

GMCR TRYING TO MANAGE KEURIG DEMAND, RECALL (GMCR, KFT, SBUX)

Reverdy Johnson, rj@blueshiftideas.com 415.364.3782
with additional research by Seth Agulnick and David Franklin

Research Question:

Are Keurig's (Green Mountain Coffee Roasters Inc./GMCR) performance issues continuing, and will sales suffer because of supply issues?

SUMMARY OF FINDINGS

- ▶ Retail stores reported product recalls through April as well as recent customer returns of defective machines beyond those models listed in the recall. Store personnel also continue to see inventory shortages on Keurig brewers and have not been able to keep up with demand. Store associates believe Keurig has lost sales opportunities because of a lack of available machines.
- ▶ Online distributors and commercial suppliers have noted inventory and equipment problems, saying Green Mountain grew too fast to keep up with demand.
- ▶ Most customers remain loyal to Keurig, waiting for a replacement brewer rather than choosing a competitor's product. Message boards and Facebook pages show customers still are reporting faulty Keurig equipment though less frequently than in March and April. Whether these are from the already recalled batch or are a newer production is unclear.
- ▶ K-Cup sales appear unaffected by Green Mountain's problems with its Keurig brewers.
- ▶ Sources believe Keurig and Green Mountain will continue to dominate the single-cup coffee space, calling the recent setback more of a hiccup and citing customer loyalty and a monopoly on the design and concept.

	Keurig Brewer Issues Continue	Keurig Sales Suffering	K-Cup Sales Suffering
Retail Store Checks	↑	➔	↓
Online Distributors	↑	↓	↓
Commercial Suppliers	↑	↓	↓

SILOS

1) Store Checks

Four of 10 sources handled recalls for Keurig's B70 series through April but have not had any returned B70s since. However, they **reported recent returns on other defective Keurig brewers, including the B30 Mini and K-Cup-ready Cuisinart SS700**. B70 inventory was restored within two weeks, and sales personnel do not believe sales were hurt. The six remaining sources were unaware of the recall but noted current shortages on popular Keurig brewers as supply cannot keep up with demand. **Sales have suffered to varying degrees as a result. All sources said K-Cup sales were unaffected by Keurig machine troubles.**

2) Online Distributors

Three repeat sources were unaware of Keurig product recalls but noted **very short and nonexistent supply of the brewers since the holidays**. One source said Green Mountain produced a bad batch over the holidays to meet the increased demand and malfunctions persist even now. Another said the majority of her service calls to commercial clients are for work on Keurig brewers. The final source believes inventory and order filling problems will hurt Keurig, especially as the Cuisinart model that brews single-serve K-Cups is now available. Keurig fills orders for retail stores before sending any supply to the online retailers. **Despite the struggles, all three said Keurig continues to thrive and K-Cup sales were unaffected during the first half of the year.**

3) Commercial Suppliers

Three repeat sources were aware of problems with Keurig brewers but said their businesses had not suffered significant losses as a result. **The company grew too fast and has had problems keeping up with demand.** Still, Keurig will be fine in the long run as its brewers and K-Cups remain tremendously popular.

FINDINGS AND RESEARCH



INITIAL FINDINGS

Blueshift Research's previous Green Mountain reports showed that K-Cups would not lose share to Starbucks Corp.'s (SBUX) Via (Oct. 30), growing competition in brewers did not threaten Keurig's stranglehold on the single-serve market (Jan. 8), and K-Cups were expected to maintain leadership in sales and usage (April 16).

CURRENT RESEARCH

In this fourth study, Blueshift assessed whether Keurig's troubles with malfunctioning single-cup brewers have continued into the third quarter and caused sales to suffer because of inventory problems. Blueshift employed its pattern mining approach to interview sources in four independent silos: 1) retail store personnel, 2) online Keurig and K-Cup distributors, 3) home and office coffee commercial suppliers and 4) secondary sources.

Blueshift interviewed 16 primary sources, including seven repeat sources in the supplier, online distributor and expert silos. We also included six of the most relevant secondary sources focused on customer concerns over continued machine malfunctions.

