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AptDeco: Circular Economy Furniture Marketplace

In January 2020, AptDeco Co-Founders, Reham Fagiri and Kalam Dennis, admired the view from their new office space in the Hearst Tower in Manhattan. After a few trying years, AptDeco was hitting its stride as the Tri-State area's preeminent managed marketplace for used furniture. After doubling in 2019 and setting ambitious goals to hit double digits in 2020, the small team was poised to expand rapidly after measured growth and a hyper focus on profitability. Founded in 2013 by the two friends and launched in 2014, AptDeco had gone through many ups and downs through the years. But Fagiri, AptDeco's CEO and Co-Founder, was confident that the business model, financial position, and unit economics positioned AptDeco for scaling in the massive $120 billion furniture market, despite its complexity and high costs.

Unlike many of its peers, AptDeco had taken a measured approach to growth, favoring profitability over rapid expansion. This strategy had proven successful – AptDeco's main competitor and fellow Y Combinator cohort member, Move Loot, had raised over $20 million but was forced to shut down after a whirlwind two years of nationwide expansion. "You can get all the capital in the world," remarked Fagiri, "but you need to have a strong foundation for your business before you scale. It was never our plan to raise huge amounts of capital before getting our costs under control and our customer experience and service to be exceptional." Dennis added: "We were financially conscious, which forced us to focus on analytical integrity and rigor, and creative integrity."

Now, with strong financial backing and heavy investments in customer experience, optimized logistics, and data-driven and efficient marketing, AptDeco was facing an exciting challenge for any managed marketplace to have: they were supply, rather than demand, constrained. Fagiri remarked, "Our vision is to be the frictionless, one-stop-shop for everything our consumers need for their home, and to do so, we need to expand. So, what we are thinking about is the best way to scale our business profitably." Facing this daunting task for any young company, the pair looked out to the iconic Columbus Circle and considered the options ahead of them.

Professor Ayelet Israeli and Jamie Merkrebs (HBS MBA 2021) prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School and not by the company. Jamie Merkrebs was a paid intern at AptDeco during the time the case was written and was not compensated by the company for writing the case. Certain details have been disguised. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

AptDeco's Origins

The Early Days

In June 2013, Fagiri was moving out of her Philadelphia apartment after her MBA graduation from the Wharton School at the University of Pennsylvania. An immigrant from Sudan, Fagiri was offered a job based in New York City to start in the fall, but her summer was free as she waited for her visa and other paperwork to be approved. Getting her things together to make the move to New York, she was looking to sell some of her furniture for extra cash. After a harrowing experience with a disgruntled buyer from Craigslist, Fagiri's wheels started turning. "Some guy came to buy my TV, and I listed the wrong model number by accident. He got upset and said, 'I'm taking this TV and not paying you for it.' I was by myself in my apartment, and at that point, anything could have happened. I felt unsafe and told him to just take it - $100 was not worth risking my safety. I thought to myself, why is Craigslist still a thing?"[1] Fagiri knew there had to be a better way to buy and sell used furniture.

Meanwhile, Fagiri's friend, Kalam Dennis, had been complaining about how long it was taking to sell his sofa. Armed with a U-Haul from the move, the two decided to offer free delivery on the sofa and posted to see if this would entice potential buyers. The sofa sold within hours. Intrigued by this, Fagiri and Dennis tested out the concept further by listing fake furniture on Craigslist and offering free delivery on some and not others. The pair immediately noticed an uptick of interest from potential buyers for items offering free delivery. In a city like New York, with traffic, limited and expensive parking and notorious walk-up apartment buildings, logistics were especially complicated when buying and selling used furniture. Most New Yorkers did not own a car, let alone a truck.[2]

Motivated by this early validation, Fagiri and Dennis set out to develop a safe, community-driven, and convenient way to buy and sell used furniture. The platform had a simple slogan - the "easiest way to buy and sell used furniture," supported by its value proposition of an integrated, seamless shopping experience that was virtually nonexistent in the used furniture category. AptDeco offered approved and curated furniture listings, secure payments, delivery services, and customer support across the buying journey. The experience would echo shopping online with a furniture retailer, increasingly normalized by players like Wayfair and IKEA, while supporting a broader mission of circularity in the traditionally high carbon footprint industry.

With budding start-ups Uber and Airbnb spearheading the sharing economy and maintaining lean operations, Fagiri and Dennis knew that they would not hold any of the inventory. Instead, they would focus on creating a marketplace platform that matched buyers and sellers, curating the merchandise, and offering hassle-free delivery services.

AptDeco's First Customers

Standing up two-sided online marketplaces presents unique challenges. New marketplaces are faced with a "chicken or the egg" dilemma of where to invest initial time, money, and effort in customer acquisition. Without inventory from sellers listing on the marketplace, it is difficult to drive traffic to the site, but without buyers visiting the marketplace, sellers are not interested in listing.

Fagiri and Dennis decided to parallel efforts to attract AptDeco's first set of buyers and sellers. A software engineer by background, Fagiri pulled together a private beta site testing the premise and soliciting email sign-ups for early access. At the same time, Dennis focused on acquiring sellers to list inventory. He would find live furniture listings currently on Craigslist and contact the sellers directly with an invitation to list the furniture on AptDeco using an exclusive link. In just a matter of days, AptDeco had gathered emails from over 1,000 initial sign ups and had secured close to 100 live furniture postings, enough to kickstart its first transactions. Compared to Craigslist, sellers found an increase in interest from serious buyers and conversion to eventual sales.

