Simple Modern: Aligning Strategy with Values in a Challenging Business Environment

Company History

Simple Modern is an Oklahoma City-based designer, distributor, and marketer of premium drinkware, food storage, and related lifestyle products. The company sold its first insulated water bottle on Amazon in 2016 and has since grown to sell more than 20 million units through Amazon, Target, Sam's Club, and direct-to-consumer from its own website, simplemodern.com.

The company was founded in 2015 with $200,000 in seed capital put up by the founders. In their prior experience working together in e-commerce, the founders Mike Beckham, Micah Ames, and Bryan Porter observed that Amazon was growing rapidly. Still working their full-time day jobs, they sourced a variety of products from China to resell on Amazon, including bedsheets, silicone baking mats, tea infusers, and stainless steel insulated water bottles.

The double-walled, vacuum-insulated drinkware technology was invented in 1892 by Scottish scientist Sir James Dewar. It consists of two stainless steel vessels—one nested inside the other and joined at the neck. The space between the inner and outer vessel is partially evacuated of air, creating an insulating vacuum. The first commercial use of the product was in 1904 after two German glassblowers, Reignhold Burger and Albert Aschenbrenner, discovered its usefulness for maintaining the temperatures of both hot and cold drinks. They developed a vacuum flask product and named it Thermos.

Despite its origins in the early 20th century, the market for insulated drinkware was relatively small compared to plastic and glass (see **Exhibit 2** for drinkware market). It is only within the last decade that the growing environmental and sustainability movement spurred demand for companies and products with sustainable business models. Consumers began to reject single-use plastic bottles, and several companies launched insulated drinkware product lines as this trend became apparent: Hydro Flask (2009), S'well (2010), and Yeti (2014). Simple Modern launched on Amazon shortly after in 2016.

Success in the Early Days

From the beginning, Mike believed differentiation through ornamentation was the competitive moat. Simple Modern recognized that customers carried their water bottles everywhere. Not only that, but customers also wanted a bottle unique and colorful to express themselves—not unlike an accessory such as a hat, purse, or watch. While companies like S'well and Yeti brought a variety of colors and sizes to their drinkware, Simple Modern took its strategy to the next level.

A typical Simple Modern listing might have 36+ colorways and 4+ size offerings, resulting in many product lines with more than 140 SKUs. See **Exhibit 3** for an example of a typical Simple Modern listing on Amazon. Yeti listings often have as few as eight color options, and Hyro Flask as few as 12.

While Simple Modern invested significant resources to rapidly expand its color offerings, it noticed that other companies—often Chinese factories competing on Amazon—were copying its most successful colorways. Mike recognized that licensing would be the most defensible path to growth. In September 2016, the company secured its first collegiate license. Simple Modern would add many sports and entertainment licenses in the following years, including NBA (May 2019), Disney (December 2019), NFL (July 2020), Star Wars™ (October 2021), and Marvel (coming in 2022).

Expanding Distribution

The company's history is deeply rooted in its beginnings on Amazon. Even today, the company describes its strategy as "Amazon First." Mass retail has long sales and an extended feedback cycle. Every year, the mass retailer will host a line review where they review the prior year's performance and discuss product options for the coming year. However, it could take up to three or four months for the retailer to award the final program for the next year. It may take more than a year before a brand can act on sales data. Distinct from the brick-and-mortar sales cycle, Amazon allows for rapid product iteration, testing, and customer feedback. This data-rich environment allowed Simple Modern to quickly optimize its product offering and rapidly find product-market fit. Price, color, lid quality, and vessel size were all variables the company could easily test and adjust to maximize sell through.

Despite its focus on Amazon, Simple Modern also expanded distribution to other sales channels early in its history. It sold its first mass retail program into Sam's Club in 2017. This program provided the capital windfall that allowed Simple Modern to begin scaling its team. The following year, Simple Modern had its first inline placement on the drinkware aisle in Target, primarily offering Summit water bottles with unique laser-engraved patterns. Still, from founding through mid-2019, Amazon remained the primary sales channel.

