Allison Heredia

RENT THE RUNWAY

9/29/15
**Background - Timeline**

**Co-founders found each other early and have skills that complement each other – November 2008**

**Met with Diane von Furstenberg - December 2008**
- Pivot from turnkey service through designer sites to own rental site

**Surveyed competition**
- Avelle purchases through sample sales → Learned they wanted best new products at wholesale prices so they couldn’t alienate designers
- Serious copycat potential
  - Need designer exclusivity, differentiated customer experience with superb service
  - Unique offering: rent for specific occasion through reservation service (CVP)

**Began meeting with designers – February 2009**
- Rejected at first – listened to concerns (retail cannibalization)
- Pivoted pitch to designers from superior price for consumers to new customer acquisition channel
- Supply agreements with 15 top designers by July

**Prep for Launch**
- Bain Capital Ventures led $1.75 million seed round including some angels
- Recruited a board of advisers in Spring 2009
- Began buying inventory at wholesale price – 40-50% of retail

**Website – February 2009**
- Hired and fired first designer because his design didn’t match the brand they envisioned
- Took a classmate’s recommendation for a Web development firm which they fired after it had made little progress by August
- Used an investor’s referral to find a firm in India to develop the software
- Hired and fired an engineer before hiring Sachdeva as director of technology

**Market Trials to test Hypotheses – Spring 2009**
- Styling Session at Harvard – 34% rented
- Styling Session at Yale with adjusted inventory – 75% rented
- Both sessions showed dresses returned promptly in good condition
- Emailed PDFs and rent by telephone – 5% rented – above target rate for profitable service
Analysis

• Qualitative

  • Customer Value Proposition
  o Rented designer dresses → CVP expanded to bringing women self confidence and a powerful emotional experience
  o To improve chances of fit they ship a second size free of charge and the renter can order a second style option for only $25
  o Customer Insights team offers styling advice and guidance for fit but also listens to customers’ complaints and learns from them
  o Potential to serve broader range of age groups and social occasions by increasing inventory and product range
  o If they don’t expand inventory they run the risk of upsetting customers because dresses aren’t available or out of season

  • Technology and Operations Management
  o Didn’t outsource warehouse operations so they could learn throughout the process and keep fit issues and cleaning in house
  o Website is in rough condition and the code is still being refined – adding inventory before hashing out the new code would set them back even more
  o Site usability tests and focus groups showed pages for orienting first-time visitors were not working well
  o Team is missing a CTO – need to significantly expand engineering staff

  • Go-to-Market Plan
  o “Invitation only” – registered membership through a referral or waitlist → control getting overloaded by demand
  o Viral marketing strategy - Rely principally on word of mouth and networking → only few thousand dollars on PR agency
  o Vogue pulled the story but then New York Times published one
  o Boost conversion rates by increasing inventory to 5,000 by April and improving welcome and checkout process
  o Facebook Fan Page created community feel and positive buzz
  o Conversion from member to renter higher among those who had been referred by a friend

  • Profit Formula (see Quantitative)
  o Rent each dress enough times to cover its cost or will they go out of style too quickly?

• Quantitative

  • Based on Figure 1, a middle-tier dress will begin generating a profit on the 4th rental

  • 98% of customer’s rented brands they had never owned and 90% after rental either purchased or had high intent to purchase the brand
  o Tapping into market demographics designers didn’t have access to before

  • Waiting list reached 50,000 in December and More than 150,000 members 2 months after launch → strong initial demand

  • 75% of inventory reserved for New Year’s – 60% out for rental on average for first two months
  o Large percentages of inventory is regularly being rented → plausible for a single dress to be rented 4+ times

  • 4 day rental + 4 days shipping + 2 days cleaning and inventory = 10 days per rental → Dress can be rented a max of 3 times per month

  • After two months 12.5% of customers had ordered more than once
  o Repeated renters have a higher Lifetime Customer Value

  • 60% of new members acquired directly through publicity efforts – 40% through word-of-mouth referrals
  o Growing virally → don’t have to funnel money towards customer acquisition → turn focus to conversion rates

| Figure 1 |
|-----------------|-----------------|-----------------|
| Cost of Dress   | $226.00         |
| Revenue per rental | $90.00         |
| COGS per rental  | $31.00         |
| Margin per rental | $59.00         |
| Number of rentals to cover cost of dress | 3,830,508,47 |
Recommendations

• **Option 1: Operational Improvements in 2010 and raise capital in 2011**
  - With demonstrated proof of concept and showing path to profitability through 2010, well positioned to raise funds in 2011
  - Redesign website to improve conversion rates
  - Analyze rental patterns to optimize dress-buying decisions
  - Hire logistics expert for warehouse to reduce costs and error rates
  - Positive cash flow sooner
  - Bigger equity stake for the co-founders in a smaller company

• **Option 2: Expanding inventory and product range in 2010**
  - Requires raising more capital in 2010 – Have they shown enough progress to increase valuation?
  - Add accessories – strong demand and high margins
  - Higher revenue potential
  - Lead investor encouraging them to scale up faster
  - Heavy demands on small management team that’s already struggling

I recommend that the co-founders focusing on stabilizing operations before biting off more than they can chew. Shaky operations can lead to bad rental experiences which could cause their downfall since so much of their business relies on word-of-mouth recommendations. However, with the co-founders considering a reallocation of responsibilities, if Hyman can manage the improvements to core business operations alone, then Fleiss can begin work on raising capital this calendar year.