

Sodastream and the Chinese Market

Julia Shipley

International Marketing

29th April, 2015

SodaStream is an innovative Israel-based beverage company. The company's core product is the soda maker. This is a bottle that enables carbon

dioxide to be forced into water at the touch of a button. A bottle filled with water is carbonated and consumed either as fizzy water or as a flavored drink when combined with a variety of flavorings such as regular and diet cola.

In 1903, Guy Gilbey developed a machine for carbonated liquids (by adding carbon dioxide). At that time, the machine was really expensive and only bought by the upper classes, including the royal family. Thereafter, in 1955, the company introduced a mass-market home carbonation machine and expanded various flavor concentrates that were only sold in the United Kingdom, Australia, New Zealand and Germany. In the early 1980's, the carbonation machines were in 10 million U.K households and the famous slogan was "Get Busy With The Fizzy". The company went through a lot of ownership changes until it was finally acquired by Soda-Club in 1998.

In the late 2006, Daniel Birnbaum, the current CEO of SodaStream, was the head of Nike in Israel when he got a call from a college friend. This friend worked for a private firm and wanted Daniel Birnbaum to attend a marketing presentation about SodaStream. He really felt confused to see that the presentation did not meet all the basic questions and more surprised to know that his friend's private company bought the company, re-named SodaStream, for \$10 million. Besides, his friend asked him to quit Nike and he offered him to run the company.

Deciding that "life is more about doing something significant, important, and grand", he accepted his friend's offer. With Birnbaum at the head of the

company, SodaStream managed to enter into the U.S market, expanded its dominance in Western Europe and pushed to enter the developing markets.

Since November 2010, the company is publicly traded on NASDAQ under the ticker symbol "SODA". The \$190 million, initial public offering, was a strategy used to aggressively expand the company globally. In 2012, it reported revenues of \$436.32 million and operating an income of \$45.53 million.

Today, SodaStream is the world leader in home carbonation with 20 production facilities in nine countries, and its products were sold in 60,000 stores worldwide. The company, owned by Fortissimo Capital and private European investors, manufactures and distributes its product in more than 43 countries. The company's main mission is to revolutionize the beverage industry by offering a better alternative and environmentally friendly way for consumers to prepare their own refreshing carbonated beverages.

SodaStream deploys its international strategy around four fundamental pillars:

1. **Remain close to its consumers:** the concept is a response to needs created by changing lifestyles, particularly through the craze for homemade. Its ease of use and the wide variety of available products give freedom everyday to families.
2. **Working hand in hand with distributors:** the internationalization of SodaStream involves cooperative work daily with key distributors, retailers and suppliers of the brand; they are true partners who share the values and objectives of SodaStream.

3. **Raise awareness of environmental protection:** SodaStream is a solution that requires the use of tap water, which helps reduce waste by using fewer plastic bottles. These benefits are highlighted in the brand communication and through partnerships conducted with recognized NGOs in the areas of health and environment (The Water Project, Susan G. Komen for the Cure...) to consumer awareness of the environmental challenges of this century.
4. **Promoting innovation:** the company, through its R&D which is designed new machines and flavor concentrates, aims to improve the consumer experience to provide safe, quality products.

The competitive advantage of SodaStream is a differential advantage because its products differ from its competitors. Here the differential advantage is the soda maker that enables carbon dioxide to be forced into water at the touch of a button. A bottle filled with water could be carbonated and consumed either as fizzy water or as a flavored drink when combined with a variety of flavorings such as regular and diet cola.

So why choose SodaStream?

SodaStream offers:

1. **A practical solution:** a few seconds to get a sparkling water. The machines do not require electricity and can therefore be used anywhere and on all occasions.
2. **An environmental dimension:** The SodaStream bottles are better than recycling because they are reusable.

3. A lower calorie soda as a traditional soda

The company uses the “razor and razor blade” business model. The starter kit is composed of one soda maker, a carbonation bottle, a sample of flavors and an exchangeable carbonation cylinder. All these represent the “razor”. And all the others consumables such as the flavors and the bottles are the “razor blades”.

SodaStream has created this huge global empire, spreading a more affordable and environmentally conscious way to consume soda. They employ over 2,000 people worldwide, with more than 30 nationalities represented within the company. This is probably due to the global standard that it holds itself to, and the diversification of their company profile. The headquarters is located in Israel, with manufacturing facilities in Australia, China, Germany, Israel, South Africa and the West Bank. The fact that there is already a manufacturing facility in China is perfect for us, because it reduces the amount of channels and distance that the product has to travel between factory and store, meaning we are cutting down on shipping emissions as well.