By 2020, the company started to achieve significant product-market fit, primarily through three insulated drinkware "mega listings" on Amazon: The Summit water bottle, the Classic tumbler, and the Kids Summit water bottle (including Disney-licensed designs). After three years of iterating on Amazon, Simple Modern had arrived at an assortment of products that appealed very well to a particular type of customer: 20- to 45-year-old women, moms, and families. Despite the highly competitive industry, this market segment was distinct from those targeted by Simple Modern's competitors such as Yeti ("Built for the Wild") and Hydro Flask (active young men and women). This created a clear path for growth for Simple Modern.

In 2020, after demonstrating proven success on Amazon, Simple Modern first sold these three product lines (the Summit water bottle, the Classic tumbler, and the Kids Summit water bottle) into Target as part of the same program. The program yielded incredible results, and this Target inline program would sell 215% more than the prior year. Simple Modern went on to have nine of the top 10 selling drinkware products on Target shelves that year, and Target and Sam's Club continued to partner with Simple Modern in the following years to expand on the selection.

By late 2021, the company was approaching 20 million cumulative units sold (see **Exhibit 4** for mix of e-commerce and Mass retail units by year). This exponential growth did not go unnoticed. In late 2021, Walmart approached Simple Modern with an incredible opportunity.

Mission, Vision, and Values

The vision of Simple Modern is to:

> *Grow a multi-category lifestyle brand differentiated by stylish selection resourced to quickly create and continuously improve remarkable products.*

While known for its remarkable products, Simple Modern's mission is "We Exist to Give Generously." To the company, this goes beyond just giving away 10% of annual profits to nonprofit organizations. It means doing business differently as it acts generously towards its customers, employees, partners, and communities.

First: the company gives generously to its ***customers*** by creating and refining premium products at generous prices. Simple Modern offers a lifetime warranty on all its products with a generous replacement policy. Simple Modern invests deeply in the customer experience through its website and through its customer experience team who is available to help customers quickly resolve any issues. Recognizing that the customer's only dialogue with a Simple Modern team member is likely through a customer experience (CX) specialist, the company invests deeply in hiring high-character CX team members to be the face and voice of the company to the customer.

Second, the company gives generously to its ***employees.*** Simple Modern desires to create an environment that encourages professional development, personal growth, and quality of life. Every Tuesday morning, the company has an all-hands meeting where it intentionally creates space to connect relationally as a team. During these Tuesday morning meetings, the team might:

- Hear from Mike on one of the company's values,
- Breakout into small groups to discuss an article or podcast,
- Open the floor to a team member to share their story, or
- Read letters of affirmation for another team member.

Third, the company gives generously to its ***partners*** by acting relationally instead of transactionally. Simple Modern sources its product from factories in China. Most of its competitors primarily choose a factory based on cost: they shop around and beat down a factory in negotiations to get the lowest price. Simple Modern recognizes the benefits of forming deep relationships with all of its partners and seeks to build mutually beneficial business partnerships with retailers, third party fulfillment warehouses, logistics partners, and licensing organizations.

Lastly, Simple Modern gives generously to its ***communities*** by donating at least 10% of the company's annual profits to worthy charitable causes. The company focuses its giving efforts on four core areas: education, clean water, human trafficking, and marginalized communities.

How does the company's mission, vision, and values translate to hiring, management, and culture? The company lives by five core values that drive every decision and hire it makes. ***Excellence*** - doing everything to the best of one's God-given abilities; ***Generosity*** - being open handed with all that's entrusted to us; ***Humility*** - possessing a sober-minded view of self; ***Growth Mindset*** - believing that one's character, intellect, and talents are not fixed but should always be growing and improving; and ***Collaboration*** - knowing a team can produce better results than an individual.

From the beginning, Mike recognized the importance of building a team that not only demonstrated these values in their work pursuits but also lived by these values in their personal lives. All members of Simple Modern's initial team had deep personal ties to one or more of the founders, establishing a firm foundation of these values at the core of leadership. The company regularly takes time to teach and discuss ways in which these values are defined, and these values are a core component of employee evaluations in the manager and peer feedback process. As Simple Modern continues to grow, these values are at the forefront of decisions to expand the team through hiring; promote new leaders internally; consider additional business opportunities; and care for their customers, partners, and communities.