SILOS



Retail Store Checks

Four of 10 sources handled recalls for Keurig's B70 series through April but have not had any returned B70s since. However, they reported recent returns on other defective Keurig brewers, including the B30 Mini and K-Cup-ready Cuisinart SS700. B70 inventory was restored within two weeks, and sales personnel do not believe sales were hurt. The six remaining sources were unaware of the recall but noted current shortages on popular Keurig brewers as supply cannot keep up with demand. Sales have suffered to varying degrees as a result. All sources said K-Cup sales were unaffected by Keurig machine troubles.

- ▶ A Dallas-area Bed Bath & Beyond sales associate recalled sending four B70 models back to Keurig in February because of a defective water pump and said inventory was promptly replaced. The source reported no subsequent recalls or affected sales. The store is currently out of stock on all models except the B30 Mini, with additional inventory expected within the week.

- "The B70 units that were returned in February were from a group that was defective, but not all B70s were bad, just ones from a small production line. We identified four that were defective, sent them back and Keurig sent us new ones the next week. And there were a couple of [Conair Corp.] Cuisinarts [SS-700] that were recalled, both because of the water pump."

We identified four that were defective, sent them back and Keurig sent us new ones the next week. And there were a couple of [Conair Corp.] Cuisinarts [SS-700] that were recalled, both because of the water pump.

Bed Bath & Beyond, Dallas

- "We didn't see any impact on sales; customers had other models and other brands to choose from. We just sold customers other units."
- "[Kraft Foods Inc.'s/KFT] Tassimo is the brand that people want to move up to because it is geared for lattes and cappuccinos. It's the difference between a Cadillac and a

- Chrysler. The Cuisinart—it has the Cuisinart name and it's all metal if that's what you prefer, but it doesn't [sell] as fast as the Keurig because it's a \$200 machine.”
- “We've only had the Cuisinart for a couple of months so there's not enough feedback, but none have come back, which is itself a good sign.”
 - “We only have the Mini now, out of stock on the others. We are getting a couple of B70s in. No B60s now, but we are getting about 40 in, probably next week.”
 - “We haven't seen any dips or spikes in K-Cup sales. They've always been popular, probably because there are so many to choose from.”
- ▶ A store clerk in a Los Angeles-area Bed Bath & Beyond said B70 models were recalled but replaced within about two weeks in April. Sales were relatively unscathed through the recall and remain solid for replaced models and K-Cups. Currently, inventory for Keurig models is full. Customers asking for the top-line B70 series during the brief recall chose another Keurig model rather than a competitor.
- “We were out of the B70 model for a little less than a couple of weeks in April. While that was going on, customers did ask for it but instead of buying another brand of coffeemaker they bought a different smaller model. They didn't want to wait for them to come in.”
 - “They shipped us about a dozen of the B70 models not too long after we sent ours back.”
 - “Customers could have bought a Tassimo or [Groupe SEB's/EPA:SK] Krups maker or another kind, but they didn't. They seem to really prefer this brand.”
 - “We are selling more K-Cups now.”
- ...customers did ask for it but instead of buying another brand of coffeemaker they bought a different smaller model.*
- Bed Bath & Beyond, Los Angeles*
- ▶ A Dallas Bed Bath & Beyond manager said both the Keurig B70 and Cuisinart coffeemaker were recalled from shelves one or two months ago as bad batches were sent to all retail stores with approximately 10% being sent back or returned. The store has not had any trouble getting inventory and only received returns of damaged brewers. This store has plenty of inventory.
- “They yanked them from the stores one to two months ago. They just released them back to us two to three weeks ago.”
 - “Keurig is the most popular. I've only sold one Tassimo in the two months I've been here.”
- ▶ A housewares department manager at a Bed, Bath & Beyond in New York City said the Keurig B70 Special and Platinum models were recalled in early April due to a faulty water pump. The store returned the models specified by serial number and soon received new models to replenish inventory. The effect on Keurig sales was not notable. K-Cup sales and inventory stayed the same throughout the entire process.
- “It didn't hurt our sales of those models because we were able to put other models very soon back onto the floor.”
 - “Everything is back to normal in terms of our inventory.”
 - “K-Cup sales have stayed the same.”
- ▶ A sales clerk at the return desk in a Sacramento Costco said the store typically cannot keep Keurig single-serve coffeemakers in stock because demand is so high. With the few returns she had transacted, the customer wanted another Keurig as a replacement despite a water pump malfunction on the previous model. She said the B77 model was pending discontinuation, and she was not certain if the store was getting more B70s.

