



How Sarah Kauss turned her drinking bottle start-up S'well into a \$100m enterprise: Teaching business case study

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Abstract

This case study tracks the entrepreneurial journey taken by female founder Sarah Kauss in developing a category-defining premium drinking bottle. S'well was created using a low budget, word-of-mouth community and unpaid celebrity endorsement strategy. It was established as a fashion power brand through carefully crafted, high end, retail and charity collaborations. Historically, portable water storage had been framed as merely functional products. Former Manhattan accountant Sarah Kauss helped redefine the category as a modish accessory solution that also countered the environmental problem of disposable plastic waste, using a double organic business strategy. S'well has been flatteringly described by Vogue as a true original with a delicious Midas touch, and CNN as 'hands down the best water bottle for temperature control' (S'well.com, 2020). However, plagued by brand-damaging counterfeiters and losing traction from the historically powerful co-created social media promotions, was it time for an important third pivot? This armchair teaching case study was developed from the lead author's digital marketing coursework, as part of the Royal Holloway BSc Management programme at Kaplan Singapore. The case was designed for use in marketing, strategy and entrepreneurship under- and postgraduate modules.

The early S'well

Qualified American accountant Sarah Kauss was hiking in the Arizona desert with her entrepreneur mother in 2009 when her aha moment for ideating a fashionable, upmarket beverage container landed. Her elucidating pain point was having to refresh and rehydrate herself with warm drinking water. When, on this fateful hike, Kauss's mother asked what she would like to do with her life if 'anything was possible' she answered "create a better water bottle that looked good and actually kept things cold". The idea, that was to be known as S'well, had been born.

From her early college days at Boulder, Colorado, Kauss had enthusiastically pledged to avoid single-use plastic. But well into her top six accountancy career, when out with friends back home in New York, Kauss had felt embarrassed to pull out her bumper sticker branded water bottle. Its clunky carabiner carrying device, and unsophisticated, functional Colorado camping vibe, provided a look that was definitely not modish in Manhattan (Rockwood, 2010). Sarah had noticed that with career success over time, her suit, shoes and handbags had improved to reflect her growing status and income level, but reflected that "my water bottle still looked like I was an undergraduate" (Kobie, 2018). Her second Eureka insight was tapping into the desire for successful city workers to be socially responsible whilst looking cool.

Modelling herself as a typical consumer (a well-educated, working professional) with S'well very much a 'for me' product, Kauss had identified a gap in the market and was inspired to create a premium, chic, reusable water bottle for the affluent fashion-forward set. She imagined a multi-purpose hot or cold liquid container that would not only look great but also 'do good' by keeping single-use plastic bottles out of landfills and away from the oceans. This vision was subsequently clearly articulated in the company tag line: 'We design more ways to use less', and its essence encapsulated in the company mission – 'hydration that looks good and does good'.

One woman & 3,000 water bottles

Working from her New York apartment as the sole employee in 2010, Kauss found a Chinese manufacturer and produced as many gender-neutral, Pantone 312, ocean blue coloured bottles as she could fit in her modest apartment, the first batch boasted a grand total of 3,000 double-insulated, stainless-steel bottles (Roberts, 2014a). Early on, Kauss was reluctant to ask for help and seek advice from her formal and informal networks, or leverage opportunities to learn from other entrepreneurs, lamenting that she just "wasn't confident enough to ask mentors for help" (Kobie, 2018).

Having always retained 100 percent of the company equity, and subsequently been consistently strapped for development capital, Kauss was forced to embrace low-cost marketing opportunities. She used an authentic, word-of-mouth (WoM) brand building strategy which was inherently slow and steady at first, initially based around selling products to friends and family. With both her personal venture funds and friends' sales avenue thoroughly exhausted, she was left with just US\$2,000 of her initial US\$30,000. To increase sales distribution channels, she proceeded to hit the pavement of well-to-do neighbourhoods to sell her brainchild products door-to-door. Her personal sales pitch emphasised the thin rim, open neck, an ergonomic grip, and condensation-free design that protected even the gentlest of hands from the heat or cold of the contents.

Initially, many potential distribution partners were skeptical of S'well's US\$35 consumer price point. Her grandfather joshed that she would have sold more if she had put water in the triple-walled, wide-mouthed containers, and was convinced that no one was going to pay 35 dollars for a water bottle. A bottle that, explicitly, could not even be put in a dishwasher. However, Kauss was convinced that there was an unfilled need that the market had missed, creating an aesthetic, premium offering that tapped into the intangible psychological benefits of peer esteem and do-good altruism. She conceived the product not merely as a reusable water bottle, but as a hydration fashion accessory. The Harvard Business School graduate reflected that it was important that she had put her own capital at risk in a leap to create a new product category. Launching into an unknown, under-explored space created significant entrepreneurial doubt, a large personal financial stake helped galvanise her motivation, reflected Kauss with serious skin in the game.

