Rent the Runway
“The gateway drug to designer fashion”

I&E 352
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Qualitative Analysis

Customer Value Proposition

Jobs-To-Be-Done/Emotional Drive:
-A way to women make feel confident and beautiful within their means

Problem:
-Expensive designer dresses for one-time use
-Designers struggle to sell to middle income audiences

Solution:
-Allow women to rent high-priced dresses through new distribution channel
-Personal stylists provided via RTR services
-Designers provided with easier access to once difficult customer segments
-Catered to women’s need to rent a dress for a specific occasion via reservations
-Applying a rental model to high-priced dresses through a digital marketplace

*Using Jillian Manus’ method of venture capital, RTR not only serves at least 1,000 potential customers’ needs but also supports a plethora of designer fashion brands*

Go-to-Market Plan

Principal Business Model

Rental Service: Customers rent dresses around ~10%-15% of their full retail price, where shipping (variable cost) and insurance fees (fixed cost) are additional add-ons

Minimum Viable Product Approach: Provide only the capability to rent dresses

Marketing/Customer Channels

Word of Mouth: ~40% of new members were acquired via WoM referrals, where half of these customers were through member-get-member incentives
Public Relations: ~60% of new members were acquired via publicity efforts
News/Social Media: NYT, Fashionista and Social Media promoting RTR brought 60K new members to site → RTR adapted to new marketing techniques for e-commerce

Beta Test:
Invitation-only (5,000 members) → strong level of demand, adaptations to inventory control, recommended features

Launch:
Viral blogging led growth & Partnership with 30 designers → A combination of dress supply shortage and high demand revealed the deficiencies in warehouse operations and the supply chain → Clarified goal of redesigning website accessibility/user-interface

Technology & Operations Management

Management Team:
-Strong marketing and strategic vision
-Lacked technical expertise and designer apparel business experience → apparent in many of their website and operations business processes

Distribution Networks:
-Inventory bought directly from designers at wholesale prices/in-house → increasing customer insights, building barriers to entry and optimizing warehouse efficiency

E-Commerce Channels:
-Coding issues in consumer-facing website
-Hired director of technology to develop complex software in short timeframe

Key Drivers & Key Risks

Investment Edges
Strong Value Proposition // First-Mover Advantage // Rapid Organic Growth
-Rent the Runway’s BM delivers on a strong emotional level for customers which is why their value proposition is so powerful and customer-base is loyal and growing

Growth Opportunities
-Technical deficits on current team → Improve web platform
-Warehouse management → Optimize rental process and distribution
-Data Analysis/Customer Insights (Continued in Quantitative Analysis) → Value Prop
-Investment in SEM/SEO techniques → Marketing and Go-to-Market Plan
Quantitative Analysis: Even with an extremely conservative approach to profitability, RTR seems financially secure after a one-year forecast

### Business Model

**Total Addressable Market (TAM):**
- Designer female apparel generated $149 Billion in 2008 in the United States -- $80 Billion from dresses

**Basic Model:**
- Customers rent dresses around ~10%-15% of their full retail price, where shipping (variable cost) and insurance fees (fixed cost) are additional add-ons
  *Option to add different size/style for additional fee
- Most dresses were purchased from designers at wholesale prices (~40%-50% of retail)

**Customer Insights:**

- **Value Prop For Designers:**
  - 98% of RTR’s customers rented brands they had never owned
  - 90% of RTR’s customers reported after their first rental they either had purchased or had intended to purchase that brand

- **Value Prop For Customers:**
  - Emotional experience of confidence in a dress some may not be able to afford usually
  - Dynamic/smarter wardrobe for all occasions

**Investment Funding:**
- Bain Capital led a $1.75 Million seed round that would allow could provide a runway till Spring 2011
- Available sources for further funding

### Profitability

**Assumptions**

**Cost of Customer Acquisition (CoC):**
- Marketing via social media and
- $20 acquisition cost for 20% users (referrals)

**Cost of Goods (COGS)/Profit Margin:**
- Middle-Tier Dresses cost $226
  - Profit $59 per rental, where each dress averages $90 of revenue and $31 of variable cost
  - Require 4 Rentals to reach profitability

- Fees ranged from $50 to $300 for a four day rental

**Other info:**
- 2 orders w/ 150K registered members in 2 Mo
- 12.5% of customers had ordered more than once
- ~60% of dress inventory was out for rental

**Website Dev Costs:** $45,000

**Salary Expense:** $70K Salary*6 Person Team = $420K

**Warehouse Costs:** Est. $100K in annual rental costs

**Profitability:** Revenue - Expenses = Gross Profit

First Two Months:
- 2,000 Orders * $59 Profit/Dress = $118,000 → Assume increases of 1,500 dresses each month (conservative linear approach rather than exp)
- 17,000 Orders * $59 Profit/Dress = $1,003,000 first-year profit from dress rentals → $1,003,000 - $45K - $420K - $30K - $100K - $100K in misc. Costs (taxes, etc.) = $338,000 in Gross Profit

### Growth Potential

**Market:**
- RTR had originally expected ages 15-30
- The market, through initial launch research, has presented itself much more universal targeting women of all ages

**Future Horizontals:**
- Building the infrastructure for clothing rental
- Relevant opportunities exist for children, pregnancies, and men

**Organic Growth:**
- 20% of new customers came from referrals
- Greater utilization of SEM & social media advertising
- Driving wholesale purchase price down and increasing profit margins → Increase Gross Profit

**First-Mover Advantage:**
- 75% market @ Yale & 34% market @ Harvard
- Developing brand trust and moving into accessories could widen market reach/profitability margin

**Data Insights:**
- With large user base, RTR has valuable data for designer brands and future product lines
- Website redesign → Potential increases in conversion rates by analyzing rental patterns and reservation data for the purpose of inventory selection
Our findings suggest that RTR should conduct another fundraising round to facilitate the rapid growth of the enterprise.

### Recruit Technical Expertise & Further Role Definitions
- RTR’s team has a technical deficit
- Raising another round will equip the team to build a better more scalable product
- A larger engineering team will be necessary to build RTR’s new product lines and to maintain its innovative status, moving towards personalization of the consumer experience

### Develop Operations Logistics & Marketing Efforts
- RTR struggles from operational deficiencies and logistics inefficiencies
- Capital will allow the management to work in more appropriate roles while extending the runway for the business
- Fundraising capabilities may change with economic uncertainties and market changes
- Additional capital would also allow for new marketing efforts

### Offer New Product Lines
- Customers demand is incredibly high for new categories
- New capital will allow RTR to expand into accessories, increasing revenue potential and seamlessly building the consumer image/experience
- RTR risks dominating existing and new categories without scaling quickly