- “There are no problems with Keurig, we just can’t keep it in stock.”
 - “I thought the B77s would be on order, but it’s pending discontinuation. They’re not ordering any more from the warehouse.”
 - “People love the Keurig. Even when they return it, they want another one.”
- ▶ A Kohl’s home goods supervisor in Dallas reported an ongoing Keurig inventory shortage. The store cannot keep the brewers on the shelf since it only gets four to five of each model per week. He believes the store’s Keurig sales would double if it had the inventory. The store recently received the Cuisinart SS700 and has sold only two in four weeks. K-Cup sales have not been affected.
- “Keurig has not recalled any of the ones we carry. We sell a lot of those, and we never hear any complaints.”
 - “I’ve had a few returns, but not that many. I’ve had more returns for [Jarden Corp.’s/JAH] Mr. Coffee than anything else.”
- ▶ A housewares sales clerk in a Sacramento Kohl’s had not heard of any Keurig brewer recalls but said a customer recently returned a Keurig Mini because of a malfunctioning water pump. Keurig sales still remain high.
- “I’ve never heard of any problems or recalls with the B70 or B77, but someone just returned a B30 Mini today because it had problems with the pump or tubes.”
 - “These are good sellers. Lots of people still want these. They’re not going anywhere. We stock these all the time.”
- ▶ A housewares department clerk for a Los Angeles-area Macy’s said the store was never asked to send any of the Keurig models back and store inventory has moved consistently throughout the year. Four months ago the store ran out of the B30 Mini and has not been able to get any more. K-Cup sales remain strong though flavor options are limited.
- “I’ve not heard anything about a recall on any models. I haven’t had any customers return coffeemakers to the store.”
 - “Customers in this store seem to prefer the Mini brewer. It’s our best-selling machine, and we’re sold out.”
 - “Competitors never do as well as the Keurig makers.”
- ▶ A sales associate at a Wal-Mart in Philadelphia did not know of any recalled Keurig brewers but said high demand has left inventory levels low. New machines continue to arrive but not enough to meet demand.
- “When Keurig machines come in, people just come in and get them. People just buy these things up—when they’re here.”
 - “When they’re not here, I think the store’s lost so much money because it’s not in stock the way it should be.”
 - “We’ve got one B40 left, and I am surprised that one is still here.”

People love the Keurig. Even when they return it, they want another one.

Costco, Sacramento

...someone just returned a B30 Mini today because it had problems with the pump or tubes.

Kohl’s, Sacramento

People just buy these things up—when they’re here. ... When they’re not here, I think the store’s lost so much money.

Wal-Mart, Philadelphia

- ▶ A visit to a Los Angeles Target revealed only two Keurig models, the B60 and B30 Mini. The shelves lacked price SKU cards or spaces for the larger, more popular models. The store also had very limited supply of competitor models.



Online Distributors

Three repeat sources were unaware of Keurig product recalls but noted very short and nonexistent supply of the brewers since the holidays. One source said Green Mountain produced a bad batch over the holidays to meet the increased demand and malfunctions persist even now. Another said the majority of her service calls to commercial clients are for work on Keurig brewers. The final source believes inventory and order filling problems will hurt Keurig, especially as the Cuisinart model that brews single-serve K-Cups is now available. Keurig fills orders for retail stores before sending any supply to the online retailers. Despite the struggles, all three said Keurig continues to thrive and K-Cup sales were unaffected during the first half of the year.

