



MARKETPLACE

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SAVING THE PLANET, ONE BUBBLE AT A TIME: SodaStream CEO Daniel Birnbaum with actress Susan Sarandon at a houseware show in Chicago with a cage holding the number of cans and bottles an average US family would discard in five years

Not just blowing bubbles

How an Israeli executive turned an aging company into a world leader

LUFTGESHEFT IS A YIDDISH expression that means, derivatively, “air business” – making a quick buck out of thin air. SodaStream is an Israeli company that is literally *luftgesheft*, sell-

ing bubbles, but it's the real thing, creating true value for Israel and the world.

In 2006, Yuval Cohen, managing partner in the Israeli private equity investment fund Fortissimo Capital, contacted Daniel Birnbaum. Fortissimo specializes in buying

failing companies and reviving them. It had just acquired a moribund company called Soda Club, which sold a relic of the past: bottles for making carbonated water. Soda Club itself was about to become a relic.

At the time, Birnbaum headed Nike

Israel, a job he had held since 2003. Cohen needed a CEO to revive Soda Club. He offered Birnbaum the post. It turned out to be an inspired move. Nike, a global sports goods firm, is one of the world's best managed companies. Its strategy: Invest aggressively in innovation, design and marketing and outsource the rest. Nike design and marketing are legendary.

Surprisingly, Birnbaum accepted Cohen's offer. Today, SodaStream, the reincarnation of Soda Club, is a world leader in home-made fizzy beverages. Its slogan is "Get Busy with the Fizzy." Its products are sold in over 50,000 retail stores in 42 countries. In Sweden, one family in four has a SodaStream machine. Worldwide, SodaStream devices produce almost a billion liters (1.06 b. quarts) of carbonated beverages yearly.

Turned around

That is still less than one percent of the total amount of pre-bottled soda consumed yearly in the world. In November 2010, SodaStream conducted an initial public offering of stock on America's NASDAQ exchange. Within a year its shares had a market value of \$1.5 b. SodaStream's revenues for fiscal 2011 were \$292.5 m. and its net income was \$33.2 m. Its revenues have doubled in the past two years and net income has tripled.

How Birnbaum turned around a failing company, using Nike's magic formula of cool design and inventive marketing is a case study that should be taught at every business school. The story of SodaStream has major lessons for Israel's non-high-tech traditional industries.

With most attention focused on the high-tech sector, the traditional manufacturing industries dealing with plastic, metal and wood attract little attention. Yet the traditional sector employs 200,000 people, 60 percent of all industrial workers. It suffers from low productivity – about half that of comparable US firms – and low innovation, with just half the level of R&D spending among similar companies in the US. Half of Israel's traditional businesses employ five workers or less. A notable exception are the 300 successful kibbutz plants, with annual output of 40 b. shekels (\$10.7 b.), half of it for export.

"I had to completely change the company's cultural DNA, something that is always very difficult," Birnbaum tells a group of mainly kibbutz-owned traditional industry managers at the Technion, the Israel Insti-

tute of Technology in Haifa. He says he began with "the dream" – to revolutionize the \$264 b. annual world market for carbonated beverages, most of which – \$225 b. – is bottled fizzy soft drinks like Coke and Pepsi.

The "greater cause" was a key part of the dream, says Birnbaum. "You need more than the profit motive to motivate," he explains. For SodaStream, the motive was doing good for Israel's society and workers, including minorities, and helping the environment.

In his first week on the job, Birnbaum convened a focus group of SodaStream us-

**We want to persuade
the world there's a smarter
way to do bubbles than
just buy them**

ers. He found the brand image of the product was awful, "like that of the old Susita," he says, referring to a 1960s Israeli-made car whose fiberglass body tended to shatter in a collision. He spiffed up the image, in part, with classy colorful designs to make the product look more modern.

According to Birnbaum, SodaStream spends 16 percent of its revenues on marketing. This is relatively little for a consumer product firm compared, for example, with the food giant Strauss Elite's 25 percent. How can it grow so fast with so little advertising? The strategy is to create "buzz" in ways that don't involve big spending. Birnbaum does not use advertising agencies, employing public relations firms instead whose job is to generate free publicity.