From the earliest days, the path to profitability was clear. AptDeco charged commission on each transaction and kept delivery costs at or below the flat delivery rate charged to the buyer. It also became quickly apparent that customer acquisition costs (CACs) in two-sided marketplaces were unique. Buyers started to become sellers as they made room for their new finds, and a few sellers also became buyers as they spent time on the site and compared their items to other listings, although less frequently.

After strong signs of initial validation, Fagiri decided not to accept her corporate job and spent the summer of 2013 building out a minimum viable product (MVP) version of the site, facilitating early transactions and further testing the concept. At this point, the pair did most of the deliveries themselves. Fagiri recalled how valuable was the experience of picking up and delivering the furniture: "When we walked into [customers'] homes, we saw how they lived and why they were buying or selling. Most were going through a life event, having a baby, getting married. It was really fascinating, and it helped us from a marketing perspective."[3] Despite their professional experience, education, and entrepreneurial aspirations, neither Fagiri nor Dennis had startup experience. Several of Fagiri's family members were entrepreneurs, but until grad school she was a team lead and a tech product manager at Goldman Sachs. Dennis worked for a decade at L'Oréal in a variety of positions and was the youngest vice president of sales and business development in the company. To continue developing the business, Fagiri and Dennis decided to apply to the competitive startup accelerator, Y Combinator, and gained acceptance to the Winter 2014 cohort.

Y Combinator

Y Combinator is a three-month intensive program offering early-stage startups funding, mentorship, and access to its network of venture capital investors. Since 2005, Y Combinator has funded over 2,000 startups, including Stripe, Airbnb, Instacart, Dropbox, and DoorDash. During the three months, founders are offered direct access to Y Combinator partners, cohort peers, a vast alumni network, and domain experts that range from venture capitalists (VCs), executives, and other startup founders. Founders gathered in Silicon Valley and spent the weeks in group and individual office hours, dinners, and networking events. The experience culminates in the notorious "Demo Day," a three-day long event that brings together over 1,000 top investors. Each team in the cohort pitches their company, hoping to walk out with serious interest and a path to financing.

Y Combinator's approach is grounded in a hyper focus on early user testing on simple, iterative versions of the product. With its first customers acquired and initial sales in the books, Fagiri and Dennis focused their time during Y Combinator on getting the business off the ground incrementally. Reflecting on the experience, Fagiri noted Y Combinator's measured approach to growth: "At that small of a scale, Y Combinator instilled in us the notion of focusing on 10% growth every week. If we started with 100 customers, getting to 110 the next week was an indicator of success." The pair spent the time getting in front of AptDeco's earliest users, gathering feedback and testing different models to see what worked best. Dennis recalled: "What was most surprising to me was the manual and scrappy nature of getting a business off the ground; the front of the website is all nice and glossy, but the back is all put together with a Band-Aid. I had a solid foundation of rigor around analytics and metrics from my time at L'Oréal, but this was all new to us." Fagiri concurred: "Business school doesn't teach you to really get your hands dirty, roll up your sleeves, pass out flyers – the practical nature of owning a business."[4]

As Demo Day approached, the excitement about AptDeco across Y Combinator's team was palpable. A scalable platform-based model with profitable unit economics and no inventory made AptDeco a rising star in its cohort. Fagiri and Dennis were told to expect calls from every major investor following the showcase and the pair went into their pitch with optimism. But hours, days, and weeks followed with no interested investors. Fagiri noted, "We knew the statistics – female CEOs of color only secure 0.2% of investor funding – but we were still shocked. We decided we could either spend the time complaining about how unfair things were, or we could focus on our business." Dennis added: "As an African American man that had been successful in corporate America, I was just ignorant about this world. Without YC partners and VCs that focused on female or person of color founders, we would not be here today. We're extremely grateful for diversity funds but based on our growth metrics and business proposition the overall tepid response we received from traditional investors was startling..."

AptDeco eventually garnered initial interest and enough capital to continue launching the business, albeit with a vigilant eye towards profitability and solid financial footing. Fagiri and Dennis returned to New York City with a defined business model, a plan for scalability and a vast alumni network to tap into along the way. In some ways, the fact they had a hard time with their initial funding helped them become more self-sufficient and improve their offering and profitability.

Industry Dynamics and Competitors

The US furniture market is worth over $120 billion. Highly dependent on overarching trends in the economy, the market typically fluctuates with unemployment trends, the housing market and disposable income levels. Average annual expenditure on furniture per consumer dropped nearly 20% over the several years following the Great Recession, rebounding to a high of $502 in 2015 (see **Exhibit 1**).[5] At the basic level, the market follows a typical retail supply chain characterized by manufacturers, suppliers, wholesalers, and retailers. While some retailers choose to be as vertically integrated as possible, such as IKEA, many retailers have long, global, and complex supply chains. Leading players in the US retail furniture industry serve a variety of customer segments, from luxury to mass market and discount.

At an estimated $10 billion dollars, used furniture accounts for just over 8% of the total furniture market. Prior to the advent of online marketplaces, physical retail dominated the used furniture market. Antiques dealers, vintage and consignment shops, and flea markets offered shoppers ways to consign and dispose of used furniture. These channels were largely reserved for furniture that retained or increased its value over time or were resurrected by trends in design and aesthetics, such as authentic Mid-Century Modern pieces. For the average consumer disposing of furniture during a move or remodel, options were limited and typically involved disposal on street corners, with a majority of items eventually ending up in landfills or scrap yards.