- ▶ The general manager of a single-serve online superstore said the Keurig brewer she carries has not been recalled, but the B70's problems were well known and the series has been out of stock for several months. She said this will hurt Keurig as customers may move on to competitor products like Cuisinart that also accept K-Cups.
 - "I have not heard of a recall, but that's because I only carry the B30."
 - "I do know Keurig is slow to supply their brewers."
 - "I think it's very important o Keurig. That's their high-end product and a lot of people want the high-end stuff."
 - "I'm afraid they are going to start losing business to Cuisinart."
 - "This has not hurt K-Cup sales. My shipping department is still crazy. K-Cups are flying off the shelves."
- ▶ A sales representative for a multistate coffee provider's Internet division said her company has been out of stock of Keurig home brewers for over six months because of backorder issues and the priority Green Mountain gives to large retail stores. She said most service calls on office machines are for Keurig brewers. However, she believes Keurig will maintain dominance in the single-serve coffee space because of a lack of competition, expansion possibilities and the K-Cup's popularity, which has been unaffected by the inventory problems o.
 - "The main problem with Keurig is their unavailability to online distributors like myself and others."
 - "We sell both office to office and at home models. The at-home models have been on backorder since before Christmas. I don't know if they are trying to go exclusively with retails stores, but we've got nothing. I think it's got something to do with their agreements with retail stores as their first priority for restocking."
 - "Twenty-five percent of my office sales are Keurigs, but 70% of my service calls are Keurig. Part of that is because the Bunn[-O-Matic Corp. machines] are indestructible. However, we rarely see anyone switch from Keurig back to more traditional coffee machines in the office setting."
 - "We have an agreement with Keurig to buy X amount of at home brewers to maintain the ability to sell K-Cups. We haven't had any brewers for six

Twenty-five percent of my office sales are Keurigs, but 70% of my service calls are Keurig.

Sales Rep for Coffee Provider

months and can't be expected to buy the balance on the agreement when they become available. Keurig is being flexible and working with us to take this into consideration when the contracts are re-upped in September."

- "Customers haven't replaced Keurigs with anything else. We are considering selling pods and pod brewers to diversify our Web site since we are almost exclusively K-Cups. We are going to advertise pods in two weeks. One element of the pods is that it answers the environmental question that some have with K-Cups. We're also looking at the Bunn pod brewer, but we don't expect nearly the success with them as the Keurig. We have not dealt with the Cuisinart; we haven't had any requests for it. Looking it up online, I don't see that at that price, we are likely to offer it."
- "In the big picture for Green Mountain and Keurig, I see this as a hiccup and nothing long term. I don't see anything on the horizon that can compete with Keurig. They've got 75% of the pie in this industry. And the market is not even saturated yet with customer expansion likely to continue out West. Things are still growing."

- ▶ The co-founder of an online, single-serve coffee, tea and hot cocoa company has not had any Keurig brewers in stock since before Christmas. He believes Keurig has struggled to maintain inventory since its increased holiday production created a batch of machines with performance and malfunctioning problems. However, his K-Cup sales have not been hurt, and customers are not choosing other single-serve brewers. He just began selling Cuisinart's SS-700, which accepts K-Cup inserts.

- "We have absolutely no Keurig brewers in stock and haven't since before Christmas. Part of that is because we are low on the totem pole of who gets the brewers, especially when compared to Bed Bath & Beyond and Macy's."
- "Keurig sent a letter apologizing, said they would remain out of stock in the future but that's all the detail they provided."
- "There is definitely something going on with these brewers. They are having problems with them. Someone in my family is on their fourth one, and they first bought it at Christmas. I see complaints on our Facebook page everyday."
- "It has to be the quick increase in production they tried because of the holidays. These are the ones that seem to have the most problems."
- "Keurig doesn't sell us replacement parts for the home brewers, but they do for commercial."
- "I've heard they are handling this well. They are sending out brand-new brewers as a replacement. So they must be keeping their new stock to use as replacement brewers instead of sending it to stores like ours."
- "I don't see negative repercussions to this point. K-Cup sales haven't suffered at all. I haven't seen customers switching to other brewers. I carry the Nestlé [S.A./VTX:NESN/NSRGY] Dolce Gusto, which is really the only price-point comparable machine I have. I don't carry the Tassimo. I don't make a lot of money off the brewers to begin with."

