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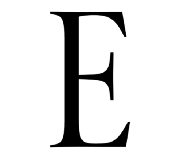
**Why All the Warby Parker Clones Are Now Imploding**

**How venture capital became the most dangerous thing to happen to now-troubled DTCs like Outdoor Voices, Harry’s, and Casper**

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Even if you don’t know who Ty Haney is, if you’ve spent any time on Instagram you probably know her company by osmosis. Outdoor Voices, with its millennial branding and muted pastel athleisure-wear, is social-media bait. Searching the company’s hashtag, #DoingThings, surfaces images of young women, including Haney, breezily baring their midriffs while walking their dogs, hiking, or doing yoga, dressed in Outdoor Voices’ color-blocked leggings, skorts, and sports bras.

Haney, who co-founded the company in 2012 at the age of 24, found herself in charge of what appeared to be a rocket ship. Within four years, she raised [$64 million](https://www.crunchbase.com/organization/outdoor-voices#section-funding-rounds) in venture funding for her direct-to-consumer (DTC) startup, a then-newish breed of e-commerce company created in the image of Warby Parker—aiming to design a better version of an everyday product, selling it directly to consumers at a lower price, thereby retaining tight control over marketing, customer service, and a data feedback loop that would eventually enable it to usurp market share from legacy competitors. In Haney’s case, those competitors would be giants like Nike and Lululemon. She managed to woo J.Crew retail legend Mickey Drexler to be chairman of her board, and when she relocated Outdoor Voices from New York to Austin in 2017, she quickly became the face of the city’s hot, emerging startup scene, landing on the [cover of *Inc.* magazine](https://www.inc.com/magazine/201902/tom-foster/austin-texas-tyler-haney-outdoor-voices-2018-surge-cities.html) and the subject of a [10,000-word *New Yorker* profile](https://www.newyorker.com/magazine/2019/03/18/outdoor-voices-blurs-the-lines-between-working-out-and-everything-else). By all accounts, everything seemed perfect.

Ty Haney at the Outdoor Voices retail store in San Francisco.

Until a few weeks ago, when a very different picture emerged of Outdoor Voices. The *Business of Fashion* [reported](https://www.businessoffashion.com/articles/professional/outdoor-voices-ceo-tyler-haney-steps-down-as-losses-mount) that for all of the startup’s apparent growth and cachet — including 11 stores in cities like Los Angeles and Nashville — the company “continues to lose money on customer acquisition.” According to *BoF*, Outdoor Voices was hemorrhaging up to $2 million per month last year on annual sales of around $40 million. Its executives also seemed to be bailing out on a company in a tailspin. The new president Haney had managed to lure last year from Nike lasted only a few months, and Drexler left the board. The startup was able to get a new cash infusion from the company’s investors, but at a lower valuation than previous rounds. On February 25, CEO Haney sent a Slack message to her hundreds of employees: “with heartbreak, I have tendered my resignation,” *BuzzFeed News* [reported](https://www.buzzfeednews.com/article/briannasacks/outdoor-voices-founder-tyler-haney-resigned). In the wake of her departure, she wrote, there would also be layoffs, and Cliff Moskowitz, the president of a fashion-oriented private-equity firm, would take over as interim CEO.

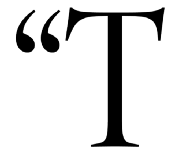
The news could be interpreted simply as an unfortunate isolated incident — an inexperienced founder who mismanaged her way into overspending. But for anyone familiar with the harsh realities of the DTC model, it’s affirmation of something much more fundamental: Once you get past all the shiny objects in the DTC category — the plump VC rounds, the sleek [sans serif designs](https://www.fastcompany.com/90281112/why-so-many-brands-on-instagram-look-the-same), the experiential storefronts in hot retail locations, the podcast ad blitzes — it turns out it’s extremely difficult to actually make the economics work.