With the dot-com boom in the mid-1990s, new online channels started opening up and expanding the used furniture market. Fagiri and Dennis estimated that the predominant used furniture marketplace, Craigslist, accounted for nearly 20% of the US used furniture market in 2014. Founded in 1995 by Craig Newmark, the company originally served as an email distribution list sharing local events and happenings in the San Francisco Bay Area. The number of users exploded, and new categories began to emerge such as job classifieds, housing, and for sale advertisements. In 2000, the site started to rapidly expand across cities and categories and by 2014 was serving over 570 cities in 70 countries with 20 billion visits per month. Used furniture was the 5th largest category on the platform.[6]

Over the years, online players widely adopted the peer-to-peer marketplace model, rapidly chipping away market share for a majority of Craigslist's verticals. Since Craigslist served solely as a basic communications platform to connect users, challengers such as Airbnb, Indeed, and Stubhub sought to replicate the Craigslist marketplace model while building revenue-generating and value-adding services that improved the buying and selling experience, typically known as "managed marketplaces." For challengers like these, the ability to perfect the model for a single, specific category proved fruitful.

By 2014, competitors sprouted up rapidly to perfect the model for used furniture, however the economics proved more difficult than other verticals given the high capital-intensive and operationally complex nature of the furniture business. Typical consignment and resale models require massive warehouses, labor investment, and a deep understanding of supply and demand. Therefore, limited-service peer-to-peer marketplace models became the default, including those specifically focusing on high-end designer brands and antiques (see **Exhibit 2** for the competitive landscape in 2014). As a result, no one competitor offered a full suite of services, including secure payments and white glove delivery services, or specifically targeted the mass-market like AptDeco.

Building the AptDeco Model

A marketplace for used goods could operate a variety of different business models, with the most common being consignment and resale. In a consignment model, the consignor agrees to sell an item on the owner's behalf. Once the item sells, the consigner pays the owner of the item the sale price minus a standard commission, also known as a take rate. Alternatively, some marketplaces employ a resale model with which the item is purchased up front for an agreed upon price. A marketplace that employs a resale model must offer a purchase price to a seller that appropriately accounts for a markup when sold to an end consumer in order to make a profit. Due to the risk the reseller is taking on price, this model typically offers less competitive prices to sellers than in a consignment model.

From the start, AptDeco opted for a variation on traditional secondhand models known as a peer-to-peer managed marketplace (see **Exhibit 3** for a comparison of common marketplace models) in which the platform facilitates transactions between buyers and sellers and provides value-added services throughout the process, but only takes ownership of the item once it sells and pickup and delivery are scheduled. This was critical for two reasons: same-day pickup and delivery virtually eliminates inventory and warehouse costs and direct listing by sellers eliminates the need for a markup by the reseller. The model was simple. A seller listed an item for sale on the platform free of charge. Sellers were free to set their own prices, but the platform provided them with data-driven recommendations. Once a buyer submitted a purchase request via a secure third-party payments provider, the seller was paid the sale price minus the commission and AptDeco arranged to pick up and deliver the item based on the buyer and seller preferences and typically within 4-5 days of sale.

When deciding what commission rate to charge, AptDeco considered the competitive landscape and the value that AptDeco's platform provided to sellers. As the only used furniture managed marketplace in this segment offering white glove delivery services, AptDeco decided to charge sellers a commission rate ranging from 19% to 38% per item sold. (For case discussion purposes, assume that the average sale price per item was $500. Note that this number has been disguised.). However, unlike some of its peers, it was free to list on AptDeco, so sellers often listed their items on multiple platforms. Early seller feedback and confirmation rates indicated sellers were pleasantly surprised to see faster than average sell-through, justifying the higher commission.

On the buyer side, revenue is entirely tied to delivery fees. Getting this right was absolutely critical to AptDeco's long-term profitability, as driving revenue through commission rates would never be sustainable. While multiple fee structures were tested (see **Exhibit 4** for details), ultimately the team landed on a tiered delivery fee structure by item size (see **Table A**). If multiple items are purchased from the same seller, delivery fees are discounted by 70% for each additional item.

Table A AptDeco Delivery Fee Structure

Item Size	Price	Categories
Small	$49.00	Headboards, Accent Chairs, Armchairs, Benches, Dining Chairs, Ottomans / Footstools, Rugs, Mirrors, Décor, Pillows, Lamps, Nightstands, Coffee Tables, Side Tables
Medium	$84.00	Dining Sets, Daybeds, Twin – King Beds, Recliners, Sofas & Sectionals, Bookcases, Dressers, Media Consoles, Shelves, Sideboards, Desks, Dining Tables
Large	$139.00	Loft & Bunk Beds, 3+ Piece Sectionals, Armoires, Wardrobes, Wall Units

Source: Company documents.

Three key components of AptDeco's early strategy actively worked together to support its business model and deliver on AptDeco's value proposition to both buyers and sellers:

Taking Delivery in House

Initially, Fagiri and Dennis planned to completely outsource deliveries, in a typical "gig economy" manner. Inspired by Uber's early business model to tap into underutilized luxury black car drivers, AptDeco planned to outsource delivery to moving companies that experienced demand swings associated with typical moving days of the month. By leveraging the days of the month that moving company vans typically went unused, AptDeco would drastically reduce costs and overhead and enable rapid scaling while offering competitive prices to its customers.

The team quickly realized that this model did not work well for a few reasons. By outsourcing to moving companies, AptDeco lost valuable control over its customer experience. Fagiri noted, "We got blamed for anything that went wrong, but we had no control over the quality of service." Additionally, the moving industry and AptDeco's customers' behavior turned out to be cyclical. With AptDeco facing similar demand swings as moving companies, it became vulnerable to cancellations and delays when moving companies were forced to prioritize their own business. Despite the high capital expenditure and overhead required, AptDeco decided to bring delivery fully in house. They started small, by hiring two movers and their truck, and then grew that operation to include 60 delivery team members and 13 trucks by 2019. In-housing delivery led to immediate improvements in customer experience. Dennis commented, "As soon as we brought delivery in house, we had multiple calls from customers saying that this was the best furniture delivery experience they've ever had. That was our aha moment – this was cheaper in the long-term and better, as it helped solidify our value proposition." The excellent delivery was praised in reviews, and led to ratings of 4.8/5 for over 20,000 reviews.

