoon, early evening
Carson's	Bloomington, IL	Thurs 12/22	late afternoon, early evening
Macy's	Schaumburg, IL	Mon 12/26	early morning
J.C. Penney	Schaumburg, IL	Mon 12/26	early morning
J.C. Penney	Bloomington, IL	Mon 12/26	early evening
Costco	Bartlett, IL	Mon 12/26	early evening
Macy's	Bloomington, IL	Wed 12/28	afternoon
J.C. Penney	Bloomington, IL	Wed 12/28	afternoon
J.C. Penney	Schaumburg, IL	Thurs 12/29	late afternoon
Costco	Bartlett, IL	Thurs 12/29	late afternoon
J.C. Penney	Bloomington, IL	Fri 12/30	evening
Target	Bartlett, IL	Fri 12/30	evening
Kohl's	Lincolnwood, IL	Wed 1/4	morning
Carson's	Lincolnwood, IL	Wed 1/4	morning

4) SUPPLIERS/DISTRIBUTORS

Both sources were lukewarm on SodaStream machines, noting the brand's somewhat upscale price point, limited demographic, and unclear product positioning. Sales have been steady for one source who positions SodaStream as a health/lifestyle item, but have been slow for a regional housewares distributor source who described the product as "gimmicky." Both sources said SodaStream still possesses potential if it can properly categorize its products and continue its retail rollouts.

➤ Senior buyer for a national housewares retail chain

This source praised SodaStream but said the brand is somewhat exclusive in price and demographic. Sales have been good for locations that know how to position the product. He keeps the canisters and other accessories in stock because SodaStream consumables attract upscale shoppers.

- "It's done well for us over the last year and the last quarter. We like the product. It fits in nicely with our clientele and with our overall niche in the retail markets. In terms of numbers, it's hard to say because we're expanding so quickly overall. We don't have as many same-store comps over last holiday season as we might otherwise."
- "You have to know how to sell something like SodaStream. It's a health item and a lifestyle item. We actually sell it as a cocktail accessory, something like a high-end blender or water purifier. We do not sell it as a way to get endless Mr. Pibb or whatever for less."
- "The problem, of course, is we have a somewhat rarefied demographic. We're more about the fine cooking, the gourmet equipment. SodaStream fits in well with that. Whether it plays into the big-box stores, I don't know. The pricing may be difficult for some people in that market to accept. They'd need to figure out how their investment in the fountain amortizes over time or whatever it is they'd do to calculate how much soda they'd need to drink."
- "We sell a lot of the fountains, but the real bump to our sales is the continuing business—the accessories and flavor products. We do sell some flavorings, but they're definitely one of our top lines in that category. It helps us bridge over into the grocery space and underline how we should be the first place people come to when they think of food or the kitchen. The regular accessory purchases boost our floor

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*Senior Buyer
National Housewares Retail Chain*

SodaStream International Ltd.

traffic and keep people coming in to browse, maybe pick up some spoons or a bowl as well as the SodaStream refill. We love that. We'll do whatever we need to do to highlight it."

➤ **President of a regional housewares distributor**

This source said SodaStream is a bit gimmicky, and wondered where the company fitted into the retail universe. He does not sell many fountains to traditional retailers, and believes sales are mediocre. The product has potential if the carbonated-water category can be expanded.

- "It's OK. I've seen a lot of fads, and they're hard to place in an actual distribution network because the inventor or manufacturer tends to prefer selling them direct to get a better margin on the sale. And as a result, the products tend to be on the flimsy side because it's all about the application—how people use it—and not about being the highest-quality choice in its category."
- "Right now it's one of the only choices in its category, so they don't have to have much shelf appeal. That hasn't hurt them yet because if you want to make your own soda, it's either them or buying your own restaurant fountain. But if they create a new category, it'll be a double-edged sword for them because the next guy will come up with a premium contender that looks great, works great and squeezes them out of the premium place they're in now."
- "We have it in the catalog, but it just sort of sits there. We work with more traditional broadline stores, with relationships established 50 years or 100 years ago in some cases. They're not so much interested in ... whatever they see on TV. They know that people watching that show can buy this stuff on TV just as easily, so why would they go into a store and buy it?"
- "In our pots and pans and toasters world, it's doing OK but not fantastically. And if it were doing fantastically, I'd hear about it from other people wondering why I don't push it their way. It might be doing fantastically, just on a direct sales basis."
- "It could be big someday once the category is created and you get real competition. I saw that they're huge in Sweden, with 25% of the population owning one. That's where microwaves were, what, 20, 25 years ago? Over here, I doubt it's that high. That's an opportunity for them if they can keep at it and become the next microwave of 1985 or the toaster of 1920."