STRATEGY

1. Threats of the new entrants:

The threat of new entrants is very low. Indeed, in the carbonated soft drink industry has a huge distribution network that is very difficult to duplicate. There are also high entry barriers such as industry regulations, legislative limitations on new firms, and special tax benefits to existing firms. But there are likewise some naturally occurring barriers due to the nature of the firm like technological patents and patents on business processes (machines and flavors), a strong brand identity (star Scarlett Johansson is a spokeswoman for the brand), strong customer loyalty and high customer switching costs (a business that sells you something you can't get elsewhere).

2. Threat of substitute products

The threat of substitute products is high. Indeed, there are lots of products that can be used as substitute especially on the Chinese market because they are drinking a lot of tea, coffee and beers during the day. Nevertheless, the customers' loyalty is very important. Actually when customers buy the machine, they have the trend to buy the flavors because they want to make use of the machine. Besides, there is a strong brand equity, their product is memorable (new way of drinking sodas by making them ourselves), easily recognizable and the machines have also a really good quality and reliability.

3. Bargaining power of customers (buyers)

This is a factor that somewhat is low due to the perceived unique product differences. Customers do not have the possibility to put pressure on the

company to lower prices. Though there are many replacement products for the soda, the machine is one of a kind. The machine is what really gives us our bargaining power, along with our aspect of customizability.

4. Bargaining power of suppliers

The power of the suppliers is really low because the company does not depend on suppliers. The majority of the manufacturing process is made in their own factories based in Israel and in China. The company possesses 14 manufacturing and 8 carbon dioxide filling plants. The manufacturing plants featured facilities to produce soda makers, carbonators, bottles and flavors. But the dioxide filling plants are smaller operations that are located in each of the major markets. The company outsources some of the operations to subcontractors in Israel.

5. Intensity of competitive rivalry

On the market of the carbonated soft drinks the competitors are imposing by the amount of competitors but by the reputation of these companies. Indeed, the three biggest players in the market are Coca-Cola Company (Coke), PepsiCo (Pepsi) and Dr. Pepper Snapple Company (DPS) in both liquid refreshment beverages and the CSD segment. In the case of China, not only is there soft drinks to consider, but there is also the tea, coffee, juice and beer markets to consider. These drinks are drunk throughout the day just like soda, and pose a threat of substitution. Beer especially, because it is carbonated like soda, and it is culturally acceptable to drink it at lunch during work.

PESTLE

SodaStream, the pioneer of at-home carbonation systems, saw its revenues surge nearly 30% to \$563 million last year. The company sold around 4.4 million soda maker kits worldwide, with around 40% sales coming from the Americas. To settle in China, brand for homemade carbonated beverages needs a PESTEL Analysis. It is an essential tool of market planning and strategizing that must be carried out to comprehend market trends and the systematic risks involved providing to the company an overview of the situation its business might be in.

1. Political:

The political government is fighting against junk food trying to promote consumer holier products deciding to re-evaluate various production factories. The laws in force in China can affect consumption based on the components of the drink, which can lead to higher costs. However, Sodastream can emphasize the image and quality of its products that are refreshing soft drinks, which is important for the government in China which established many initiatives related to public health but who also wants to defend economic and social interest of companies.

2. Economic:

The economic downturn of which are victim companies is due to the global economic slowdown. Even though China is the world's largest economy, its growth has been very slow in 2014 and companies need to adapt their marketing communication campaigns as well as those who want to enter the market. The

pricing policy of SodaStream will then be adapted to the market to create a better option in prices, allowing consumers to buy these products. Moreover, buying a SodaStream Machine represents a considerable investment and some families are victim of the economic downturn will not make such a purchase. In another sense, people not working spend more time with family and friends and are more suitable to consume these products. Once the investment made in the machine, tastes are very affordable

3. Sociocultural:

Social factors greatly affect SodaStream because it is a drink that wants no alcohol, refreshing and innovative because now consumers themselves create their own drink and can mix different flavors. Over the population of China is very important and the country has many young: an innovation in the market for soft drinks that can be very attractive. Sodas and other soft drinks are an integral part of Chinese culture while the tea is still omnipresent in their consumption habits. Adults aged 21 to 34 consume about 145.6g sodas per day and try to drink healthy soft drinks rather than beer or other alcohol, which is important and provides a significant opportunity for Sodastream's development (Chinese love drinking with large amount of sugar in sodas)

4. Technological:

China is a country full of new technologies but also skilled labor in these new technologies. Indeed, the machinery SodaStream wants to revolutionize the beverage market as well as the habits of Consumer Inquiries. Thanks to the impact of new technologies emerged a new trend: communication via social

networks. The use of neuromarketing is also an alternative to adapt marketing strategies as much as possible to the needs of consumers. Technology also helps SodaStream to innovate in its mode of gasification limiting the impact on the environment, which is very important in China (great question of pollution from Chinese factories).