Once AptDeco had its own fleet of vans, the drivers were also responsible for examining the item when they picked it up. They would compare the item to the listing, and if there were any discrepancies or issues, they would alert the buyer. The drivers would then either continue with the route while a separate customer experience (CX) team facilitated discounts or canceled the order.

Proprietary Scheduling & Logistics Technology

Once delivery was brought in house, it became clear that focusing on providing the cheapest, highest quality and most scalable delivery experience would be AptDeco's primary competitive advantage. The status quo in the furniture industry, characterized by long lead times and high shipping costs passed on to the customer, was inconsistent with rising consumer expectations. Furniture buyers shopping with traditional retailers can expect delivery fees typically ranging from $150 – $300 with estimated delivery dates at least 10 – 21 days after purchase for non-custom orders[7] but usually 3-8 weeks. In comparison, AptDeco delivers on average 4-5 days from purchase with delivery fees averaging $90.

Providing the highest quality of delivery service at that cost and turnaround time is not an easy feat. To achieve this, AptDeco invested heavily in proprietary scheduling and logistics software. Once an item sold on AptDeco, buyers could propose numerous delivery dates and times directly on the platform, putting the power in their hands. The software then suggested available options using a scheduling algorithm that optimized for routing and various delivery-specific criteria. This optimization of key inputs ensured routes were efficient while still providing buyers the ultimate scheduling flexibility unique to AptDeco. This system also enabled same day delivery and pickup, another key factor to keep costs low and efficient. Reducing the amount of times the delivery teams touched an item reduced the risk of damage or loss and ultimately reduced frictions along the way, enabling AptDeco to pass cost savings to its buyers.

Data-Driven Merchandising & Marketing

To ensure sellers continue to return to the platform and feel the commission rate is justified, AptDeco prioritized maintaining the highest sell-through rates in the industry. By leveraging data and analytics, every component of an item listed was dissected to understand what drives a sale. An item's color, age, brand, retailer link, dimensions, and category, among others, are critical inputs used to merchandise products effectively. These factors contribute to AptDeco's high sell-through rate within 7-10 days on average, which is considerably higher than most marketplaces. Similar to delivery, AptDeco started out by outsourcing marketing and analytics but soon realized that in-housing these functions would produce better results. Dennis explained: "You have to know enough to be dangerous. You need to know where customers are coming from, why they are coming, what they care about, and how to delight them. You need to understand your CAC and be vigilant about what is working and what is not working. To make conscious decisions is difficult to do well through an agency or a third party."

Bringing delivery fully in house also supported cost effective marketing. For one, AptDeco benefited from branding its fleet of vans in its conspicuous bright orange and clean aesthetic. The positive customer feedback regarding delivery led to an increase in word-of-mouth (WOM) referrals. Subway advertising was also a particularly effective channel in the New York City market that AptDeco employed early on. Made popular by budding direct-to-consumer brands such as Casper and Thinx, subway advertising provided a relatively easy and effective channel for early-stage startups with limited time and resources to manage diverse marketing channels. Despite high upfront costs, the size and diversity of the audience meant AptDeco could achieve an unprecedented level of impressions across buyers and sellers while keeping messaging consistent and clear. In AptDeco's launch years, subway advertising made up a large percentage of the marketing mix, followed closely by WOM referrals (see **Exhibit 5** for examples of AptDeco's van branding and subway advertising).

Replicating the Model: D.C. Metro Area

With positive unit economics from its very first transaction, rapidly decreasing CAC through demonstrated virality, and consistent month over month topline growth, AptDeco was able to raise $1.3 million in its first round of financing in 2015. Fagiri and Dennis hired a small team of engineers and operations leads and penetrated the New York City market, testing and iterating on the original business model and scaling playbook from what they learned during Y Combinator.

At the same time, AptDeco's primary competitor, Move Loot, had seemed to successfully launch nationally via outsourced third-party logistics partners and raised over $20 million to fund explosive growth.[8] AptDeco's early investors were growing impatient. In 2016, after two and a half years in the New York market and over 200% YoY sales growth, AptDeco decided to launch in a new market.

When deciding where to expand, the team looked to what they had learned in New York about buyer and seller behaviors and characteristics. Most notably, early user data indicated demographic differences in buyers and sellers. Buyers tended to be younger men and women, while sellers were older and skewed female, both groups bought and sold items to better their lives as their family and financial status changed. This necessitated an economically diverse, growing, and transient community. In addition to demographics, it was crucial to target a market with similarities in logistics and population density as New York to ensure AptDeco's developing operational model could scale.

For these reasons, AptDeco decided to target the D.C. Metro Area as its first new market. This included Washington, D.C. along with surrounding areas, Arlington and Alexandria. With a population of 6.3 million, a median age of 37.4, and a median household income of $105,659, demographics were in line with the New York City market.[9] Geographic mobility was about 10% higher than the national average, driven by the high density of colleges and universities as well as the international and mobile population involved in the political sphere.[10] Finally, the distance between New York City and the D.C. Metro Area made logistics simpler in the early stages of expansion. By initially making inventory from the already existing New York City market available to D.C. Metro buyers, the team expected to bypass the seller-acquisition challenges typical of new marketplaces. The team worked to replicate the New York City model, from in-house operations and logistics to marketing spend and channels, primarily focusing on WOM referrals and subway advertising (or metro, as it is referred to in D.C.).