If they create a new category, it'll be a double-edged sword for them because the next guy will come up with a premium contender that looks great, works great and squeezes them out of the premium place they're in now.

President, Regional Housewares Distributor

5) INDUSTRY SPECIALISTS

These four sources expect SodaStream to further penetrate the housewares market and post long-term growth, but varied in their expectations for the product within six to 12 months. Two sources said SodaStream will experience growth during 2012 through door expansion, a growing market, and its novelty factor. The other two sources said SodaStream's expansion may increase brand visibility but not direct sales; too many consumers still are unfamiliar with SodaStream. It remains an Internet purchase. Sources said the company's Kraft partnership should boost market penetration and open doors to more branded flavors. One expert said the partnership would be similar to the [Green Mountain Coffee Roasters Inc./Keurig deal](#).

➤ **Housewares industry expert; repeat source**

SodaStream's growth will continue during the next six to 12 months because it is a new product for many retailers and its flavors appear to be selling well. The Kraft partnership will benefit both companies and may open doors to more branded flavors. SodaStream has no direct competitor, but the source expects new products to be announced at several upcoming housewares events. As in Blueshift's September report, repeat sales continue to benefit smaller retailers, but price-control issues may come into play.

- "SodaStream still has an upward arrow [in the next six to 12 months], even in established channels. There is still growth where they are now—plenty of strength. Those retailers selling SodaStream this holiday season did not have it [in 2010]."
- "Consumers figured out how to shop the holidays. The front and back end were busy, but the middle was slow."
- "A great positive for smaller retailers is that the sale of a SodaStream machine with the canisters and flavors meant customers were taking more trips to their store."

SodaStream International Ltd.

- “SodaStream’s Kraft deal is perfect ... similar to Keurig/Green Mountain. Kraft was a victim of the Keurig situation because they were not in a position to sell K-Cups. ... It makes great sense with SodaStream to have a third party—like Keurig—to use brands to gain a bigger audience. It’s good for both companies. I would guess neither major soft drink company would consider a partnership—but I thought the same with Starbucks and Dunkin’ Donuts with Keurig—but if [[The Coca-Cola Co./KO](#)] and [[PepsiCo Inc./PEP](#)] want to be everywhere their customers are, they’ll do it. Perhaps this SodaStream is ideal for those secondary or tertiary brands, like [Cott Corp.’s/COT] [RC](#)—brands without a presence.”
- “I’d tell SodaStream to go find older brands and breathe life into them.”
- “I noticed their broadened distribution pattern across a number of retail channels, which has to be positive for them. I’m guessing they are having success in household penetration. They had great placement at Costco, and I saw ads in virtually every retailer other than Wal-Mart.”
- “SodaStream has tried hard, established a market and built a new product. It existed in some way—a small way—but now they are becoming important. They pioneered a category with little competition, and it’s good for the housewares world.”
- “There are several housewares events coming up in the next few weeks. ... We will see then if SodaStream will have the same pull as last year.”

➤ Household products buyer and retail consultant with 40 years of experience

SodaStream still is expanding, but short-term sales are likely to disappoint. The source said SodaStream is vulnerable to its core demographic’s renewed economic concerns, but refill purchases will remain intact. The product has greater long-term potential because the U.S. market remains largely untapped.