Bootstrapped from the beginning, Simple Modern never raised outside equity capital, and the company was still closely held with 80% of the ownership between the three co-founders. Even still, as a co-founder and CEO, Mike viewed himself as a steward of the business. Mike viewed the business as not his own, but rather something he had been entrusted with for a time. This shaped his view of business and the mission, vision, and values of Simple Modern. Mike applied that same mindset to hiring high-character people of integrity with whom he could entrust management of the business. This stewardship mentality also translated to Simple Modern's mission to give generously. In addition to its core corporate giving partners, every Simple Modern employee is allocated several thousand dollars each year to give to a nonprofit organization of their choice.

COVID-19

Like many consumer products companies, Simple Modern produced essentially all its products through contract manufacturers in China. Simple Modern would issue a purchase order for product; the factory would produce the order in 30 to 60 days; and Simple Modern would arrange for ocean container freight to get the product from the port in Ningbo, China, to the warehouse in Oklahoma City, which typically took another 30-40 days. Prior to the pandemic, Simple Modern would send teams to Hangzhou, China, and other cities to meet with the factories, inspect product, and set direction for the coming months. Simple Modern viewed its factory partners as extensions of its own team, and forming relationships was also a focus of these trips. Once a year, Simple Modern would host a giant party for its major factory partner to say "thank you" to the hundreds of employees at the factory that helped manufacture its products. January 2020 would be the last such trip. In March 2020, the world began to shut down.

The beginning of the global COVID-19 pandemic was stressful for Simple Modern. In March 2020, sales dropped by 50%. However, as consumers adjusted to the new normal, sales recovered quickly, especially as consumers—isolating at home—shifted spending from services and goods from brick-and-mortar establishments to e-commerce and Amazon. By late 2021, demand came roaring back, and the global supply chain—already running near max capacity—began to unravel. Ocean freight lead times stretched from 30 days to more than 90 days, and the cost to ship a container of product from China increased four times, from $7,000 to more than $25,000 (see **Exhibit 5**).

These issues were not unique to Simple Modern, but on top of the backdrop of unreliable supply chains, Simple Modern had its own challenges. In summer 2021, the company discovered that its primary

supplier in China—who produced more than 95% of its products—had a major product quality issue, making inventory equivalent to 20% of annual demand totally unusable.

The inventory was already stateside in the company's Oklahoma City warehouse before the quality issue was discovered, and Simple Modern was needed to fulfill major purchase orders from Target and Amazon. Customers were already calling with defective product issues and leaving 1-star reviews on Amazon. The team scrambled to understand the extent of the issue.

Short-Term Damage Control

The complaint centered around the Summit water bottle's straw lid, which was the critical component on two of the three product lines that were central to the company's success in mass retail and e-commerce. Customers complained that the straw was difficult to drink out of, which signaled that there was something wrong with the small, thumbtack-sized gasket. This gasket served as a pressure release valve that allowed pressure inside the bottle to maintain equilibrium with atmospheric pressure while taking a sip. These plastic straw lids are made from a series of large steel molds. After further investigation, Simple Modern's manufacturing team isolated the issue to just one of two gasket molds that received the unapproved mold change. Following this discovery, Simple Modern moved to shut down further production from the bad mold immediately. The bad mold went live on January 2021, and a total of 1 million bottles had already been produced from the two molds since then. The team concluded that approximately 50% of all products produced would have the faulty lids. Unfortunately, there was no way of knowing which of the 1 million at-risk bottles received the good lids and which received the defective lids.

After further research, the company discovered that the quality issue was indeed fixable. The fix required removing the bottle from its packaging, unscrewing the lid, removing the thumbtack-sized rubber valve, and replacing it with a new valve. A time and materials study of the required resources to repair a single bottle is included in **Exhibit 6.** With 50 full-time employees busy keeping the business running, it became clear that this was not an issue that could be handled with a few Simple Modern employees working overtime hours. It would perhaps be possible to hire a temporary workforce for $10-15 per hour, but with 1 million potentially defective bottles sitting in the warehouse, the scope of the problem began to feel overwhelming. Target and Amazon were ordering 50,000 units per week of this product with the faulty lid, and virtually all inventory available to fulfill orders was suspect.