Ever since the godfather of the DTCs, Warby Parker, emerged on the startup scene in 2010, venture firms have funded hundreds of startups trying to mimic that model — from makers of [hearing aids](https://www.forbes.com/sites/joanverdon/2019/05/29/the-warby-parker-of-hearing-aids-online-retailer-lively-expands-with-nyc-studio/#6694b955d7b7) and [strollers](https://www.fastcompany.com/90253359/the-warby-parker-of-strollers-is-here) to [paint](https://www.fastcompany.com/90211491/the-warby-parker-of-buying-paint-is-here) and [erectile dysfunction medication](https://www.forhims.com/). According to eMarketer there are now [more than 400 DTC brands](https://www.emarketer.com/content/direct-to-consumer-brands-2019). Since 2012, consumer brands have raised more than $3 billion, *Digiday* [reported](https://digiday.com/marketing/337342/) last year, with about half of that capital raised in 2018 alone. VCs like Forerunner Ventures’s [Kirsten Green](https://marker.medium.com/meet-the-investor-who-bet-early-on-warby-parker-dollar-shave-club-and-glossier-9809fc9ea1e) have made names for themselves by betting big on early DTC success stories, including Dollar Shave Club, Glossier, and the original, Warby. Other investors like Nikki Quinn at Lightspeed Venture Partners and Caitlin Strandberg at Lerer Hippeau have also aggressively entered the DTC fray, funneling money that typically might go to a fast-growth software company into the next “Warby of X”— consumer startups like Allbirds, Everlane, and Rothy’s.

Perhaps the original mistake of the DTCs wasn’t in their vision, but in their decision to take the venture capital in the first place.

We’re now just starting to see how quixotic this boom has been all along. Even before the Outdoor Voices revelation, the past few months have exposed major cracks in the DTC business model, as several high-profile, venture-backed DTC startups have struggled and others like Outdoor Voices have completely closed their doors. The investors bankrolling these companies are discovering one thing in common — that most of their money is going to expensive and ever-rising customer acquisition costs (CAC) via Google, Facebook, and Instagram. As one DTC investor has put it starkly before: “[CAC is the new rent](https://www.inc.com/magazine/201805/tom-foster/direct-consumer-brands-middleman-warby-parker.html).” And even after these startups get on the treadmill of paying digital rent, they are then finding themselves also paying *actual* rent. After all, the most effective billboard is an outdoor L.A. luxury mall or an expensive SoHo storefront, which can cost some $60,000 a month.

Perhaps the original mistake of the DTCs wasn’t in their vision, but in their decision to take the venture capital in the first place. Now under pressure to grow even faster and at greater scale than they otherwise would have had to naturally, they are being confronted with what happens when growth slows down, the cash starts running out, and investors are expecting their returns.

“There’s a generation of consumers now who don’t want their parents’ establishments, they don’t want their parents’ governments, they don’t want their parents’ industries, and they don’t want their parents’ brands,” could argue any of the DTC founders, but in this case, [it was Tina Sharkey](https://www.fastcompany.com/40439810/this-new-site-sells-food-and-household-essentials-all-for-3-or-less), the co-founder and CEO of Brandless, a home goods DTC that arrived on the scene in 2017. The San Francisco startup that aimed to upend Target set up shop on the mega-retailer’s home turf in Minneapolis — along with [poaching](https://www.supermarketnews.com/online-retail/new-e-tailer-offering-premium-private-label-single-price-point) a couple of its merchandising execs — with the audacious goal of selling private-label groceries and other home goods for a flat price of $3 each. Brandless’ rationale—if was going to spend big marketing bucks to get a customer through the door, that customer would have many reasons to keep coming back, with its hundreds of other affordable products to purchase. Along with raising $52 million from investors like Google Ventures and Cowboy Ventures, in 2018 the startup raised an additional [$240 million from SoftBank](https://www.bloomberg.com/news/articles/2018-07-31/brandless-is-battling-amazon-with-240-million-from-softbank).