- “They’re up over last year, but everything is. This is not going to be a great season for them. The entire retail season moved in a barbell pattern, with very strong activity immediately post-Thanksgiving and then an unusually strong bump in the last few days past Christmas. It looks like bargain hunting on both sides of the holiday, but what it means for SodaStream and similarly positioned companies is that after the first few days, sales died off. People who really wanted it and were willing to pay bought it on Black Friday. Those who were on the fence decided to wait until maybe yesterday to pick it up on sale.”
- “The brand is expanding steadily. The problem here is that once you move out of the department stores into the independent retail channel, penetration is slow because you’re winning territory store by store and buyer by buyer. That’s where they are. And the higher-end housewares stores, the gourmet kitchen stores where SodaStream is a good fit, are one of the most fragmented and fractious retail categories out there, so expansion is slow.”
- “The problem this year was the summer market crash spooked the yuppies. Some of them are back to hunkering down for a repeat of the 2008 recession. That’s gotten them to defer their appliance spending, not because they feel a lot poorer but because they remember the great fire sales of 2008–2009. They’re unwilling to pay full retail if they can get it for \$10 or \$20 off in a week or two.”
- “But families that have bought it are still buying the refill canisters. This is an important aspect of their business. Not only do they sell the appliance and the consumable accessories—the water and flavorings—but they have a very ‘sticky’ business. Once someone invests in the SodaStream fountain, they have a vested interest in using it to make their soda. It’s cheaper, better for the environment, better for you, and you don’t want to waste the counter space. Adoption is almost always one-way.”
- “I called around and orders for new machines are flat to somewhat higher, basically on a replacement level. But the new machines aren’t this company’s main business. That’s just their toe in the door.”
- “This is a theoretically revolutionary product, a do-it-yourself category killer. You don’t need me to tell you how much money Americans spend on cola. If SodaStream captures an elite 5% or 10% of that spend,

Once you move out of the department stores into the independent retail channel, penetration is slow because you’re winning territory store by store and buyer by buyer. ... And the higher-end housewares stores... are one of the most fragmented and fractious retail categories out there.

*Household Products Buyer &
Retail Consultant*

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Retail Consultant*

SodaStream International Ltd.

they're going to be a much, much bigger company. Even 1% of the market would represent massive growth for them."

- "The fact that a lot of stores can't keep enough of the CO₂ canisters in stock is the factor you should be watching. That's a problem for these retailers because they don't like to move so much bulk inventory and the price point is actually bad for them. It's like how a high-end department store will sell you a nice razor but can't be bothered to keep the blades on the shelves. They need a better distribution situation there. But 'out of stock' means 'people are still using the machines.' It's a positive indicator."

➤ Longtime retail commentator and big-box industry insider

Any big-box relationships for SodaStream will broaden the brand's visibility but not necessarily its sales. Wal-Mart in particular is a major distribution point for canisters and flavors but not the fountains themselves. Fountains are sold primarily online and through telephone/catalog distributors.

- "I wouldn't be surprised if SodaStream was in all the box stores by spring, even in a token presence. All they need is one fountain per store. They can even pay the stores for placement as long as it proves to the public that that thing they saw on TV is real and works. I don't care if that floor model never sells."
- "SodaStream needs to get into Wal-Mart for one reason: to give people a place to buy the seltzer and the flavor packs. That's obviously where a Kraft relationship can come in, by the way. Kraft has the grocer relationships. It's not an appliance company. If retailers can realize that SodaStream canisters and flavor packs should be shelved as groceries—as food—and not with the appliances, they've done the job of turning SodaStream into a mass brand."
- "I look around and see Target has endless SodaStream machines available in its stores, but they're sold out online. That tells me that this is still an Internet product, maybe one of the first Internet products in the appliance category. ... Retail is an afterthought for these products. It's a way to rack up bulk orders through wholesalers and other resellers, but as long as those bulk orders are there, they don't really care if it never sells a single unit off the shelf."
- "SodaStream needs to keep moving the consumables, the grocery side of the product. Target doesn't sell the refills online or in the stores. The department stores have no soda aisle, so they're forced to sell the canisters underneath the fountains or wherever they find space. They hate that. Target hates it; everyone hates it. Wal-Mart happens to sell candy and snacks and an awful lot of soda. Shelve the SodaStream refills next to the Kool-Aid and maybe make room for a fountain nearby, or don't sell the fountain at all."
- "SodaStream doesn't compete with coffee makers or vacuums or blenders. They compete with Coca-Cola. They sell soda through a different delivery system."
- "I hope Kraft snaps its fingers and brings in a partnership from the Pepsi days. ... Pepsi and Mountain Dew at home is something to think about. That might not be realistic, so we might simply see a carbonated Kool-Aid here. That's not bad, but it's not exactly the upscale image that SodaStream now cultivates."