The model was almost immediately mired with challenges. For one, the large up-front investment in subway advertising was not showing nearly as significant of an ROI seen in New York, causing CACs to skyrocket. Subway advertising just did not reach the same size audience as New York on a daily basis due to commuter trends and metro usage rates. In addition, without additional listings from D.C. Metro sellers, buyers were limited to purchasing items coming from the New York City area, putting a strain on AptDeco's logistics. At the limited purchasing volume, AptDeco was not able to sustain subsidizing long-distance delivery back and forth between the markets. The small, undercapitalized company found itself burning through cash at an unsustainable rate, forced to shut down D.C. operations within six months. Around the same time, Move Loot shut down completely.

Doubling Down on Tri-State

Fagiri, Dennis and their small team returned to New York with a revitalized focus on how to best service their core market by going back to the basics. After a few months of recouping, restructuring, and getting the business back to financial health, the team looked to understand the key lessons learned from the D.C. market.

"The key learning was to have a diversified set of acquisition channels. Relying on one or two channels in your marketing mix is just not enough." Dennis noted. Without the cash necessary to continue investing in subway advertising, the small company was forced to quickly diversify its marketing channels. Dennis taught himself how to build digital advertising campaigns and hired a marketing manager in order to grow the business sustainably without solely relying on subway advertising. After months of trial and error and a steep learning curve to deepen the small team's capability and analytical rigor as it relates to digital marketing, AptDeco had achieved a significantly healthier marketing mix across WOM, digital, subway, and affiliate marketing. The refocus on delivery and service quality and cost effectiveness led to a significant increase in organic WOM referrals, becoming a key driver of low (blended) CAC and freeing up critical marketing dollars to test and iterate on a variety of digital channels. By 2018, the marketing spend across channels was more diverse, with spending on Facebook/Instagram, Google SEM, and SEO. AptDeco was also able to achieve healthy and sustainable Life-time-value to CAC ratios.

The team also took a closer eye towards simplifying and clarifying the brand voice through streamlined creative content. As a two-sided marketplace, Dennis and his team were tasked with speaking to multiple user types in very different ways. Buyers and sellers not only had different demographics, but very different engagement rates and behavior. While buyers might visit the site multiple times a month to browse on a regular basis, sellers tended to show high activity surrounding a significant life event. However, the advent of digital advertising as a key channel indicated seller- and buyer-specific campaigns, if simplified, were driving conversion regardless of user type. The team focused on speaking clearly and consistently across users. While in the earliest days, creatives tended to skew to sellers, the team took a broader approach as they doubled down on the healthy two-sided marketplace that already existed in Tri-State. "Our goal was always for our creatives to describe the platform in two seconds to any type of user," Dennis noted. For example, comparative advertising that focused on the top selling brands was key to driving clicks and conversion (see **Exhibit 6** for AptDeco's most popular creative content). As Fagiri told Vox, "Not all brands are created equal when it comes to resale. Furniture with the millennial-favorite mid-century design tends to get snatched up quickly…. West Elm is one of the most in-demand furniture brands in resale."[11] Finally, intentional retargeting to promote the conversion of buyers to sellers and vice versa was a critical component of maintaining marketing profitability. Retargeting email campaigns focused primarily on encouraging buyers to relist purchased items at a later date.

The Road Ahead

By the end of 2019, AptDeco had reached solid financial footing after two additional fundraising rounds and continued a trend of measured growth and profitability (see **Exhibit 7**). The team had expanded to 20 core team members organized across Engineering, Operations, Customer Experience, and Acquisition. Operations had grown to include a small warehouse serving as the point of return for its fleet of 13 vans in Brooklyn, New York, and a highly experienced rotation of drivers serving as independent contractors. With highly diversified and efficient marketing channels across WOM, digital, and affiliate, the reliance on subway advertising had been minimized and CACs had remained steadily low and predictable. Fagiri and Dennis, along with their investors, were beginning to revisit expansion opportunities. With an additional four years of testing, iterating, and perfecting the model since the D.C. experience, the pair held a bright outlook towards the future with several options available to pursue.

Super Users

With advice from Y Combinator experts, Fagiri and Dennis long considered tapping into "super users" – high volume professional buyers and sellers who drive significant listings and lower acquisition costs. For example, Airbnb caters to a wide variety of professional hosts, including vacation rental companies, property managers, hotel operators, and more with a suite of professional hosting tools and software. Uber offered an Uber-Taxi option by relying on fleets of taxi drivers. For AptDeco, the furniture market presents multiple potential super user categories, with four primary types:

Vintage Stores and Small Furniture Retailers Furniture retailers face numerous inventory challenges with long lead times, expensive warehousing, and the increasing need to bolster eCommerce in a primarily storefront industry. Many of the traditional sellers did not have the knowhow or the capability to start their own online stores. As online sales continued to increase exponentially, offline sellers suffered both from a reduction in sales, and from an increase in excess inventory that came back to stores through return to store options. AptDeco could provide an alternative solution for retailers to have an online storefront and resell inventory otherwise taking up valuable and costly floor and warehouse space.

Interior Designers The interior design industry in the US, worth over $14 billion, is highly fragmented with over 100,000 businesses owned and operated by 150,000 freelance or independent designers nationwide.[12] Services include full-service interior planning, design, and decorating in either the residential or nonresidential space. Typically employed by high-net-worth clients, interior designers have been scouring antiques and high-end designer outlets for decades to find coveted pieces for their clients, with the best designers gaining notoriety for exclusive relationships with antiques dealers and an eye for a bargain. With the advent of online used furniture marketplaces, interior designers increasingly turned to high-end players like Chairish and 1stDibs. However, in the years following the recession, the industry has been in overall decline, seeing nearly 1.5% annualized decrease in demand in the five years from 2015 to 2019.[13] Facing tighter margins, smaller budgets, and rising expectations of clients, interior designers have increasingly turned to mass market platforms like AptDeco to source lower priced items without sacrificing aesthetics. AptDeco has employed an Interior Design Program since the early days where designers can sign up as trade members and receive a 5% discount on all purchases. However, thorough analysis of this segment's buying patterns nor targeted marketing campaigns and spend had been directed towards interior designers as of yet.