Instead of disrupting Target, the company suddenly wanted to be sold in places like Target.

It is perhaps not surprising to learn that things did not end well for the company. Brandless found itself contending with the problems so many DTCs seem to grapple with at this stage of growth, but namely the dawning realization that building a customer base from scratch is actually quite hard — and incredibly expensive. There’s a reason DTC companies market on Facebook: Facebook ads are cheap to set up, and they let you target a specific audience. The problem, however, is that channels like Facebook have grown more saturated and more expensive. Now, everyone is armed with the same millions of dollars in funding; they’re all targeting the same users, and they’re all driving each other’s marketing costs up. (Marketing software company AdStage analyzed its Facebook impressions data and [found that](https://blog.adstage.io/facebook-cpc-cpm-ctr-benchmarks) the median cost-per-click for Facebook news feed ads has risen from $0.43 during the second quarter of 2018, to $0.64 during the second quarter of 2019.)

By early 2019, Brandless found itself unable to honor its initial promise, and increased the price of some items to $9 and laid off 13% of its staff. Sharkey, a seasoned executive and Silicon Valley fixture, stepped down, and a couple months later John Rittenhouse, the former COO of Walmart.com, was brought in. In a move almost verging on parody, he pivoted Brandless to [selling](https://www.modernretail.co/platforms/we-wont-be-chasing-fads-brandless-announces-first-cbd-partnership/) CBD products, along with pricier, *branded* products. Last fall, Rittenhouse [said](https://www.businessinsider.com/brandless-products-brick-and-mortar-stores-2019-10) Brandless would try to get into major retail stores, shifting away from its online-only business model. Instead of disrupting Target, the company suddenly wanted to be sold in places like Target—a common trend among many once digital-only DTCs. But even this never ended up happening; in January, Brandless announced it would shut down.

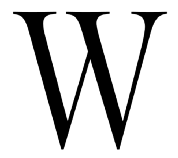
While the fundamental economics of Brandless’ pitch never seemed sustainable, the one sound piece of its strategy, at least in theory, was going after that repeat customer. The reality is, most of the high-profile DTCs have built their brands on a singular product — whether it’s Warby with glasses, Casper with mattresses, or Away with suitcases. A month before Brandless went out of business, suitcase startup Away found itself enmeshed in a PR crisis. Months after achieving unicorn status by raising [$100 million in funding at a $1.4 billion valuation](https://techcrunch.com/2019/05/14/away-packs-on-100m/), [*The Verge*](https://www.theverge.com/2019/12/5/20995453/away-luggage-ceo-steph-korey-toxic-work-environment-travel-inclusion) detailed allegations against the Instagrammy startup that its [CEO Steph Korey had created a sweatshop culture](https://marker.medium.com/the-away-ceos-bullying-isn-t-a-management-style-f5465f32e49a) within the company. Korey apologized, and after a series of public is-she-staying-or-leaving back-and-forths, she remained on as CEO, alongside the company’s new co-CEO, Stuart Haselden, an exec from Lululemon.

Customer acquisition is so challenging in the first place, they need to spend money to get potential customers in the door — and then even more money to keep them there.

While the press latched onto a founder who had become toxic under pressure, that was hardly the company’s most vexing problem. With a total of $181 million in funding and primarily one product to sell, how could the startup possibly be able to meet the expectations for investor returns? The reality is, most people only need to purchase a suitcase once every five to 10 years. Despite the many color variations of its aluminum suitcases and bags, the product itself — like many in the DTC space — is still only incrementally better than a Samsonite or Travelpro.

So Away is trying to recast itself as something much larger than what it actually is. Korey and co-founder Jen Rubio describe Away as a “travel company.” In order to lure expensive customers back, Away now has many adjacent venture-funded expansions in the works — skin care and supplement lines, along with travel wear made of more functional, comfortable fabrics. “We’re ready to start taking action to figure out how else Away can play a role in not only what you use to pack, but what other kinds of products you might need to bring with you,” [Rubio told *Harper’s Bazaar*](https://www.harpersbazaar.com/uk/travel/a27490570/away-suitcases-clothing-accessories-wellness/) soon after its latest funding round.