I look around and see Target has endless SodaStream machines available in its stores, but they're sold out online. That tells me that this is still an Internet product.

Longtime Retail Commentator & Big-box Industry Insider

➤ SodaStream competitor; repeat source

SodaStream has room for further growth through advertising and expansion efforts. The source's sales rose 15% to 20% during the fourth quarter compared with the third quarter, similar to growth reported in September. A few customers said they did not like SodaStream's plastic canisters, had difficulty exchanging CO₂ carbonators, and were not finding a full range of flavors in stores. The source had not heard the Wal-Mart distribution rumors, but said Wal-Mart and Sam's Club are the last large retail holdouts for SodaStream.

- "There is still a lot of growth potential for SodaStream. More people are seeing they can make their own drinks at home."
- "Our sales definitely increased the last quarter of the year, maybe 15% to 20% quarter to quarter. This Christmas was also higher year to year."
- "I did get some customer feedback on SodaStream since the September report. The bottles that come with SodaStream machines are plastic, and some people don't like that. Ours are aluminum with proven longevity. CO₂ has to be replaced through SodaStream, and people are complaining they can't find the flavors they want. I was looking locally and could only find a few. Otherwise, you have to order them online."

- “We don’t deal with consumables, but SodaStream customers are probably 50:50 [in making seltzer versus soda].”
- “I haven’t heard of any more SodaStream retailer expansion. I saw the ads saying they were in more stores and I was aware it was happening ... but I don’t know about Wal-Mart. I assumed they already were selling there. I saw them at Kohl’s, which kind of surprised me. They started out so high-end, and switching to Wal-Mart might change the brand image.”
- “We have participated in bidding to be in larger stores, but iSi, for example, is bigger than we are and we can’t compete against the bigger companies. There is a lot to think about in terms of how to deal with product returns, etc. when you move into larger retailers.”
- “It does seem this year compared with last that people are wanting to make more seltzer or drinks at home, so it is more popular. It may be a fad or people really not wanting all the sugar in the soda. ... I think it will stay around for a little while.”
- “It’s very true that SodaStream could benefit from name-brand flavors [through its Kraft partnership].”

“They started out so high-end, and switching to Wal-Mart might change the brand image.”

SodaStream Competitor

Secondary Sources

Three secondary sources offered details on SodaStream’s new distribution and marketing deal with Kraft Foods, the company’s retail expansion, and SodaStream users’ reviews on the company’s Facebook page.

➤ Jan. 5 Advertising Age article

SodaStream’s new distribution and marketing deal with Kraft Foods is expected to benefit both companies by “marrying” Kraft’s brands with SodaStream’s technology.

<http://adage.com/article/news/sodastream-joins-forces-kraft-marketing-deal/231913/>

- “The partnership will begin in the second quarter with the rollout of Kraft-branded flavors Crystal Light and Country Time for the home soda-making system.”
- “‘The carbonated market is an exciting segment for us, Doug Weekes, Kraft VP-beverages, said in a statement. ‘It’s a perfect marriage of our iconic brands and SodaStream’s breakthrough technology.’”
- “‘We are excited to welcome these delicious Kraft drink mixes into our SodaStream portfolio,’ Daniel Birnbaum, CEO of SodaStream, said in a statement. ‘Adding our sparkle to these popular flavors should attract a new audience to both Kraft and SodaStream, and increase awareness of the soda-making category.’”

➤ Nov. 28, 2011, Advertising Age article

SodaStream has stepped up its retail expansion and advertising, including in Target.

<http://adage.com/article/special-report-americas-hottest-brands/america-s-hottest-brands-sodastream/231205/>

- “SodaStream has hit the shelves in a big way: It went from 2,500 stores in the fourth quarter of 2010 to nearly 9,500 today.”
- “Rather than TV spots and billboards, SodaStream has opted to build its brand via friend-referral programs and in-store demonstration sessions. In the fourth quarter alone, it has 25,000 demos scheduled nationwide.”
- “In July 2010, SodaStream began its more mainstream expansion, embarking on a test with Bed Bath & Beyond that was hugely successful. That marked the start of a broad national rollout in other big-box stores such as Sears, Kohl’s, JCPenney, Costco and Staples. This month marks its launch in Target store.”