Real Estate Brokers In a transient city like New York, the average 21-38-year-old moves every 1.7 years, up 18% from just ten years ago.[14] The New York City real estate market is notoriously the most expensive and competitive market in the US, and brokers are at the heart of it. Brokers operate within a complex network of rentals, co-ops, condos, cond-ops, and sales, and demand hefty fees, sometimes up to 15%, for their services. Of particular interest is the high-end housing market, where real estate brokers managed lengthy and competitive sales cycles in luxury buildings that require expert home staging and marketing both online and offline. In 2019, nearly 30% of real estate brokers chose to stage apartments prior to listing, spending on average $2,000-$5,000 to rent or buy staging furniture and seeing a projected 5% return on investment based on selling price.[15] With over 50,000 licensed real estate brokers in the five boroughs alone,[16] this pool of super users presented the unique opportunity to serve as both buyers of items for home staging purposes and sellers once staging was completed. In addition, brokers had relationships with largescale property management companies, some with over 1,000 apartment buildings around the five boroughs, that gave AptDeco access to a large potential user base and insight into move-in and move-outs happening in buildings across the market.

Depending on the type of super user, a clear opportunity exists for brand partnerships, increased acquisition spend, or dedicated retention programs. The question was, which group presented the biggest opportunity? And with what offering should AptDeco approach that group?

New Market Expansion

Despite its previous challenges in expanding to new markets, AptDeco had taken key learnings away from the experience and felt confident in exploring national expansion. Most notably, AptDeco's investment in diversified marketing channels, and primarily its growing capabilities in Facebook, Google, and other paid social channels, would put the company in a better position to cost effectively acquire customers in a new market with limited up-front investment.

Expansion plans had been forecasted for key metro markets in the US including the Bay Area, Los Angeles, Chicago, South Florida, Texas, Philadelphia, Boston and D.C. Metro. With several of AptDeco customers crossing from one side of the platform to the other as both buyers and sellers, network effects are expected to magnify the impact of an initial set of top branded inventory. For case discussion purposes, assume that users were roughly equally split between sellers and buyers, and that one quarter of users returned to the website every month to buy or sell items, with 70% close rates. Assume also that AptDeco recently ran a study that found that if users perform both seller and buyer functions their return rates increase to 50%, and that currently about 10% of users are both buyers and sellers. (Note that numbers and data in this paragraph have been disguised).

Not everyone at AptDeco was on board with expanding to new markets. After the unsuccessful launch in D.C., focused operational rigor and efficient marketing spend in AptDeco's core markets were critical to AptDeco's survival. With a population of over 8 million in the five boroughs alone, AptDeco had not come close to saturating its current market. In addition, early data showed significant growth opportunities in the surrounding suburbs. The 150 miles surrounding New York City encompassed population dense suburbs across three states: New York, New Jersey, and Connecticut. AptDeco's Acquisition team used a sophisticated tiering system to track customer behavior trends and movement in order to efficiently allocate marketing spend to the fastest growing zip codes. Should the team double down marketing spend on outer regions to test growth and market saturation levels where AptDeco already operates before exploring entirely new markets?

Rebranding with Sustainability Focus

In the years since launch, the growing consumer consciousness around sustainability has greatly impacted traditional retailers and brands across categories. AptDeco has always been cognizant of its contribution to the circular economy. The furniture industry is traditionally linear and highly pollutive, consistently ranking as the least-recycled item in a household. Over 80% of furniture is eventually landfilled from either individual homes or retailers.[17] Even traditional retailers that invested in reverse logistics[a] infrastructure ended up with the majority of excess inventory damaged, lost, discarded, or liquidated.[18] AptDeco regularly tracks the platforms' contribution to offsetting carbon emissions as well as equating purchases on AptDeco to trees planted and cars removed (they were able to divert over 14 million pounds of furniture from landfills) but has deliberately chosen to focus its brand primarily on convenience and value after early marketing tests that focused on sustainability did not attract customers.

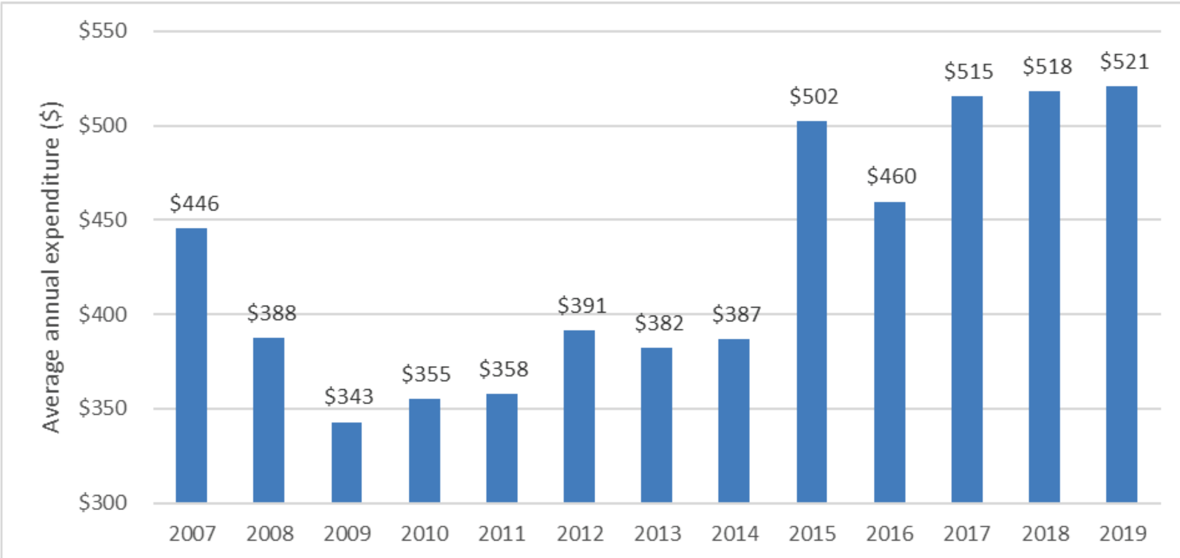
[a] Reverse logistics is a costly process requiring delivery partners to return items to the nearest warehouse and warehouse staff to sort based on condition for reselling, donations, or landfills.