In that conversation Rubio optimistically noted the startup’s other ambitious expansion plans — opening a whopping 50 new stores over the next few years. What that really means: Customer acquisition is so challenging in the first place, they need to spend an incredible amount of money to convince customers to come through the door — and then even more money to keep them there.

When Casper filed its S-1 in January, analysts, investors, and business nerds descended on the document like vultures. Not only was it a [precarious moment to take a startup public](https://marker.medium.com/the-new-rules-of-the-ipo-93ef77796a6e), it was the first time anyone could actually access the raw numbers under the hood of a DTC. “The economics work better if Casper sent you a mattress for free, stuffed with $300,” jabbed NYU Stern marketing professor and tech doomsayer [Scott Galloway](https://marker.medium.com/casper-will-not-go-public-efa6b6dd079f). “This appears to be Casper’s business,” [tweeted](https://twitter.com/dkthomp/status/1215718304628838402?lang=en) number-crunching *Atlantic* columnist Derek Thompson. “Buy mattress at $400. Sell at $1,000. Refund/return 20% of them. Keep $400, on avg. Then spend $290 of that on ads/marketing and $270 on admin (finance, HR, IT). Lose $160. Repeat.”

Like suitcases, mattresses are also products with incredibly long life cycles; you’re no more likely to buy a new mattress any more frequently than you would a new suitcase. Like Away, Casper—with its expanded mission of becoming the “Nike of sleep”—is now selling dog beds and glow lights. (What’s worse, Casper has some 175 [other online mattress competitors](https://www.cnbc.com/2019/08/18/there-are-now-175-online-mattress-companiesand-you-cant-tell-them-apart.html).)

The startup had been valued privately at over a billion dollars, but its market cap today is below $350 million, indicating that a less credulous public market doesn’t think its mattresses are worth that much.

From Casper’s S-1, we learned that in the first nine months of 2019, it had a net loss of $67.4 million, after losing $93.2 million in 2018 and $73.1 million in 2017. Its warning to investors? The company may never become profitable.

When Casper finally went public on February 5, reality came crashing down. Its IPO target share price had been in the optimistic range of $17 to $19. Just before its public debut, however, the company slashed that to a more modest $12 to $13. Despite its [private unicorn valuation of $1.1 billion](https://www.bloomberg.com/news/articles/2019-03-27/mattress-startup-casper-joins-the-unicorn-club-with-new-funding), its [debut share price of $14.50](https://www.cnbc.com/2020/02/06/casper-cspr-ipo-stock-starts-trading-on-the-nyse.html) only valued the company closer to $500 million. “Valuations are just moments in time,” CEO Philip Krim told CNBC after its IPO. Today its market cap is below $350 million, indicating that a less credulous public market doesn’t think its mattresses are worth that much.

That steep gulf between how a DTC can be valued hypothetically and optimistically on the private market, and the harsh realities of how the public markets value it is haunting many DTC CEOs right now. The one startup that almost managed to avoid this fate is the razor startup Harry’s. In May 2019, it cut a $1.37 billion deal to be acquired by Edgewell, the conglomerate that owns Schick — a respectable exit for a company whose private-market valuation was approaching $1 billion, and whose upstart competitor in the space, Dollar Shave Club, was [bought](https://fortune.com/2016/07/19/unilever-buys-dollar-shave-club-for-1-billion/) by Unilever for $1 billion three years ago, in one of the business model’s biggest success stories.