Simultaneously attempting to find 'the right fit' low cost promotion and go-to-market distribution channels, Kauss's Public Relations (PR) plugging efforts finally paid off when, one day, the editor of Oprah Winfrey's O magazine agreed to feature S'well in their next publication. Kauss later recognised this as her first inflection point, the key pivot move away from a one-woman, single product variant operation, to a multi-colour, scaled-up production (boasting six, vibrant Pantone hues) and much wider distribution (Burns, 2015). As a trained accountant, Kauss was keenly aware of the risks involved in scaling up too quickly. The Oprah exposure effect had the potential to cause an overnight surge in demand and profitable sales, but risked terminal brand credibility damage if orders could not be fulfilled. Additionally, poorly controlled growth could put huge pressure on the company cash flow, as forecast orders would need funding prior to any corresponding sales revenue flows. Kauss took a leap of faith to commission additional colour options, hoping that the promise of free national publicity from the O magazine could represent the big break she needed. The Oprah effect was enormous and was a major factor in the initial online explosion of S'well's business.

Cause related word-of-mouth endorsements

From the outset Kauss was committed to help create and sustain a positive change towards wastage, effectively

communicated using an empowering, pro-society message; "always fashion functionable, gives back to a great cause". Charitable promotional collaborations, linked to special editions (e.g. hot pink for Breast Cancer, RED for AIDS), drove social media coverage and sales (S'well, 2018). The brand launched the same year as Instagram, 2010, and relatively quickly, user-generated content (UGC) and electronic word-of-mouth (eWoM) from customers helped create and sustain brand awareness. Kauss sought to capitalise on a society that was becoming ever more environmentally aware, believing that S'well could take a significant leadership role in helping the plastic waste agenda. Over time S'well would go on to support a wide range of charities, including: UNICEF, Breast Cancer Research Foundation, LonelyWhale, RED, WaterAid and American Forests.

S'well also benefited from celebrity fan exposure in its early promotional efforts to craft an aspirational brand. Hollywood A-listers included Tom Hanks, Ellen DeGeneres, Julia Roberts, and Guy Pearce, luminous stars who were all keen to associate themselves with planet-saving S'well bottles through posts on social media (Mishev, 2015). Pearce even ordered 70 bottles for his *The Rover* movie cast and crew. When actress Kaley Cuoco (*The Big Bang Theory*) posted an Instagram photo holding a hot-pink S'well bottle, it generated website crashing levels of traffic (Roberts, 2014). Over time, the water drop-shaped container became a symbol of the increasingly vitriolic war against plastic bottles and established itself the latest eco-fashion accessory (Jiang, 2019). Even its major inconvenient shortcoming, hand wash only, did not seem to be a problem in the end.

Wholesale expansion phase

Kauss positioned S'well as a premium brand solution, a strong status symbol, by wholesaling not only through up-market, convenience food purveyors but alongside quality fashion and gift brands, too (CNBC, 2019). Only a year after launch, Kauss had managed to place S'well bottles into 600 independent retail stores across the U.S. (Weisul, 2017), eventually including distribution through top-end brands such as: Starbucks, Whole Foods, Neiman Marcus, Apple (Cupertino) and J. Crew. In 2014, the company generated \$10 million in sales, growing five times to \$50 million the year after, and doubling again to \$100 million in 2016 (Little, 2016), selling over 20 million bottles to 75 countries worldwide (Chappell, 2019). Underscoring its powerful fashion credentials, customers owned on average a collection of 5.5 S'well bottles, stoked by fashion show runway-like launches of twice-yearly special and limited editions (Kauss, 2016; Clifford, 2019). Unsurprisingly, Kauss started to receive major industry recognition for S'well's development, it was named in the Inc. 500 list of fastest-growing, privately-held companies (#99) and ranked #1 as the Fastest-Growing, Women-Led Company by the Women Presidents' Organization (Flanagan, 2020). However, this success did not go unnoticed, as several competitor copycat and counterfeit bottles emerged globally.

The Starbucks effect

Having been spotted in a magazine, Starbucks first agreed to carry S'well bottles in 120 of its stores in 2013 and quickly sold out in just a few weeks, contributing to rapid expansion growth phase, in what was the startup's second major pivot (Grothaus, 2015). Collections of cool and colourful beverage containers were subsequently rolled out across thousands of Starbucks stores, including limited edition bottles made just for the coffee giant. S'well was frequently featured on Starbucks' Instagram account (with 18.4 million followers), helping the bottle maker increase its online sales by 370% in 2015 (Chapell, 2019). In 2017, S'well created the tropical bottle design in partnership with Lilly Pulitzer and Starbucks. The bottle was sold out within a day of launch, and popular demand crashed the coffee chain's website (Weisul, 2017). Acknowledging the exceptional consumer growth, and significant consumer demand, S'well started to develop its eCommerce infrastructure, following the launch of the new Swellbottle.com, to avoid the website crashing every time a celebrity posted a picture with the bottle on social media (One Rockwell, 2018).