5. Environmental:

Concerned about the environmental impact, SodaStream environmental policy is to minimize the use of plastic bottles (the bottles are reusable SodaStream and therefore more economical and ecological). The major problem that the company can meet in the Chinese market is that drinking water is not good and many consumers buy water in supermarkets. In addition, the gas bottles are refillable, which further reduces the impact on the environment. China is turned on pollution problems in his country and the company will be one of the few in the Chinese market with this new consumer trend.

6. Legal:

Although SodaStream drinks are intended more respectful to health, governments in China want to set up, as in many countries, a tax on sugar to fight against childhood obesity and the market for soft drinks. From the import and export side, the current legislation is very complicated for companies who want to penetrate the Chinese market but it is being simplified as taxes that become less important for young companies.

STP PROCESS

a) Geographic segment

After analyzing different factors of China's culture and society, we found it much easier to target and segment. The first of three layers is the geographic segmentation. Because of the huge geographic area of China, it is most logical to market our product along the eastern coast of the country, where China's twelve largest and most populated cities are located. These cities include Hong Kong, Shenzhen, Dongguan, Guangzhou, Hangzhou, Shanghai, Tianjin and of course Beijing. This gives a few advantages. One, the geographic closeness reduces the cost of distribution. Also, because the majority of the population is there, we can target even more people at once.

b) Demographic segment

After choosing where to market geographically, we next moved to the criteria that are related to demographics. There are many things to consider when segmenting a market demographically, including age, the level of education, gender, Income, expatriation people, and family status (couple or families). It is important to note who in our target is foreign, for they have probably experienced Sodastream in their home country and know of the benefits of our product. Beijing, one of the largest cities and also the capital of China, has a population that is 33% foreigners. Shanghai, also a very large city, has more than 140,000 ex-patriots living within the city limits.

c) Psychographic segment

The next and final segmentation is psychographic segmentation. When considering psychographic segmentation, we are considering what kind of people we are targeting. Not just how old they are and how much money they make, but what they like to do in their spare time and what kind of morals they have. By targeting people who are young and well educated, you often find that these people are aware of the green movement and fully support it. By marketing a product like SodaStream as a product that helps the environment by reducing the amount of plastic bottles produced and stressing the idea of reusable bottles, it is more likely that we can draw in our target audience.

Also, in a market that is younger there is always a need to be able to individualize and create something for yourself. This is seen in the popularity of the coca cola freestyle machine. Our product is comparable, but on an at home personal scale. Being able to customize something as simple as a soda flavor allows for peoples exact needs to be met.

Target:

- 18/35
- Married or not
- People with diplomas
- Doing Lot of Sport
- Busy People; work a lot, executive people
- People who keep up with the news
- People who are interest in environmental matters (pollution,

After careful study of the many aspects of segmentation, we were presented with many options on who exactly we wanted to target. We chose to go with a relatively specific target, because this target now applies to many

people living in urban China. We are targeting people who are young professionals, who are educated, and who are of a middle class income. Another important thing to note is we are searching for people who are concerned about where they live. These people watch the news, and want to know and contribute to helping the environment. China specifically has a huge issue with pollution, and those who are aware of this will take the necessary steps to reduce their carbon footprint.

Positioning:

A – Positioning in the mind of the people

In China, the water is not potable; water is boiled which explains the amount of tea consumed by Chinese. The alternative is to buy bottles of mineral water. The Chinese people like to drink flavoured drinks: they have a large number of different tastes for tea, the beer market is huge, and the wine market is growing fast. Chinese drink a little bit of water without accompaniment. SodaStream remains in the spirit of drinking flavoured drinks but the advantage compared to its competitors is the healthy side consistent with the principles of sustainable development.

Chinese people are aware of the ecological disaster generated by the last years of massive industrialization and are in favour of healthier products.