The deal looked like an ideal marriage: It would give Edgewell that millennial edge — the data, the [marketing prowess](https://www.vox.com/recode/2019/9/9/20857080/harrys-code-commerce-jeff-raider-edgewell), the R&D — that a stodgy old consumer products goods company needed. And it would be an acceptable exit for Harry’s, giving its co-founders a more powerful perch running Edgewell’s entire North American business, which also includes brands like Playtex and Banana Boat. But, as you can probably guess by this point, things didn’t work out.

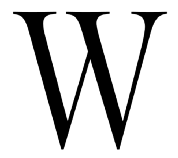
Particularly in the wake of the Casper IPO, it’s difficult to imagine how Harry’s and its investors will get a satisfying exit.

It’s become something of a trend for older legacy brands to buy up their nimble, younger competition. Over the past couple of years P&G has bought several of these DTC startups, including Bevel, First Aid Beauty, Native Deodorant, and This Is L. But in a decision that came as a shock to all, in February Edgewell backed out of the deal after the FTC [sued to block the sale](https://www.adweek.com/retail/ftc-blocks-edgewells-acquisition-of-dtc-shaving-brand-harrys/), claiming it “posed serious harm to consumers” and that the proposed combination would “eliminate one of the most important competitive forces” in the shaving sector.

Edgewell seemed to think pursuing the sale would be more trouble than it was worth. (Its president and CEO Rod Little said [in a statement](https://ir.edgewell.com/news-and-events/press-releases/2020/02-10-2020-111957575?sc_lang=en) that Edgewell moved away from the deal because of its “required investment of resources and time.”) Jeff Raider and Andy Katz-Mayfield, the co-founders and co-CEOs of Harry’s, are now pursuing [legal action](https://www.adweek.com/retail/edgewell-personal-care-backs-out-of-harrys-acquisition/) against Edgewell. Harry’s hasn’t commented on the nature of the litigation, but said in [a statement to *Adweek*](https://www.adweek.com/retail/edgewell-personal-care-backs-out-of-harrys-acquisition/) that it will move ahead alone. “We will continue to do what we do best: develop, manufacture and sell exceptional products at an honest price, and always put our customers first.” (Edgewell responded to Harry’s intent to sue in an [SEC filing](https://sec.report/Document/0001096752-20-000005/#epcexhibit992123119.htm), in which it said “such litigation has no merit”).

Highly venture-backed DTCs largely have two pathways to longevity and success. They can sell to an incumbent, much in the same way that Bonobos and Jet.com have sold to Walmart, or they can try their luck and go public. The incumbents are willing to overlook the less than ideal DTC economics because what they’re buying isn’t a business model, it’s the other stuff, like data-informed decision-making. So when a company like Harry’s that planned to exit by selling itself to another entity suddenly can’t, what options remain?

Without access to Harry’s financials it’s impossible to know exactly how well the company is doing, but it doesn’t take a great leap of imagination to deduce that its growth is not that of a tech company. In late 2018, [*Fast Company* reported](https://www.fastcompany.com/90244932/with-flamingo-shaving-pioneer-harrys-branches-into-womens-grooming) that Harry’s ranked a distant third in online “manual shave” sales, so to expand into new categories it debuted Harry’s Labs, an incubator to launch *other* DTC brands both by itself and with external entrepreneurs, potentially selling everything from cleaning supplies to pet care. “Harry’s needs this strategy to work,” wrote *Fast Company*, emphasizing the $375 million in venture capital the startup had taken. Particularly in the wake of the Casper IPO, it’s difficult to imagine Harry’s ever wanting to expose its numbers is an S-1. If that’s the case, how will Harry’s investors will ever get a satisfying exit?

When Warby Parker’s co-founders initially raised its first $2,500 while getting their MBAs at Wharton, they couldn’t have known that a decade later their company, which sells reasonably priced, stylish eyeglasses online, would be valued at $1.75 billion, or that an entire economy of startups would spring up in its image.

But like all of the one-product DTCs, even Warby needs a second act.