First, the company needed to decide what needed to be done to fix the problem. Only 50% of the 1 million bottles were bad, but it didn't know which ones. ***Should it rework every bottle? Should it stop fulfilling Amazon and Walmart orders?***

Additionally, it had to decide how to address this issue with its supplier in China. The factory had decided to change the mold without consulting the company, which resulted in a major quality issue.

- ***What is the total damage incurred by Simple Modern because of this issue?***
- ***How should Simple Modern address these damages incurred with its supplier?***

As the executive team discussed the merits of each path forward, it recognized that it was during challenging times like this where a company's real values showed.

Mitigating the Long-Term Risk

Even if it managed to resolve the lid fiasco of 2021, Simple Modern recognized that this problem was symptomatic of a broader issue. The company had become overly dependent on one supplier in China. Costs were spinning out of control. Ocean freight had increased 300%, tariffs had no end in sight, and the factory in China was trying to raise prices to mitigate the cost of steel increasing in China. The risk of dependence on China became even more apparent when the Chinese government began limiting factory power usage in fall 2021. The roaring demand in the U.S. was so extreme that the Chinese factories had been producing at much higher rates than forecasted. Coal consumption was substantially exceeding expectations, and there was not enough supply. As a result, factory production in China was curtailed by the Chinese government. A factory that normally produced six days a week might only get three to four days of production.

Cheap ocean freight, low tariffs, and the USD to Chinese Yuan exchange rate had fueled the expansion of low-cost Chinese-produced goods. These goods, in turn, largely supported the growth of marketplaces and retailers like Amazon, Target, and Walmart. However, lengthening lead times, a tariff war, geopolitical tensions, and rising steel costs were quickly changing the game. It was clear that the recent macro events signaled a significant change for consumer products. The future would not look the same as the past, and Simple Modern had to adjust. Should it find an overseas supplier in another country, or source product domestically?

It would not be economical to produce steel drinkware domestically. Steel was subsidized in China, and the cost to produce it stateside would be substantially higher (see **Exhibit 7** for a comparison of steel prices in China and the US). Plastic drinkware was an option, however. The company had ventured into plastic with its Tritan™ from Eastman plastic kids drinkware line, but this had only grown to 2% of its business. Simple Modern had also observed the recent growth of large-form plastic water bottles, including gallon and half-gallon vessels. **Exhibit 8** outlines the unit economics of plastic drinkware produced in China, where the company currently produced all its products. Tariffs and high freight costs made it tough to compete in this market with China-produced goods.

Because tariffs and ocean freight were a substantial portion of the cost of sourcing plastic drinkware from China, domestic production was an option. However, most of the existing domestic production was controlled by its competitors, and no production capacity existed in Oklahoma City. The company explored what it would look like to spin up its own factory in Oklahoma City:

- The raw materials costs are very low. The unit economics for domestic Tritan plastic bottle production is shown in **Exhibit 9.** Note that the fixed and upfront costs of running a factory are not included in these figures.
- A large upfront capital investment of $4.4 million in factory, plant, and warehouse equipment is required. **Exhibit 10** outlines the equipment required and the total cost. Production capacity of the system depends on the size of the bottle produced. **Exhibit 11** highlights the annual capacity of the production line if Simple Modern were to produce the same bottle size for the entire year, although the bottle mold could be switched out at any time to produce a different size.
- The pseudo-fixed recurring costs for the factory are primarily rent and personnel. The monthly burn rate for a factory with the designed capacity is $20,000 for rent (including taxes, insurance, and utilities) and $45,000 for personnel.