In the big picture for Green Mountain and Keurig, I see this as a hiccup and nothing long term. I don't see anything on the horizon that can compete with Keurig.

Sales Rep for Coffee Provider

Keurig sent a letter apologizing, said they would remain out of stock in the future but that's all the detail they provided.

Co-Founder of Online Coffee Company

- “This doesn’t make me hesitant to work with Keurig either. But in dealing with Keurig, I am watching my back because they hold us to a year-to-year contract and I don’t want to risk losing the ability to sell K-Cups.”
- “I just started selling the Cuisinart yesterday. At first I was told I was not going to be able to sell the Cuisinart, that it was only going to be sold at retail stores. But then Cuisinart approached me about carrying their model. I’m not 100% certain of the relationship between Cuisinart and Keurig.”



Commercial Suppliers

Three repeat sources were aware of problems with Keurig brewers but said their businesses had not suffered significant losses as a result. The company grew too fast and has had problems keeping up with demand. Still, Keurig will be fine in the long run as its brewers and K-Cups remain tremendously popular.

- ▶ The CEO of an online wholesale distributor and seller of Keurig and other products heard Keurig was having problems with some of its machines, but he does not sell the affected models. Keurig is the market leader and will continue to grow. K-Cups are by far his best-selling product, and sales increase each month.

- “I only sell 100 to 150 Keurig machines a year, but we have not had any problems with the machines we sell.”
- “I did hear that there were some problems with a few of the Keurig models, but Keurig has a great reputation of taking care of the customer by replacing the machine so I don’t think it will hurt them in the long run.”
- “I sell over 100,000 K-Cups a month and it just keeps growing, so I’m not seeing any problems with the company.”
- “Starbucks’ Via did not really work for my business. I bought a large supply when it was first introduced, but it never really took off. I won’t restock it. I think the product is expensive and not right for the office market.”
- “I do think Starbucks is on to something with the flavored products they are offering through grocery stores. The demand for flavored coffee has really taken off. I’ve seen a significant increase in sales of flavored products.”

Keurig has a great reputation of taking care of the customer by replacing the machine so I don’t think it will hurt them in the long run.

CEO of Online Wholesale Distributor

- ▶ The president of a coffee service franchise that services New York has had problems with Keurig’s B70 and B77 models. He said the company is responsive but overwhelmed. His commercial accounts utilize the B60, which he recommends and sells the most, and has not had any performance issues. Although Keurig continues to be the most popular single-cup maker, he reported growing concerns over the environmental impact and employee theft of its K-Cups.

- “The company is fairly responsive when there are problems, but I get the sense that they are overwhelmed on the technical side.”
- “The company has had some supply issues from time to time—out-of-stock items, certain products on allocation, that type of thing.”
- “There is still a high demand for the Keurig system, but customers are starting to push back with regard to the environmental issues and the employee pilferage issue.”

The company is fairly responsive when there are problems, but I get the sense that they are overwhelmed on the technical side.