SodaStream provide an environmentally friendly way for consumers to prepare their own beverages by offering a illimitable reusable bottle whereas the biggest beverage brands generate billions bottles and cans every days (*Birnbaum about Coke and Pepsi*) which just go to “trash, landfill, the oceans or parks” for the

most of them. At the same time, SodaStream is better for health than a basic soda. For example, a SodaStream's cola uses two-thirds less sugar than the normal soda (*menshealth.com*).

B – Positioning in advertisements

A recent phenomenon demonstrates once again the good image of the Occident the Chinese consumers have (*marketing-chine.com*). International brands have generally a better image of quality. Often, a product from a European country has a premium positioning. Some Chinese consumers are looking for exoticism. A study by the firm KPMG showed how Chinese associate one country to a know-how.

Many Chinese companies have chosen to present their brand as “foreign”, which is the source of many scandals, consumers feel betray by these companies. Advertising as an occidental country is an advantage in China, especially if the mark is really from one of these countries:

- The brand name should sound occidental with the alphabetical form and a word for word translation in Chinese: SodaStream – 苏打流. The translation don't need to mean something in Chinese, it can just be a sound transcription to keep the foreign sound.
- Ads may show foreign faces, French people drinking together a SodaStream's drink for example.
- The brand must communicate on its origin, especially as Israel has good relationships with China and a good image. But the brand can also

communicate on where the product is made: Germany, Australia, South Africa...

- The website should be in several languages even if the product is only sold in China (it is already the case, we do not sell a new product).
- The brand should use famous persons in their ads.