However, recent trends in AptDeco's customer segments and user feedback point to the opportunity to make sustainability a stronger component of AptDeco's brand. In 2019, Gen Z and Millennials constituted over 60% of AptDeco's user base, with women over 70%. These customer segments have demonstrated comfort with, and even a preference for, shopping secondhand and are more likely to prioritize spend on sustainable brands. In 2019, 62 million women purchased secondhand products, up from 56 million in 2018.[19] In addition, nearly 2.5x more consumers plan to spend more on products from sustainable brands in 2019 versus 2018.[20] Had AptDeco overlooked a core component of its brand for its inherently younger and more sustainability-conscious user base?

Sustainable Growth

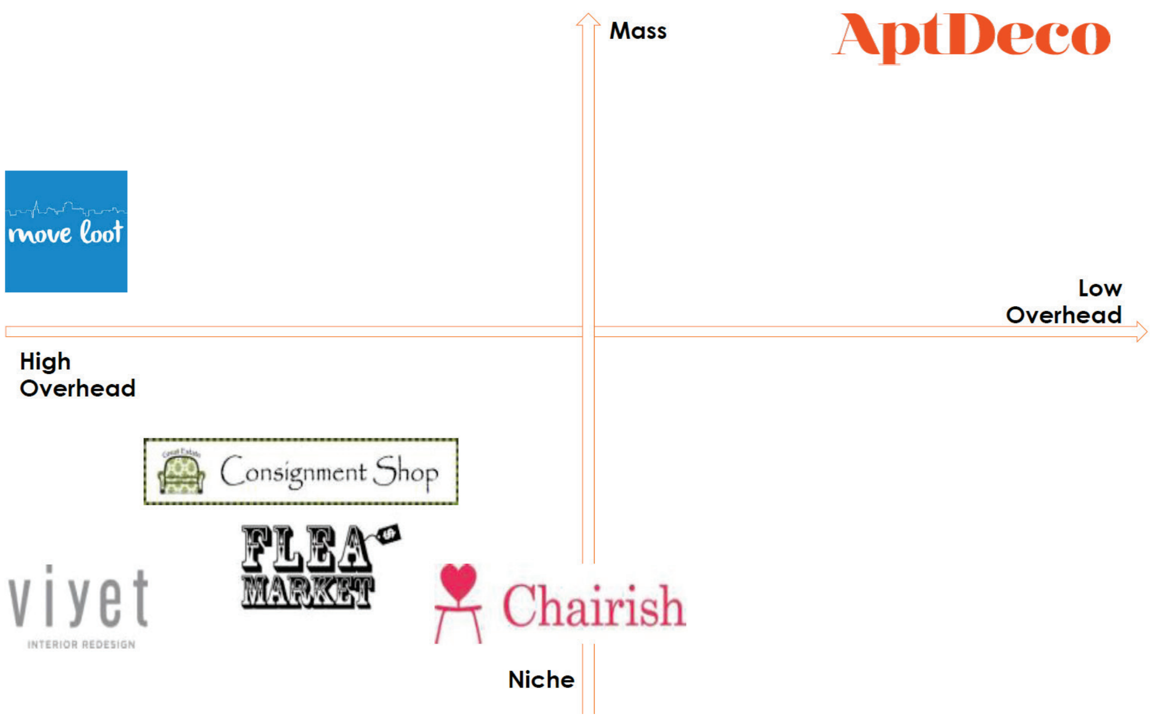
Fagiri and Dennis were excited about the options in front of them, and felt ready to handle the challenges ahead. Dennis commented: "I feel lucky because we are more experienced than many other founders who've never had to manage people or have uncomfortable conversations." Fagiri emphasized the importance of focus: "Before considering other product categories, we want to get this right and achieve sustainable scale in furniture. We learned a lot about this industry and consumer behavior since I tried to sell my TV on craigslist, and we are excited about AptDeco's future and proud of what we have created."

Exhibit 1 Average Annual Expenditure on Furniture per Consumer in the United States, 2007-2019



Source: Created by casewriters using data from Bureau of Labor Statistics, 2019, https://www.bls.gov/, accessed February 2021.

Exhibit 2 Used Furniture Marketplace Competitive Landscape



Source: Company documents.