President of Coffee Service Franchise

- “My K-Cup sales are steady, where in the past they were increasing. The soft economy and high unemployment have had an impact. Where a customer had 50 employees, there are now 25, so things are not growing.”
 - “Via is not a factor. Starbucks is a great brand, but Via is 70¢ and a K-Cups are 40¢ to 45¢. It’s too expensive, not as good, and there is no variety compared to Keurig’s offerings.”
 - “When I first got involved with Keurig their machines were made in Canada and they were great, but they sold for about \$850. Now they’re made in China and sell for about \$550, and there is no comparison in the quality. I would much rather have the better-made machine, but it’s not the company’s business model of having their machines everywhere.”
- ▶ An East Coast coffee distributor vice president who has been in the coffee distribution business for over 30 years said Keurig has had many issues with its equipment despite being very good in replacing the machines. He recently received a memo that the B150 commercial model that debuted in February 2010 was short on stock, listing the B155 or B200 as alternatives.
- “Keurig has had problems with their machines, maybe because they have grown so big so fast. But I’m starting to feel manipulated by the company. They send memos saying they are out of stock and suggest other models. I really don’t trust them right now.”
 - “Keurig is the leader in the single-cup coffee business by far. The other companies are fighting for a very distant second.”
 - “They are making and selling K-Cups hand over fist. They make 40 to 45 million K-Cups per week. They are opening a new production line every week, and it’s expected that they will soon have the capacity to produce 55 million K-Cups and that’s still not enough.”
 - “I carry 120 varieties of K-Cups, and 40 of them are from Green Mountain. If we place and order to replenish 25 varieties, we will get notice that nine or 10 of them will be out of stock. This is happening all the time.”
 - “I think it’s obvious that they can’t keep up with demand. The company has changed in that they are focusing on the home market and its commercial business is somewhat of a stepchild.”
 - “Because of the popularity of Keurig, it has taken over my business, which I am not that thrilled about because I lost some autonomy.”
 - “Flavia may not be long for this world unless Mars [Inc.] keeps them going simply because they have deep pockets and they can. They really missed the boat on branding of the product.”

Keurig has had problems with their machines, maybe because they have grown so big so fast. But I’m starting to feel manipulated by the company. They send memos saying they are out of stock and suggest other models. I really don’t trust them right now. ... Because of the popularity of Keurig, it has taken over my business, which I am not that thrilled about because I lost some autonomy.

Vice President of Coffee Distributor

ADDITIONAL SOURCES



A review of six secondary sources showed equipment problems with Keurig machines still exist as customers have continued to report malfunctioning machines and receive replacements from Green Mountain in May and June, though not as frequently as in March

and April. Comments on review sites and Facebook tell of customers' problems but also of their loyalty to Keurig because of its products and customer service.

- ▶ Comments on QVC's review site in May and June revealed that customers continue to have problems with their Keurig brewers. Customers, however, expressed their pleasure with the company for a great product and service.
<http://reviews.qvc.com/1689/K24371/reviews.htm>
 - June 4: "Got brewer and just loved it. Then it started shutting off: mostly when husband used it. I finally found the 800 no. to company and the girl was so helpful. So far it is doing fine for me. ... I am very impressed with the machine and also with the customer service."
 - June 3: "I just got this machine, I love it!! LUCKILY, I registered it with Keurig because it started cutting out ... just shutting off. ... Keurig is sending me a new machine. ... BIG down side I have to buy a cheap machine and other coffee to get buy until the new machine arrives ... an unbelievable bummer with such a great machine."
 - May 30: "I got this brewer when it first aired in November. I was very pleased and wrote a good review. I started having trouble yesterday. The brewer turns itself off after brewing each cup of coffee. I was disappointed and called Keurig. Thank goodness I registered by brewer and it is covered under the warranty. They are replacing my brewer."
 - May 25: "Bought this 11/29/09—Have only wonderful to things to say about the maker and all the various K-Cups available. ... Last few days, the unit kept shutting off, by itself. Called QVC, who gave me Keurig customer service. Without any delay, the rep had me go thru about 4 steps ... and VOILA! It works AOK! ... For my call, the rep emailed me a free coupon for 24 K-Cups of my choice. ... How refreshing! Get one, you'll love it."

- ▶ June reviews on Amazon.com showed that Keurig brewers still are malfunctioning for customers.
http://www.amazon.com/Keurig-Single-Serving-Bundle-B77/product-reviews/B002H07FBO/ref=cm_cr_pr_hist_1?ie=UTF8&showViewpoints=0&filterBy=addOneStar
 - June 8: "I purchased this coffeemaker with high hopes—I've had one for quite awhile and wanted to upgrade to a model with more features. This one arrived and was not the model I ordered. I re-ordered directly from the seller (not Amazon but a sub) and when it arrived it only worked for three days. I have since talked to Keurig and they have sent me a new one at no charge. (Great service there). I can only hope it lasts more than three days."