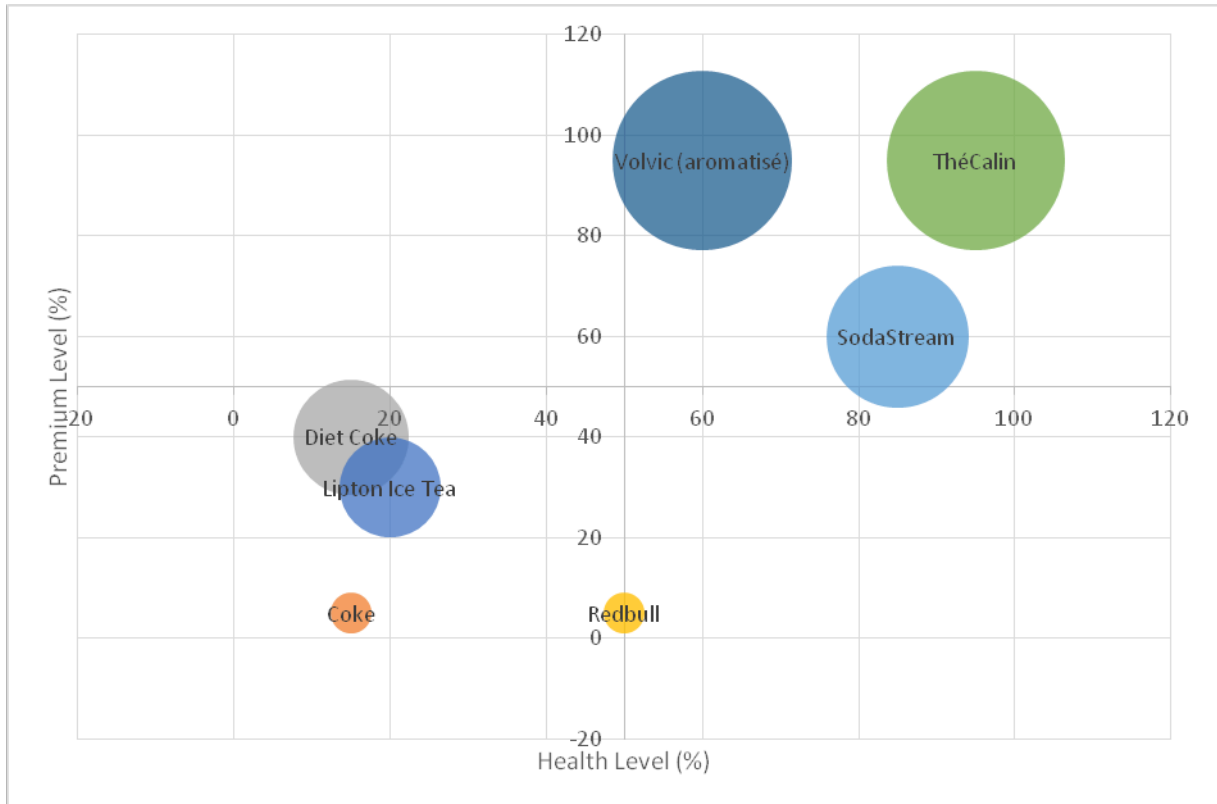
C – Positions in sales locations

The product is sold online, the shipping is free for all orders over \$50 (the first machine is \$79.99). But the product is also available in a lot of supermarkets, mostly from US: FredMeyer, Costco, Walmart, etc. The product should be available in Chinese supermarkets too with a promotion that recalls the healthy side of the product and respectful of the environment: packaging made from reused and reusable material, using a logo to show the involvement of the brand in the sustainable development.

D – Positioning through price

Even the first machine represents a high cost for the majority of the Chinese population. Indeed, the average wage in the private sector was about 30.000 yen (currently about \$4830) a year (*letemps.ch*). Despite the government effort to raise the level of wages each year (almost +10% each year), the product remains a luxury product for most of the Chinese. The product is therefore available to the wealthiest.

E – Perceptual map



We chose to highlight two main characteristics for non-alcoholic flavoured drinks:
the premium level and the health level:

- Premium level: determined by the price and the level of reputation in the mind of the consumers.
- Health level: determined by the ingredients.

THE MARKETING MIX

Product:

The company SodaStream offers to the customers the ability to create their own homemade beverages. The main machine will enable carbon dioxide to be forced into water at the touch of a button. A bottle filled with water is carbonated and consumed either as fizzy water or as a flavored drink when combined with variety of flavoring such as fruits.

According to Kotler's product level, the core benefit of the product is to provide the customer with a fresh homemade beverage in order to satisfy their thirst. The basic features of the product are all the carbonated sodas and juices. The expected product is the fact that the customers will make their own beverages. The augmented product is the ethical image that conveys the product especially for the environment. Finally, the potential product are all the services offers by the company after that the product have been purchased such as the clientele after sales service and the warranties.

Regarding the product classification, our product can be classified as a durable good. Indeed, the machine provided by the company is usable for a long period of time. Only the carbonated bottle and the flavors are non-durable goods. Nevertheless, the bottle can be used during three years before the consumers can recycle it.

The product mix decision is listed in the following table:

The Width

The length

Machine	Carbonated bottle	Flavors	Bottles
Model A	Model A	Green tea	Model A
Model B	Model B	Aloe Vera	Model B
Model C	Model C	Litchi	Model C
		Lemon	
		Mango	
		Strawberry	

Price:

The pricing strategy depends on the objectives set by the company. The pricing objective of the company within the Chinese market is a volume objective. The main goal is to acquire an important part of the market by creating awareness about the product and the brand. Once this part of the market is acquired, the purchase of the machine is the starting large purchase. After that the volume purchase comes from the purchase of the capsules that provide the flavor for the soft drink.

Our market entry strategy is the penetration strategy. We want the customers to have access to our product at the lower price possible (but not under the cost and a percentage for the margin). We are targeted a price-sensitive market segment (as said before young adult and couple). These

people, because they are probably just starting their careers, know they must keep a budget. By selling our product in higher quantities (buying a packet of capsules at once instead of individual), it will reduce the packaging costs allowing us to keep the price of the product low.

Basically, we want the same global pricing strategy. The prices for the flavoring capsule are going to be the same even though the consumer is located in Europe or in China. In the European market, an 8 pack capsules is sold at around 9 Euros. By keeping a global pricing strategy, it shows that there is no favor given to any market, but at the same time gives the product an interesting European twist. The product is seen as a foreign brand, making it admirable.

Place:

A functional advantage that SodaStream would have by introducing their product to the Chinese market is how direct the channel of distribution would be. SodaStream already has factories located in China, meaning that there is a short channel between the producer, the retailer, and the customer, while at the same time reducing shipping prices. In order to better provide the market with our product, the company has several plants for the operational process like the assembly of the machine and the creation of the carbonated bottles. However, the company will need the help of supplier to access resources and to create flavors tasty enough for their new market. As previously said, the Chinese market is a market where the customers are looking for flavors near to the natural aspect like tea.

Because SodaStream is a commodity product that everyone has the opportunity to buy and purchase in their local supermarket, we would use an intensive distribution strategy. This would mean that we would reach the most of our target market by distributing so widely. Our aim is to distribute in supermarkets, comparable to Carrefour. These have high levels of customer traffic and at the same time reduce our need to create more links between the manufacturer and the consumer.