Ultimately, Simple Modern had to make a choice. Should it bet on plastic and find a way to produce or buy plastic drinkware domestically? Or should it focus on vacuum-insulated steel and diversify international suppliers? Walmart had expressed interest in large-form gallon or half-gallon plastic. There was some evidence on Amazon that consumers were looking for a product like this, but plastic was relatively untested for Simple Modern.

With these tensions, should it accept Walmart business? Should it raise money? Should it build a factory, or should it find another way to diversify production? If it does build a factory, what product(s) should it focus on?

Exhibits

Exhibit 1: Simple Modern Products



Exhibit 2: Drinkware Market

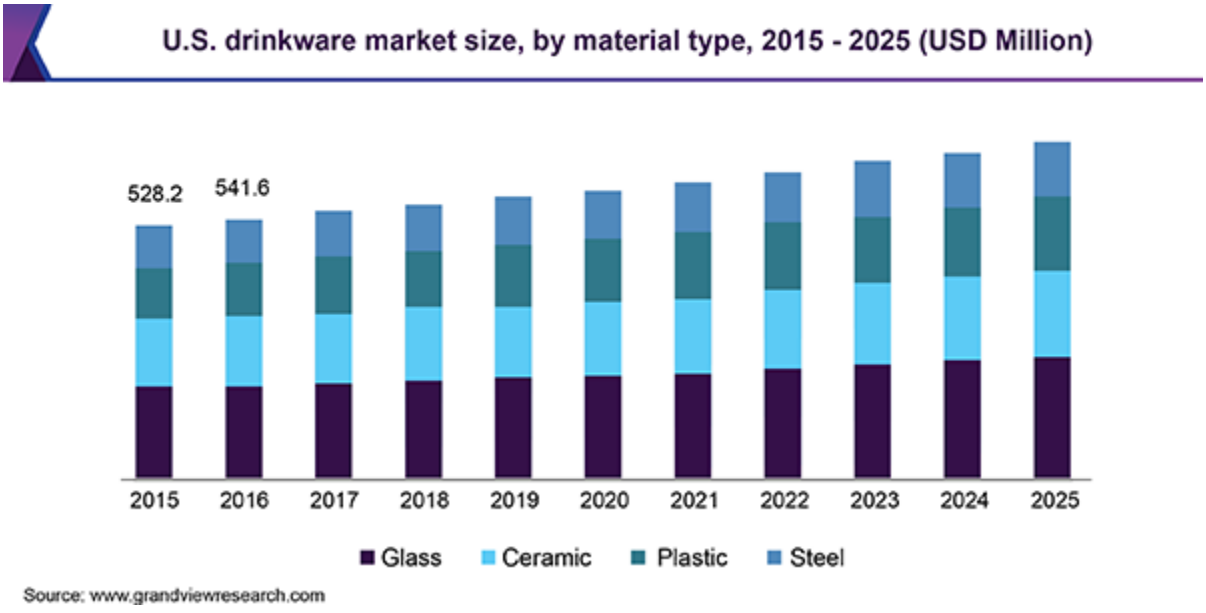


Exhibit 3: Typical Simple Modern Listing on Amazon

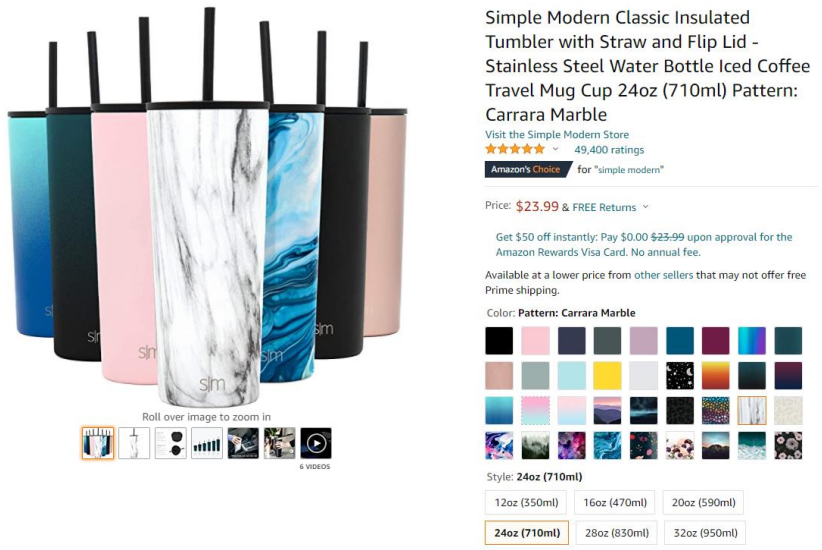


Exhibit 4: Units Sold by Year

	2016A	2017A	2018A	2019A	2020A	2021A
e-commerce Units	168,008	613,055	1,463,713	2,669,832	3,597,047	4,225,277
Mass Retail Units	-	528,620	1,037,995	1,039,449	1,355,012	2,524,157
Total Units	**168,008**	**1,141,675**	**2,501,708**	**3,709,281**	**4,952,059**	**6,749,434**
Cumulative Units	**168,008**	**1,309,683**	**3,811,391**	**7,520,672**	**12,472,731**	**19,222,164**

Exhibit 5: Increasing Ocean Freight Cost and Door-to-Door Transit Time

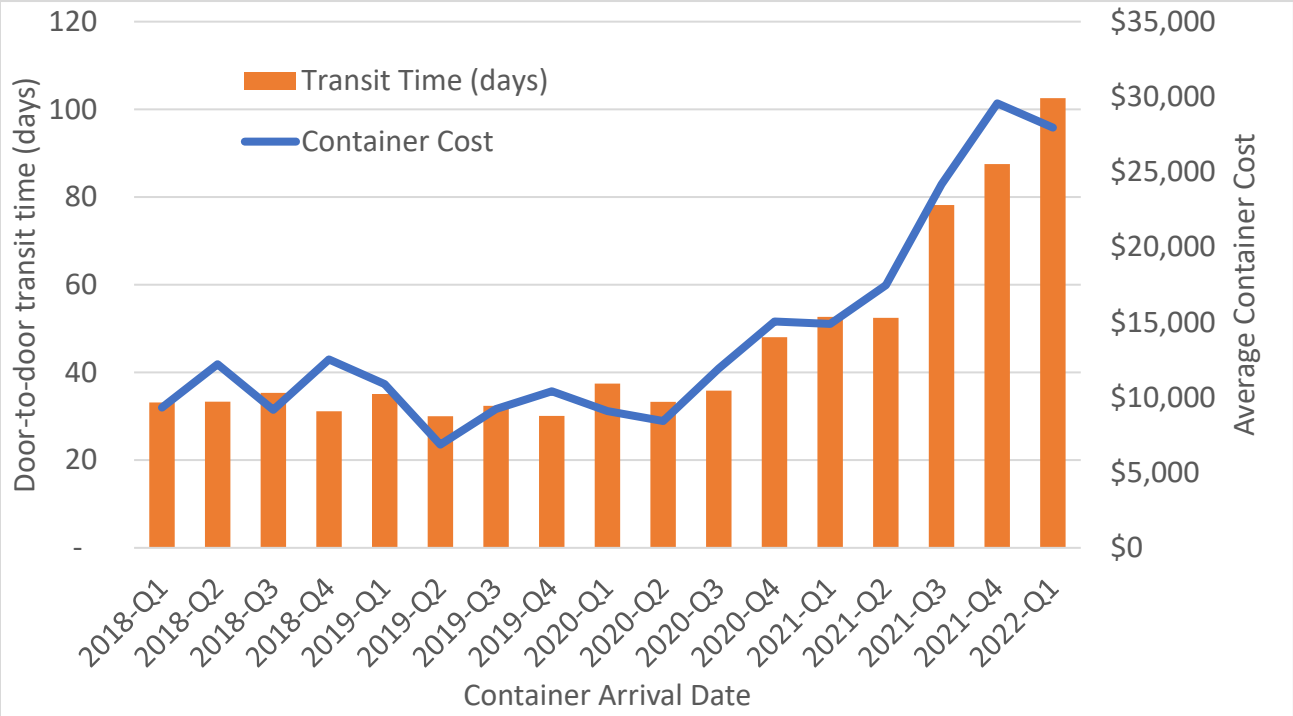
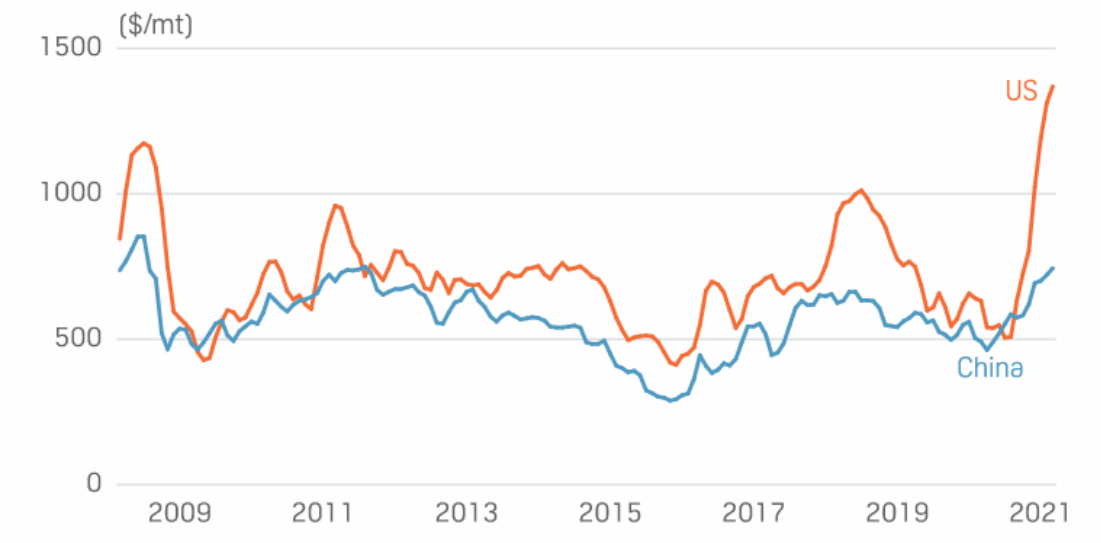