- ▶ A June 3 topic on Shoffee.com's Facebook page showed customers were experiencing trouble with Keurig brewers but were quite pleased with Green Mountain's replacement of the defective machines.
http://www.facebook.com/posted.php?id=70091041513&share_id=118805368161287&comments=1
 - "They have known issues with this machine and are VERY GOOD about replacing the unit. I sent an e-mail explaining what was going on and prior to a cust. service response, I received a shipping notification of a new one."
 - "In EVERY instance that I have heard about, Keurig has been AWESOME in addressing any and all issues with their machines."
 - "If you bought yours from bed bath and beyond they will take it back or give you a new one ... no questions asked."

- “Yeah mine just got replaced by BB&B a couple of weeks ago and started in again this morning. Brewing, but nothing is happening—opened and closed it and it double brewed.”
 - “I got my machine from Costco, and within the last week, it’s not dispensing the right amount when choosing cup size—the machine has a mind of its own.”
 - “You can take yours back to Costco, and they will give you a new one. As a bonus you get a brand-new one in the box and it comes with 72 K-Cups. My buddy has had 2 from Costco that they replaced.”
 - “I just started noticing this. Will Bed Bath and Beyond take it back without the box?”
 - “You’re absolutely right, they’ve been SUPER AWESOME about replacing machines that don’t work right ... but there’s definitely still a problem. Here’s to hoping for a fix! I’d love to have as much confidence in my B77 as I do my old B66.”
- ▶ A May 26 post on Viewpoints.com tells of the failure of three Keurig machines in five months, most recently in May.
<http://www.viewpoints.com/Keurig-Special-Edition-Brewing-System--256967-review-132f#>
- “My office decided to purchase a Keurig Special Edition brewing system as a gift for employees to start off 2010. We received our machine the last week of January and everyone loved it. About four weeks later we started having problems with the brewer.”
 - “We called customer service and were told that our machine was part of a defective batch and they would send another one out in two weeks.”
 - “Five weeks later and we start having the same issue with the machine. We again call customer service and a tech walks us through a bunch of troubleshooting steps and decides that we once again were given a defective machine.”
 - “We were then told that they made too many machines too quickly before the holiday season and many of them have problems. They would send us another and are confident that this one is fine.”
 - “Flash forward another 4 weeks and once again the machine is broken. Our third machine is now not working and we have run through the troubleshooting ourselves since we know all the steps. I once again call customer service and get a woman who is actually nice and embarrassed at what we’ve gone through. As an apology she sends out two boxes of free k-cups and got her supervisors permission to send us an upgraded machine free of charge. We are waiting for that to come in the mail, and hopefully will not have any issues.”
- ▶ A Keurig Facebook page’s discussion titled “Does your brewer shut off?” got 76 posts from Jan. 30 to April 28—10 times the amount of any other discussion topic on the page. Users shared stories of Keurig malfunctions, returns, further defects, and dealings with company personnel. No reviews or complaints were posted in May or early June.
<http://www.facebook.com/group.php?gid=35083101615#!/topic.php?uid=35083101615&topic=12634>
- April 21: “This second Elite model lasted a week sort of a whole month ... this morning it decided it didn’t feel like heating water and shut itself off after running the motor for awhile!! ... I called Keurig back AGAIN and told them that I was tired of having to replace their brewers on a monthly basis and that it was beyond ridiculous. Also told her that I absolutely did NOT want them to replace it with yet a THIRD Elite. Now they are also sending me a Special Edition ... is this one going to be any better?!?! Also, getting two boxes of coffee ‘for my trouble.’”

- April 23: “I am so upset that my THIRD Keurig brewer ‘died’ ... that’s two dead Elite models in a row ... If the Special Edition also dies after a couple of weeks ... Totally ridiculous and unacceptable.”

