

# Rent the Runway: Case Slides

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By submitting this deck of case slides, the members of our team affirm that we all participated in the analysis of the case and the creation of this document.

# Qualitative Analysis

## Customer Value Proposition:

### Innovation

- The ability to rent designer clothes for an event rather than purchasing them.
- A way to fulfill women's dreams and give them a powerful emotional experience when they feel great and their confidence peaks.
- New customer acquisition channel for designers to access women.
- A customer experience that would encourage them to buy with very strong branding that was trendy and reliable.
- Stylists were an important part of the business that both enabled renters to get advice, but also provided insight into the customer needs.

### Unmet Need

- Young women can't afford to buy the designer dresses that they dream of wearing, and designers can't access young women to wear their clothes.

### Customer Segments

- Two-sided marketplace of designers and consumers that RTR connects.
- One customer is the person who rents the dress to wear.
- The other is the designer that has their dress purchased and then rented.

## Technology:

- They built a website that allows renters to view and rent their products.
- They inventoried and shipped everything from their own warehouse in order to have full oversight of operations and ensure success.
- They used data to inform their inventory decisions because they could see what products people were renting and they could get more similar ones.
- They tracked conversion rates to see how people were moving through the website and converting to paying customers.
- With a bigger engineering team they can improve the technology which would increase conversion rates and profits.

## Go-to-Market Plan:

### Pricing & Models

- Customers rent the products for 10-15% of the retail price and then pay \$12.95 for shipping and \$5 for insurance.

### Beta Program

- They did customer trials at universities to test the concept of renting and gauge the demand. This showed that people would rent and gave insight into other business operations and questions at hand.
- Then they used a PDF with pictures to see if they would rent electronically.
- Then they moved to an invitation only website to control growth.
- They had 30,000 emails in their database before public launch.

### Marketing Tactics

- Word of Mouth & Referral Programs - 40% of new customers came through word of mouth by friends and acquaintances, incentive program such that members who referred someone who then rents gets a \$20 credit.
- Publicity - 60% of new customers came through publicity efforts such as fashion blogs, industry insiders, an article in the New York Times, social media, brand ambassadors, and more.

## Operations Management:

- Hyman & Fleiss brought a strong business background, a diverse set of skills, and a fresh perspective to this well established market. They both served many roles and did many things themselves.
- They brought on a board of advisors with different relevant industry background to support and fill in gaps.
- They hired a designer to help with the look and feel but needed to fire him when he didn't suit their needs. They also had trouble with the development firm they hired so they brought on a director of technology.
- They had 8 full team members at launch and utilized unpaid interns.

**Key Takeaways:** Rent the Runway's strength lies in its strong customer value proposition which is to provide both the ability to rent designer clothing as well as a powerful emotional experience for renters who feel great in their clothes. They built a strong customer base with a variety of marketing tactics. In order to grow and improve, they need additional funding to improve operations and technology because with these improvements they will be able to provide more value to customers and expand their market share.

# Quantitative Analysis

## Upfront Costs

- \$1.75 million seed round from Bain
  - Initially bought 800 dresses pre-launch, assume a cost of \$226 to RTR per dress →  $800 * \$226 = \$180,800$ 
    - That cost likely would go down if RTR ordered even more dresses, ordered other accessories that the companies sold, or were able to convincingly show that they forwarded the designers more business (e.g. 90% reported that they had either purchased or had intent to purchase from that designer)
  - Had to hire and fire designer from “teenybopper, girly, young” website,” then \$45,000 wasted on website from Canadian firm, hired and fired Craigslist engineer, finally settled website firm in India
    - Indian website was buggy but sufficed at first

## Later Assumptions

- Case states that Rent the Runway rented 2,000 dresses in the first two months (we'll just assume 1,000 per month) from an inventory of 800 dresses; they planned on increasing inventory to 5,000 dresses
  - If the rentals increase proportionally, then they'll rent  $2000/800=x/5000$  →  $x = 12,500$  dresses/month
  - With average revenues of \$90 per dress, yearly revenue comes out to approximately  $\$90 * 12,500 * 12 = \$13,500,000$ 
    - RTR could find ways to eke out higher revenue margins by bringing certain processes in-house (dry cleaning, for example), automating the warehouse processing system, etc, by spending capital on systems to make those things possible
- Variable costs per dress, which include shipping, dry cleaning, credit card processing, and packaging, are \$31 per dress
  - Thus a rough estimate for annual variable costs are  $\$31 * 12,500 * 12 = \$4,650,000$
- Assume that each of the 8 employees (not including unpaid interns) makes \$60,000 per year →  $8 * \$60,000 = \$480,000$
- Rental price per square foot of warehouse in lower Manhattan is \$55.41 according to the Elliman Report in March 2015
  - Guess that warehouse is initially 6,000 square feet, so  $\$55.41 * 6,000 * 12 = \$3,989,520$  per year
- Thus the annual profits on dresses come out to  $\$13,500,000 - \$4,650,000 - \$480,000 - \$3,989,520 = \$4,380,480$
- One of their concerns about not expanding was that they wanted to reach breakeven point before expanding, yet as long as they grow roughly at the rate we expect them to, that shouldn't be a concern

## Key Takeaways

- Given current revenue, adding accessories would allow RTR to sell more and turn a higher profit, regardless of what the margins are on accessories
- Accessories would also lure even more customers to the site as it becomes a one-stop shop for a night out, as opposed to still having to visit a brick and mortar store for things like earrings, handbags, and watches
  - More customers = more \$\$\$

# Recommendation

## Raise Another Round

Rent the Runway should raise another round of funding and expand its business to fulfil its value proposition of delivering women's dreams. Although raising more funding would dilute the owners' equity, the increased profitability of the business in the long term will compensate. In addition, the additional capital will allow Rent the Runway to invest in technology that will improve its operations and allow it to better deliver on its customer value proposition.

The key steps in this expansion should be as follows:

- Expand product offerings
  - Introduce accessories to test expansion capabilities
    - Accessories offer high margins (based on Avelle's rental prices)
    - RTR already has 30 designers on board at the MVP stage, many of these designers will also sell accessories
    - Easier to get new designers on board since concept has been proven
    - Customer insights team can incorporate accessories in styling recommendations
  - If accessories succeed, expand to different verticals such as maternity wear or different social occasions
- Improve operations
  - Clarify distribution of responsibilities between co-founders
    - Fleiss focuses on expansion of new opportunities while Hyman focuses on running the existing business, important as the number of employees increases
  - Hire a CTO and expand engineering staff
    - One of the biggest weaknesses of RTR is technical expertise
    - Redesign website to increase conversion rates -> more rentals and more revenue
    - Improve logistics in warehouses to reduce picking and packing costs and error rates
    - Analyze rental patterns and reservation data to optimize dress buying decisions and inventory turns
    - Offer improved personalization and matching of products to strengthen customer value proposition

The uncertainties RTR must address before raising capital are included in the operations section above.

However, risks involved in this plan include the following:

- Difficulties in getting designers on board for new verticals such as maternity wear
- Reliance on referrals as a way to grow the user base when expanding to new customer segments