Exhibit 6: Time Study for Summit Straw Lid Rework

Step	min : sec
Remove Bottle from Packaging	0:10
Unscrew lid	0:05
Remove bad gasket	0:07
Replace with good gasket	0:30
Screw lid back on bottle	0:03
Re-package	0:12
Total	**1:07**

Exhibit 7: Steel Prices: China vs U.S.



Source: S&P Global Platts

Exhibit 8: Unit Economics of China-Produced Tritan Plastic Drinkware

Retail Program	Amazon	Amazon	Amazon	Amazon	Amazon	Target	Walmart	Walmart	Sam's Club
Product	**12 oz. Tritan plastic bottle**	**16 oz. Tritan plastic bottle**	**32 oz. Tritan plastic bottle**	**64 oz Tritan plastic bottle**	**128 oz Tritan plastic bottle**	**32 oz. Tritan plastic bottle**	**48 oz. Tritan plastic bottle**	**64 oz Tritan plastic bottle**	**128 oz Tritan plastic bottle**
Price	$8.39	$9.09	$10.49	$12.59	$15.39	$6.00	$8.04	$9.41	$11.99
less: Mfg Cost	$3.20	$3.40	$4.23	$4.85	$6.90	$4.23	$4.40	$4.85	$6.90
less: Ocean Freight	$0.74	$0.83	$1.25	$2.50	$5.00	$1.25	$1.67	$2.50	$5.00
less: Tariff	$0.12	$0.13	$0.16	$0.19	$0.79	$0.16	$0.17	$0.19	$0.79
less: Fulfillment	$0.06	$0.06	$0.11	$0.23	$0.23	$0.34	$0.23	$0.23	$0.34
less: Retailer Fees	$1.28	$1.39	$1.61	$1.93	$2.36	$0.48	$0.52	$0.61	$0.24
Gross Profit	**$2.99**	**$3.28**	**$3.13**	**$2.90**	**$0.12**	**-$0.46**	**$1.05**	**$1.03**	**-$1.28**
Gross Margin	36%	36%	30%	23%	1%	-8%	13%	11%	-11%

