RENT THE RUNWAY

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QUALITATIVE ANALYSIS

• Rent the Runway, founded 2009, Jennifer Hyman & Jennifer Fleiss

• CVP: website that rents designer dresses, charges 10%-15% of dress's retail price and encourages members to “Try new brands, new trends, and feel beautiful every night”

• Two-fold unmet need and customer base: 1) young women who can’t afford the brands they truly desire 2) designers who can’t access young women to build brand loyalty (customer acquisition channel)

• Unique features: access to best new products at wholesale prices, “feels-like-new” presentation, customer respect, reservation system

• Gateway drug to designer fashion → gives customer powerful, emotional experience

• Meet DVF and started to rent dresses through designer’s own websites (pivot), create platform in 2009 to differentiate customer experience (pivot)

• MVP at launch: market trials, beta version of website, achieved emotional response → showed strong demand, lean startup

• Major Issues (1): Technology & Operations Management → heavy demands on small management team

  Scrambling to get operations under control, maintained warehouse operations in-house

  Hyman: sales, marketing, and entrepreneurial experience, Fleiss: internal strategy and entrepreneurial experience

  Recruited board of advisers → high-ups in the industry; Issues with unreliable site building team → switch development work to India (Sachdeva)

  Lack of inventory holding down RTR’s conversion rate: ideas to boost conversion through welcome pages and checkout process

• Major Issues (2): Go to Market Strategy insufficient to convert users to renters

  Publicity efforts (60%), word of mouth referrals (40%)

  Optimize dress buying decisions and increase inventory returns, experiment with online advertising

  Competition engaged in different areas (i.e. Avelle’s accessories), Wear Today, Gone Tomorrow (customers paid up to 90% off)

  No clear plan on how to spend raised capital and had not boosted their valuation
QUANTITATIVE ANALYSIS

• Customer acquisition costs
  • Lack of inventory availability holding down customer conversion rates (new member becoming renting customers)
  • Marketing strategies for each referral, referrer gets $20 account credit
  • Needed to determine cost of customer acquisition with pay-per-click search engine marketing and Facebook ads
  • Variable cost/rental: $31 and customer acquisition costs: $20 → total $51, the contribution margin is lower when including the $20 credit

• Contribution margin
  • VC/rental: $31 → variable costs includes shipping, dry cleaning, credit card processing, and packaging (without customer acquisitions)
  • Selling price (revenue/unit) – (variable cost/unit) = $90 - $31 = $59
  • 59/90 = .65 → 65%, high contribution margin, covering costs, cost of dress to RTR: $226/$750 = 30% of retail price
  • Want to maintain this trend and reduce customer acquisition costs
  • To test women’s likelihood to rent online: PDFs with dresses sent out to be rented by telephone
    • 5% of women rented → lower than rental rates for earlier trials, $80/$149 billion of retail sales from dresses alone
    • 5%(80 billion) = $40 billion → huge portion of market share, 5% still met target rate for venture to be profitable
      • Large growth potential
  • Assumed that $1.75 million seed round of venture capital would last through spring 2011 (establish proof of concept)
    • Issues in 2010 assumed that they would grow at a measured pace and get close to break even
      • Demonstrate path to profitability, not enough if they want to make other changes
RECOMMENDATION

- Pivot to reach out to DVF → smart decision to gain the loyalty of someone important
- Stick with 2010 operations
  - Many uncertainties still exist in terms of acquiring customers and the efficiency of the site
  - A lot of issues with the code when analyzed by software developer, Abhishek Sachdeva
  - No clear plan for future capital spending → should not rush plans at such an early stage
  - Did not have a technology team and could have had a marketing team from an earlier point (could have had more info about CR)
- Due to issues in 2010 → should pursue operational effectiveness over fundraising for more capital
  - More likely to achieve breakeven and get even closer to that point
  - Contribution margin is high and therefore making a lot of adjustments would dry up the seed round
  - Emphasize operational improvements to ensure they can deliver value profitably
- Advertise through referral program → continue word of mouth marketing and social media
- Spend money analyzing rental patterns & reservation date to optimize dress buying decisions and increase inventory returns
  - Logistics expert could find ways to increase returns
  - Consider adjusting time periods to increase customer retention
  - Expanding could create more uncertainties and issues in the future