Exhibit 3 Common Secondhand Marketplace Models

Model	Details	Overhead	Commission	Examples
Classifieds	Online message and listing boards that allow users to list and seek a variety of goods and services. There are typically zero to very low transaction fees. The platform provides little to no added services and takes on zero risk or expenses other than managing the platform itself. Listings may be moderated or approved but not merchandised or curated.	Low	Low	Craigslist, OfferUp, Facebook Marketplace
Consignment / Resale	Through consignment and resale models, platform operators take ownership of inventory from sellers either up front or at the point of sale, requiring storage and sometimes providing authentication and cleaning services. While sellers have a seamless experience, commission rates are often high given the services included and/or markup required when reselling.	High	High	Move Loot, Furnishly, Kaiyo
Peer-to-Peer (P2P) - Managed	Managed marketplaces provide the highest level of service to users while not absorbing risk or touching inventory until an item sells, if at all. The platform operator intermediates and facilitates transactions, providing value-added services that might include payments protection, customer service, and product features. Users trust a central brand and experience a curated and merchandised shopping experience.	Low	High	1stdibs Chairish AptDeco

Source: Casewriters, based on company documents.

Exhibit 4 Historical delivery fee structures

Year	Fee Structure	Flat Fee		
2014	Flat	$65		
2015	Flat	$74		
2016	Flat	$77		
		Small	**Medium**	**Large**
2017	Variable by size	$35	$85	$135
2018	Variable by size	$39	$99	$149
2019 – 2020	Variable by size	$49	$84	$139

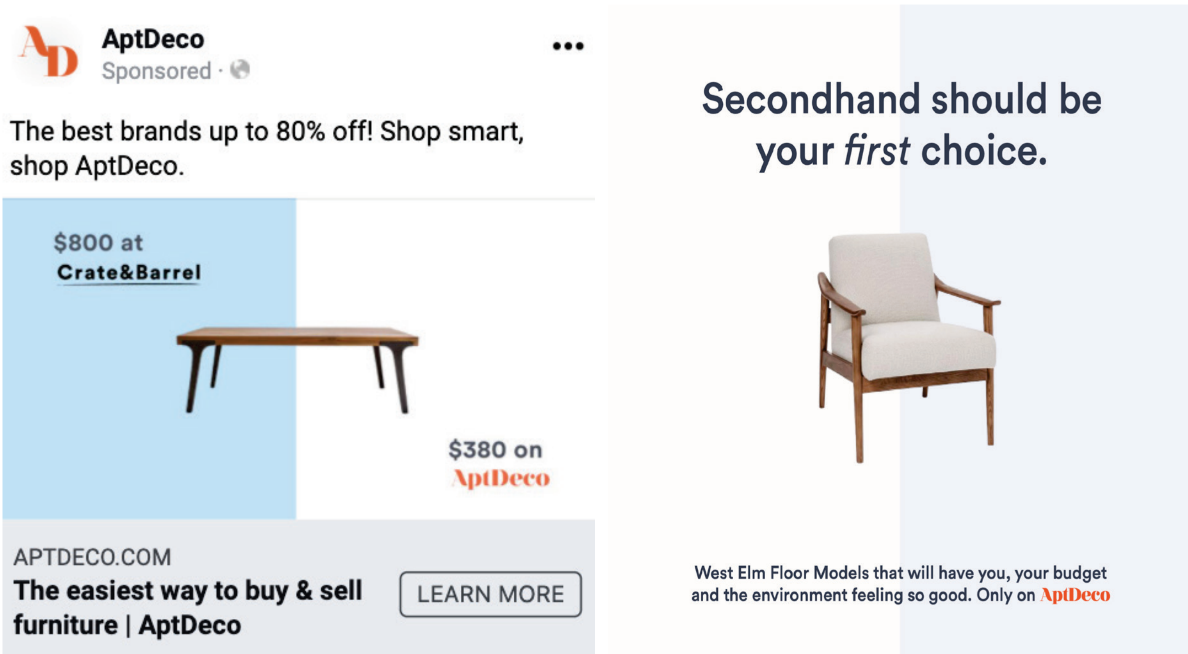
Source: Casewriters, based on company documents

Notes: Data in this exhibit has been disguised for case discussion purposes.

Exhibit 5 AptDeco Van Wrapping and Subway Advertisements

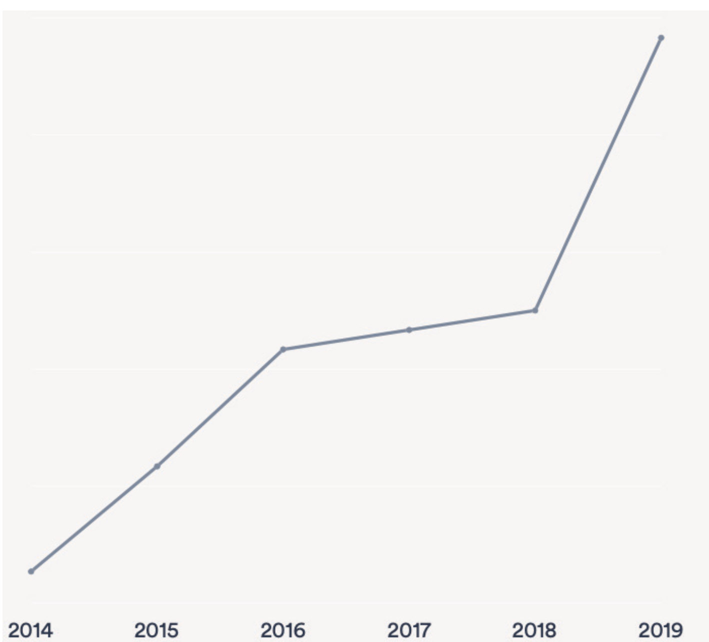
Source: Company documents.

Exhibit 6 AptDeco Sample Creative Content, 2019



Source: Company documents.

Exhibit 7 AptDeco Net Revenue Growth, 2014-2019



Source: Company documents.

Note: Y axis was intentionally disguised. The chart represents growth rates.

Endnotes

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