Exhibit 9: Unit Economics of US-Produced Tritan Plastic Drinkware

Retail Program	Amazon	Amazon	Amazon	Amazon	Amazon	Target	Walmart	Walmart	Sam's Club
Product	**12 oz. Tritan plastic bottle**	**16 oz. Tritan plastic bottle**	**32 oz. Tritan plastic bottle**	**64 oz Tritan plastic bottle**	**128 oz Tritan plastic bottle**	**32 oz. Tritan plastic bottle**	**48 oz. Tritan plastic bottle**	**64 oz Tritan plastic bottle**	**128 oz Tritan plastic bottle**
Price	$8.39	$9.09	$10.49	$12.59	$15.39	$6.00	$8.04	$9.41	$11.99
less: Raw Materials	$2.34	$2.41	$2.61	$3.85	$4.68	$2.41	$2.46	$3.65	$4.48
less: Fulfillment	$0.06	$0.06	$0.11	$0.23	$0.23	$0.34	$0.23	$0.23	$0.34
less: Retailer Fees	$1.28	$1.39	$1.61	$1.93	$2.36	$0.48	$0.52	$0.61	$0.24
Gross Profit	**$4.71**	**$5.24**	**$6.17**	**$6.59**	**$8.14**	**$2.77**	**$4.83**	**$4.92**	**$6.93**
Gross Margin	56%	58%	59%	52%	53%	46%	60%	52%	58%

Exhibit 10: Tritan Plastic Bottle Factory Equipment

Equipment	Process	Qty	Unit Price	Total Price
Two Stage Injection Blow Molder	Plastic Bottle Mfg	1	$490,253	$490,253
Bottle Molds (all sizes)	Plastic Bottle Mfg	3	$76,257	$228,771
3 stage HP Air Compressor	Plastic Bottle Mfg	1	$134,941	$134,941
Mold Chiller	Plastic Bottle Mfg	1	$51,410	$51,410
Raw Material Feeder/Dryer	Plastic Bottle Mfg	1	$36,432	$36,432
LP Air Compressor	Plastic Bottle Mfg	1	$14,062	$14,062
Screen Print Machine	Screen Printing	1	$243,945	$243,945
Complete Fill-Cap-Labeler (FCL) System	Packaging	1	$849,229	$849,229
Semi-Automatic Packing Station	Packaging	1	$9,400	$9,400
Colorant Injector/Dryer	Plastic Bottle Mfg	1	$15,780	$15,780
Conveyer Belts, Accumulation Tables, etc.	Transition			$164,770
Paint Accumulation Table	Painting	1	$10,000	$10,000
Paint Feed Robot	Painting	2	$65,072	$130,144
Robotic Painting System	Painting	1	$1,500,000	$1,500,000
Packaging Accumulation Table	Packaging	2	$10,000	$20,000
Case Coder/Printer	Packaging	1	$20,000	$20,000
Other Infrastructure	Infrastructure			$498,500
Total				**$4,417,637**

Exhibit 11: Tritan Plastic Bottle Factory Production Capacity by Bottle Size and Sales Channel

Sales Channel	Product	Domestic Production Annual Capacity, units	Projected Annual Demand, units
Amazon	12 oz. Tritan plastic bottle	8,985,600	100,000
Amazon	16 oz. Tritan plastic bottle	6,912,000	80,000
Amazon	32 oz. Tritan plastic bottle	5,990,400	30,000
Amazon	64 oz Tritan plastic bottle	5,285,647	15,000
Amazon	128 oz Tritan plastic bottle	898,560	5,000
Target	32 oz. Tritan plastic bottle	5,990,400	125,000
Walmart	48 oz. Tritan plastic bottle	5,285,647	240,000
Walmart	64 oz Tritan plastic bottle	3,369,600	500,000
Sam's Club	128 oz Tritan plastic bottle	898,560	100,000