“Rather than TV spots and billboards, SodaStream has opted to build its brand via friend-referral programs and in-store demonstration sessions. In the fourth quarter alone, it has 25,000 demos scheduled nationwide.”

Advertising Age Article

SodaStream International Ltd.

► SodaStream's Facebook page as of Jan. 5, 2012

Of 25 reviews, 21 were mostly from middle-aged women with children. Almost all reviewers were pleased with their SodaStream soda makers, particularly the environmental footprint and the orange flavors. However, they panned the diet cola and regular cola flavors. Discussion also centered on getting the proper carbonation level. One Newbury, MA, reviewer reported having trouble finding a soda maker during the holidays but recently found a machine at Sears.

<http://www.facebook.com/SodaStream>

- "I have seen the ads for this Bed Bath & Beyond and was not sure if it really was worth getting. Thanks to all you for your comments; you helped me make the decision to invest in one!!!"—Nashville woman
- "We just got ours and love the Fountain Mist (hoping the diet will be good as well), the orange, the lemon-lime, but the cola flavor isn't that great. Has anyone had to make adjustments to the amount of cola syrup they put in? It almost has a 'diet coke' taste to it even though I am using regular. I also love that the full ones are so much lower in sugar and calories."—Middle-aged male from Wisconsin
- "Love the Diet Cranberry Raspberry and Ginger Ale flavors so far!"—30-year-old woman
- "Made a fun dessert for the holidays. Kids love jello so for a kick I carbonated the cold water part with the soda stream to create 'Fizzy Jello.'—North Dakota woman
- "I am an avid sugar free red bull drinker and I just bought a SodaStream and have been using the sugar free energy mix and it's great! Same taste but isn't made with aspartame, has the same amount of caffeine and less sodium!"—30-year-old Pennsylvania woman
- "I received my SodaStream for Christmas. ... So far it's fantastic. I've had no problems with soda holding its fizz or anything. I make 2 liters, drink one right away and save one for days later and it's still fizzed up and ready to drink. My wife and I agree however that the flavored water is horrible no matter what we do to it, it's tasteless. The soda it's self is fantastic great flavors even the diets."—Pittsburgh man
- "I don't drink a lot of pop anymore, but I had to have one of these this year for Christmas. I like it for many reasons, but mostly I like that I have to make it. It makes me think if I really want one or a glass of water. I still only make one every couple of days, but it is always there if I feel the need to have a soda. I love that there are no bottles or cans lying around the house. I think we all need to be a little more 'green.'—woman in her late 30s
- "1 bottle of syrup makes about 12 liters (equivalent of 6 2-liter bottles) for about \$5. If you buy soda at the store regularly, the savings can really add up. Plus there's no lugging bottles & cans around, nor is there any waste other than the empty syrup bottles when you finish with them. Works for me!"—Woman in her mid- to late 20s
- "At Xmas time I looked EVERYWHERE for this, I gave up & moved on. Just this past weekend I was at Sears, for the heck of it I looked in kitchen for this & lo and behold there it was! I LOVE this product, not only does it have fewer calories but it will save me money! That doesn't even say how great the taste was & how it tastes like name brands."—Newbury, MA, woman in her 20s or 30s

It makes me think if I really want one or a glass of water. I still only make one every couple of days, but it is always there if I feel the need to have a soda. I love that there are no bottles or cans lying around the house.

SodaStream's Facebook Page

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SodaStream's Facebook Page

Next Steps

Blueshift will continue to monitor sales of SodaStream equipment and consumables, particularly at Costco and Target. We also will follow SodaStream's partnership with Kraft, the company's potential distribution agreement with Wal-Mart, its increasing brand awareness, and new-customer growth. We will determine whether SodaStream users have moved beyond seltzer water and into Sodamix flavors, and will gather data on SodaStream's CO₂ exchange program. Finally, we will assess SodaStream's penetration of the soda market.

Additional research by Scott Martin, Lindsay Gadsby, Tina Strasser, Maggie Purcell, Erica Franklin and Jacqueline Fox

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