Copycats, the illegal counterfeiters

Despite successfully achieving \$100 million in sales in 2016, the discovery that hundreds of sellers were peddling counterfeit bottles was not the kind of attention Kauss wanted to receive (Clifford, 2019). Dozens of fake sellers were found, with many clustered on a single Chinese marketplace website called dhgate.com. Copycats were even found selling on major platforms such as Amazon and Walmart, and also linking from Instagram advertisements. Kauss realised that most online searches for S'well originated from Amazon (where she was also selling) and identified that consumers were buying her company's products from unauthorised sellers, in some cases at three times the actual price. This led to several bad reviews on Amazon, with many consumers criticising the brand for being overpriced (Clifford, 2019). One unethical producer was tracked back to the same town in China as the authorised manufacturer, a discovery that made all of the blood come out of Kauss's face (Gifford, 2019). Particularly galling was the moment early on when Kauss was presented with a S'well business card (including the trademark TM) by a stand holder flogging knock offs of her bottles at a Hong Kong trade show. Kauss adroitly realised that she needed to develop an anti-counterfeiting capability for her firm (Gifford, 2019). Attention grabbing, fast-growing, premium sales in a new market segment was of course always likely to generate competition, but Kauss was operating only with stock in her apartment at the time. Imitation is not always the highest form of flattery, it seems.

A robust and concerted response to counterfeiters' unethical trading was mounted using legal professionals. The privately-owned company also decided to cease disclosing its revenue performance. Kauss explained; "the more we shared, the more we became a target of companies looking to capitalize on our success" (Clifford, 2019). S'well was then obliged to rigorously enforce its intellectual property (IP) rights for the products, distinctive design, as well as trademarks, copyrights and patents worldwide. And although it has

managed to track down many of the unknown sellers and copycats, legal channels have proven to be expensive, time-consuming and rarely effective in delivering commensurate monetary compensation. Moreover, the piracy threat still remains, requiring an ongoing, significant management focus, and commensurate financial resources to keep the online space safe of copycats (S'well, 2020).

Digital marketing capability

Sarah Kauss had aggressive plans for S'well to become a billion-dollar company (Mikel, 2017). But she had noticed that her organic social media marketing, notably on Instagram (using a once-a-day posting cadence), was no longer working as well as it once had. Kauss, therefore, decided to partner with a marketing agency, Curalate, to bolster its content marketing activity and catalyse further UGC (DigitalCommerce360, 2019). By 2020, with celebrity influencers increasingly commercialised, widespread algorithm changes across the major social media platforms were being implemented. With slowing user number growth, tech platform hosts needed to squeeze more advertising dollars from their audiences, by sweating their prime real estate and giving less away for free. More prominence in user feeds was being given to paid or boosted advertisements, inhibiting the audience reach of the organic (unpaid) user-generated content that S'well had previously relied upon. For example: Instagram's e-commerce development 'checkout' enabled shoppers to complete transactions without leaving Instagram, hence significantly reducing website referral traffic for many brands (Instagram, 2020). Strong third-party distribution, including collaborations with the likes of Starbucks and Amazon, had meant that historically S'well had not been overly dependent on using a paid digital marketing capability to drive business to its eCommerce engine. Was this moment another (third) inflection point for the hydration stylist?

What happens next?

By 2020 S'well bottles were to be found habitually in yoga studios, office cubicles and even children's school bags. Tapping into customer feedback, S'well had launched small (for children's' pack lunches) and larger (wine bottle size for adult picnics) bottles. Other product variants had also been rolled out (see Appendix A) seeking to expand the brand into other product lines, including food containers, travel mugs and reusable straws.

Over the years, S'well's success had inevitably attracted attention, from unethical competitors who were not always playing fair. But Kauss pondered if her double organic (funding and digital marketing) strategy was sufficient to propel her decade-old business to achieve full unicorn (US\$1bn valuation) status.



Figure 1: Author Irene posing with a S'well bottle.

Case discussion questions

1. Describe the gap in the market that caused Sarah Kauss to risk all her savings and launch S'well?
2. What were S'well's unique selling points? How does the brand command a premium?
3. Explain how S'well's low spend marketing evolved.
4. Evaluate the strengths and weaknesses of S'well's organic-only business growth strategy?
5. What unresolved marketing challenges does Kauss face, and how would you recommend she address them?

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