The current factories in China for Sodastream create all items of the machine, as well as the capsules required to flavor the water. One factory where all functions take place means fewer steps to assemble a final product. If not in place already, a warehouse can be connected to the factory. Facilitating storage in the same building or complex as the factory reduces costs of delivery and transport, while also condensing our entire operations and staff. In total, the cohesiveness of the entire division makes the location of the venture an advantage.

Promotion

As far as promotion goes, there are many ways that we can approach spreading our message to the Chinese public. An intensive strategy with high visibility will be the most efficient in this situation, because there is a large number of competitors and we need to be in the public eye just as equally as they are. In order to create awareness, we want to utilize as much as possible the cities and their public transportation systems. China relies heavily on public transport in its enormous cities, so there is no doubt we will reach our expected

segment. As stated earlier, the segment we are targeting includes people who are young and educated, so there will be an overlap between this and people commuting to work every day. Though our methods are non personal, this is going to be considerably more effective for our market because of the sheer size of the Chinese population.

These advertisements will use not only the green aspects that we want to convey from the use of our product, but will also feature a famous spokesperson to go along with it. Much like in their English campaign Sodastream used Scarlett Johansson, we would use a celebrity who has had prior publicity in regards to the safety and health of the environment. The celebrity most suited for this would be Miss China 2014. She has expressed her concern during competition about the current environmental problems in china, and would be the perfect face to represent us.

Also included in these advertisements would include the ethical advantages to using the product. By using ethical persuasion, it continues to reinforce the stress of our dedication to the environmental impact of our product. Images implying the future, such as showing children, will tell that our impact is lasting, and for the good of the children, it is important to take steps now. By using our product, the customer is helping the environment and ensuring the future of their community. Using our product isn't the solution to saving the environment, but it is such a thoughtless act that the customer can feel good about.

On top of our advertising in the public transit, we would also take a very up front approach to the marketing. In china, it is very popular to have events when you walk into a supermarket to display the new products being sold. At this stand representatives will do demonstrations that show the versatility of the product while also expressing the benefits of owning the machine. Being able to relate to the product and picturing themselves using it will be exactly what we need for this completely new market to want our product.

CONCLUSION

After careful analysis, we have concluded that even though there is a lot of competition in the Chinese beverage market, we would still have a solid enough segment in order to profit within the market. There are a clear number of advantages for introducing Sodastream to China, and what disadvantages there are we are able to position our product to clearly present the advantages and compete fiercely. Our company lies on core values that not only align itself with the current popular mentality of going green, but these values are extremely necessary for the survival of china because of its current high pollution. For china, going green is not just trendy, it is about survival.

Our target market was easy to identify because people of that age are health conscious, want to start a family and raise them in a healthy environment, and want to make sure they are not contributing to the pollution in their environment. Determining the flavors, however, was trickier. The expansive collection of Chinese sodas, flavored waters, teas, juices, and beers can be overwhelming, so pinpointing the range of flavors that we would offer not only had to be exciting and unique, but also exactly what the target wanted because of the number of substitute products. What our product has that others lack, however, is the customizability aspect, which puts people in control of their beverage experience.

With a strong product, the other elements fall into place with ease. We already have factories located in China, making distribution simple. Because we will be sold in grocery stores, we will also promote in grocery stores, a method of

promotion that is hugely popular in china. By coming into the store and being presented the product before they commit to buy it, it gives the customer a confidence and assurance in the product that we already know exists. New customers should experience the reliability and uniqueness of our product. These presentations will put us front and center in the public eye while also allowing people to put themselves in the mindset of using the product.

Overall, the stage is set to introduce our product onto the Chinese market; it is just a matter of time before Sodastream actually takes the necessary steps to position itself there. Though the competition is fierce, as I stated earlier we offer an aspect to the product that cannot be met by our competitors: customization. With the proper tools for promotion and the proper flavors offered, there is no doubt that our target will be reached and a profit can be made.

Links Cited

<http://pestleanalysis.com/examples-of-pestle-analysis/>

<http://www.latribune.fr/opinions/tribunes/20140509trib000829078/la-chine-premiere-economie-mondiale-en-pleine-crise-d-adolescence.html>

<http://funnysodas.blogspot.fr/2013/11/the-pestel-analysis.html>