For years, rumors of an IPO have circled Warby Parker. Being the exemplar that hundreds of companies have tried to emulate, with almost $300 million in funding, people start to want to know how you’ll exit, if you ever will. A little over a year ago, co-founder and co-CEO Neil Blumenthal [told *Business of Fashion*](https://www.businessoffashion.com/articles/news-analysis/warby-parker-raises-another-75-million-declares-profitability-on-road-to-ipo) that in terms of an exit, “the most likely outcome is an IPO in the next couple of years.”

Last week, Blumenthal brushed off the idea that Warby needed to go public now. “We’ve always viewed an IPO as a financing event. In an initial public offering, you raise capital,” he told me. “And at the moment there’s not an urgent need for capital; we’ve been able to raise capital as needed at great terms in the private markets.” When Warby needs cash, he explained, he’ll get it the most efficient way possible. “If that’s through an IPO, we’ll IPO,” he said. “If that’s through a private channel, we’ll stay in the private markets.” Blumenthal didn’t comment on specifics of Warby’s finances, but told me that Warby Parker has been profitable since 2018 and is still growing. “Growth accelerated from 2018 to 2019 versus 2017 to 2018, which was already at a high clip,” he said.

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Photo: Warby Parker co-founders and co-CEOs Neil Blumenthal and Dave Gilboa. Photo: Michael Buckner/Getty Images

But like all of the one-product DTCs, even Warby needs a second act. As [*Bloomberg Businessweek* reported](https://www.bloomberg.com/news/features/2019-11-19/warby-parker-launches-scout-daily-contact-lenses-at-440-a-year) in November, at various points, the company has contemplated everything from selling watches to selling its own sales software. More recently, though, it landed on a logical extension — the $11 billion contact lens market — “bigger than, like, selling mattresses,” Warby co-founder Dave Gilboa told *Bloomberg*. In November 2019, it rolled out its new contact lens brand Scout, which already finds itself facing a slew of other DTC contenders, including Hubble, Waldo, and Simple Contacts.

Blumenthal isn’t just a startup founder — he’s an investor too. Between he and Gilboa, the two have made enough investments in *other* DTC startups to create a sizable portfolio a small venture firm would be jealous of, including baby food subscription service [Yumi](https://www.forbes.com/sites/robindschatz/2019/12/10/why-founders-of-warby-parker-casper-uber-are-betting-on-a-baby-food-startup/#3c8ba94229fb); organic tampon startup [Lola](https://techcrunch.com/2018/06/12/lola-just-raised-24m-for-a-subscription-service-that-ships-tampons-pads-and-now-condoms/); plant startup [Bloomscape](https://observer.com/2019/08/bloomscape-warby-parker-founders-funding-plant-startup/); dental startup [Tend](https://www.crainsnewyork.com/health-care/warby-parker-founders-invest-dental-startup); Silicon Valley’s favorite wool shoes, [Allbirds](https://onezero.medium.com/allbirds-vejas-common-projects-the-definitive-ranking-of-silicon-valley-shoes-3fa1f9c334c6); and Blumenthal’s wife’s kids clothes startup [Rockets of Awesome](https://www.rocketsofawesome.com/).

A few days after Blumenthal and I spoke, news broke that Rockets of Awesome would be laying off half of its staff. According to the [Wall Street Journal](https://www.wsj.com/articles/rockets-of-awesome-slashes-staff-closes-store-11582906397), Blumenthal’s wife’s four-year-old company that had raised $49 million would retrench in order to focus “on shifting away from high-paced growth and toward profitability.” In other words, the pivot every one of these venture-backed DTCs is frantically trying to make right now.

One of the last questions I had asked Blumenthal—before that news came out—was whether the DTC model was actually sustainable for any of these companies, particularly for the venture-backed unicorns? “It’s never been easier or less expensive to start a business, but it’s also never been harder to scale one,” Blumenthal conceded, which is probably the most damning thing a co-founder of a hyper-popular company with a heavy PR presence hovering on the phone will tell you.