One example was the 2010 International Home and Housewares Show in Chicago where Birnbaum and SodaStream created "The Cage," a recycling bin filled with 10,657 cans and bottles – the number discarded by an average US family over a five-year period – collected by students at Great Valley High School in Malvern, Pennsylvania. Birnbaum, holding a single SodaStream bottle – sufficient to replace all those environment pollutants – was photographed standing in front of "The Cage" with Hollywood star and Oscar winner Susan Sarandon, who is also an environmental crusader.

"The recycling rate in America is less than 35 percent. Troubling news to say the least," said Sarandon. "Particularly considering that



SODASTREAM GLOBAL

this means that 141 billion beverage cans and bottles go to landfill in the world each year."

Birnbaum understood quickly that SodaStream could not rely solely on selling its soda makers. That's a one-time purchase. A company needs a stable continuing revenue stream that is profitable. That is why SodaStream makes most of its profits not from the soda machines but from consumables like flavorings and CO2 cartridges.

Word of mouth

The SodaStream message is: "We taste good, we're healthier, we're fun." To deliver it, SodaStream converts its own customers into sales agents. As a result, some 30 percent of sales are through word of mouth. In this unconventional marketing, video

SELLING BUBBLES: SodaStream devices

Palestinians

SodaStream has plants in several countries but the main one is near Jerusalem, in Mishor Adumim, a West Bank settlement. The facility has sparked protests from pro-Palestinian groups, despite the fact that SodaStream is the largest employer of Palestinians in the area, providing full medical and social benefits and Israeli-scale wages that feed thousands of local residents.

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The government recently gave SodaStream a 25 m. shekel grant to build a new plant in the Idan Industrial Zone in the Negev. The grant covers 20 percent of the 130 m. shekel total cost. The plant will employ some 500 workers, mostly Bedouin, in addition to the 1,100 workers SodaStream already employs in Israel.

The Jerusalem Report reached Birnbaum in Milan, where SodaStream introduced two new products at a design show. One, Aquabar, provides on-demand purified hot, cold and sparkling water. Another, The Source, is a home soda system fashioned by Jewish designer and social entrepreneur Yves Béhar.

"We operate in 43 countries now. We want a SodaStream in every kitchen" says Birnbaum with near-evangelistic passion. We're trying to create greater meaning than just selling a gadget. We offer a bigger purpose – we want people to buy SodaStream because they feel responsible for the world and its environment. We want to make meaning, not just make money. And because of this, we are now partnering with top designers, who wouldn't have dreamed of working with us two years ago.

"Here in Italy, we're on fire! We want to persuade the world there's a smarter way to do bubbles than just buy them." ●

The writer is senior research fellow, S. Neaman Institute, Technion. This column is based in part on a case study prepared by Yaara Ben-Nahum, at the Knowledge & Innovation Center, Technion.



clips are shown at the point of sale. One distributor persuaded a TV store to show 2.5-minute looped clips about SodaStream on all its TVs. Local mayors find the company supporting them and helping to tell citizens about the high quality of local tap water, which can be particularly helpful at election time. YouTube and social networks like Facebook are widely used. SodaStream employs three public relations firms in America, who focus solely on this marketing avenue. And SodaStream also employs celebrities, like Sarandon.

The lessons from SodaStream for other Israeli non-high-tech firms are clear. The age of your product is of no consequence. The earliest version of carbonated drink makers was invented in 1903. You can con-

quer world markets. To do so, you need a product that looks clean, modern and beautifully designed.

One of the first things Birnbaum did – shades of Nike – was to add bright color to the SodaStream device. You don't need to spend fortunes on marketing; be as innovative in your marketing as you are in your product innovation. Build a powerful vision, get your people on board, and above all, be loyal to your country. As Clyde Prestowitz, former US chief trade negotiator, wrote in his Foreign Policy blog: "A corporation has obligations to the society and government that gave it birth." Whenever possible, produce your product at home. Let wage-earners benefit from your success, not your shareholders.