- ▶ A Keurig brewer is no longer available on QVC.com even though a survey found 68% (36 of 53) would recommend the product. Based on the number of responses, customers continue to experiencing malfunctions but less frequently than in February and March.
http://www.qvc.com/qic/qvcapp.aspx?view=2&app=detail¶ms=item^K30256,frames^y,from^se,cm_scid^isrc,cm_ssi^Item:%20K30256&cm_re=PAGE- -SEARCH- -K30256
 - May 1: “When I purchased mine, I knew that the coffee would be wonderful because several other family members already had Keurigs. I loved the coffee, but the brewer stopped working after about 10 days. My daughter found out on line that this particular model had problems, so I called the company. After a phone call of no longer [than] 5 minutes, they told me to cut the cord, discard the brewer, and that they would ship out a new one. It arrived in less than a week, and then they even sent me an email with a coupon for 2 boxes of free coffee to apologize for my inconvenience. Great company!! Just a [b]ad model.”
 - March 22: “Keep the packaging for return, as this product failed after less than a month of minimal usage! I was aware of other customers having defective product but I was hopeful that wouldn’t happen to me. ... Wrong ... It is a wonderful coffeemaker while it works but beware! I am trying one more time and again hopeful that the new one will perform as advertised.”
 - March 17: “I was really excited to get this machine ... came on 3-8-10 and quit working on 3-17-10. Checked all troubleshooting options but still won’t work. I read the reviews but thought the good outweighed the bad ... NOT TRUE.”
 - March 16: “I received this coffeemaker last week with great expectations as many of my friends have one and love it. As I read the other comments, my comments would be the same—partial cups, low water when it wasn’t etc., etc. This morning it stopped altogether. I just called customer service at Keurig and they are sending me a new one. Told me to trash the one I have. I am hopeful the one they send will work just fine, if not, someone is going to refund me all of my money.”

NEXT STEPS



Our next report on Green Mountain will focus on following the inventory trend to determine if Keurig has gotten back on track with its supply of brewers and how deep its struggles run. We will monitor K-Cup demand to determine whether the sales momentum can be maintained. Finally, we will assess the new, K-Cup-friendly Cuisinart brewer and its effect on Keurig’s share of the single-cup market.

The Author(s) of this research report certify that all of the views expressed in the report accurately reflect their personal views about any and all of the subject securities and that no part of the Author(s) compensation was, is or will be, directly or indirectly, related to the specific recommendations or views in this report. The Author does not own securities in Green Mountain Coffee Roasters Inc.

OTA Financial Group LP has a membership interest in Blueshift Research LLC. OTA LLC, an SEC registered broker dealer subsidiary of OTA Financial Group LP, has both market making and proprietary trading operations on several exchanges and alternative trading systems. The affiliated companies of the OTA Financial Group LP, including OTA LLC, its principals, employees or clients may have an interest in the securities discussed herein, in securities of other issuers in other industries, may provide bids and offers of the subject companies and may act as principal in connection with such transactions. Craig Gordon, the founder of Blueshift, has an investment in OTA Financial Group LP.

Blueshift has a Third Party Research Distribution Agreement with JMP Securities Inc ("JMP") where Blueshift will distribute to certain of JMP's clients Blueshift's research reports and JMP will be compensated for a portion of the Blueshift revenue derived from JMP's client referral. JMP Securities Inc., its affiliated companies, principals and employees or clients may have an interest in the securities discussed herein, in securities of other issuers in other industries, may provide bids and offers of the subject companies and may act as principal in connection with such transactions.

© 2010 Blueshift Research LLC. All rights reserved. This transmission was produced for the exclusive use of Blueshift Research LLC, and may not be reproduced or relied upon, in whole or in part, without Blueshift's written consent. The information herein is not intended to be a complete analysis of every material fact in respect to any company or industry discussed. Blueshift Research is a trademarks owned by Blueshift Research LLC.