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LBS Ref: CS-18-017
HBP: LBS150
July 2018

Dollar Shave Club: Disrupting the shaving industry

*"Our Blades Are F**king Great"*—Michael Dubin, CEO

DOLLAR SHAVE CLUB

Introduction

In early July 2016 Charles Pierce, Group President for Global Grooming at Procter & Gamble (P&G), pondered the rise of Dollar Shave Club (DSC), a fast-growing upstart that had been challenging the dominant Gillette brand which P&G had acquired in 2007. Launched in 2012, and using a direct-to-consumer online subscription model, DSC had successfully disrupted the multi-billion-dollar US shaving industry, stealing market share and spawning copycat entrants.

Shaving and hair-removal products represented a US$4.13 billion market in the US in 2016, with razors and cartridges accounting for a combined US$2.95 billion in annual sales (US$13 billion globally). Although still by far the dominant player in the US market (Edgewell's #2 Schick brand stood at 15% in 2016) and employing some 30,000 people in North America alone, Gillette had lost market share for six straight years. According to Euromonitor, its share of the US men's razor business fell to 54% in 2016, down from 59% in 2015 and from more than 70% in 2010. In presentations to analysts, P&G executives had blamed several factors for the decline: a sluggish US economy, increasingly value-oriented consumers, the rise of low-cost competitors, and even beard-loving hipsters. Nevertheless, with prices being held steady, Gillette was still one of P&G's most profitable businesses, boasting operating margins estimated at around 30%.

Yet, like David challenging Goliath, DSC was on track to surpass 3.5 million members and generate more than US$200 million dollars in revenues by end of 2016 – employing only 190 people. All the

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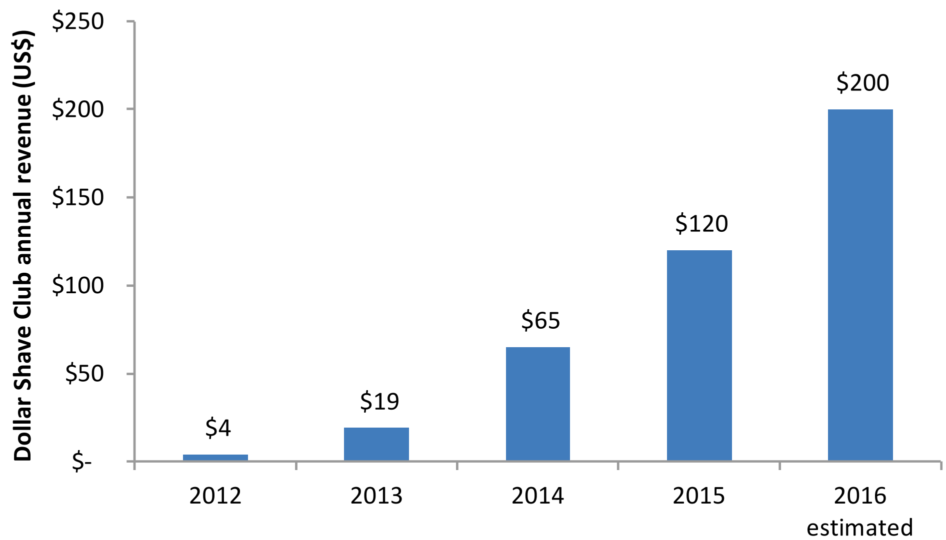
company's products were sourced from contract manufacturers and warehousing and shipping was also being handled by a third-party provider. The company was not yet profitable, but with a fast-growing membership base, obvious opportunities for cross-selling, and the possibility of expanding into the female shaving market, industry analysts were bullish about its long-term prospects.

DSC's Growth



History of the razor

For thousands of years men have been battling facial hair, which grows at a rate of between 125mm and 150mm (5 to 6 inches) per annum. At least as early as 30,000BC, humans scraped facial and body hair away with sharpened materials such as stone, flint and clamshells. Men in ancient Egypt had shaved their beards and heads, a custom adopted by the Greeks and Romans around 330BC during the reign of Alexander the Great. As shaving spread throughout Europe, men of unshaven societies became known as 'barbarians', literally meaning the 'un-barbered'. People later experimented with bronze, copper and iron blades, and for centuries knife-like razors needed to be sharpened with the aid of a honing stone or leather strap. Such weapons required considerable skill by the user to avoid nicks and cuts and users often preferred the assistance of a barber.[1]

[1] American women did not shave their underarms before about 1915, when the sleeveless dress became popular and the fashion magazine *Harper's Bazaar* decreed that to wear it, women would need to first see to "the removal of objectionable hair." It only became popular for American women to shave their legs in the 1940s when hemlines rose, bringing shorter skirts and legs covered in sheerer stockings. Today, Gillette's Venus sub-brand, launched in 2001, is the world's leading female shaving brand.

In 1895 the American inventor King Camp Gillette revolutionised shaving with the safety razor. Affordable replacement blades eliminated the need to sharpen the blade, while promising consumers a relatively bloodless shave. It came with a handle into which a flat, rectangular, double-edged, interchangeable blade was inserted. The invention was patented in 1904 and sales exploded. But the safety razor was not just a revolution in terms of convenience and ease of use; it also introduced an important economic change: now the user had to buy replacement blades. This presented a pricing challenge in terms of how to price the razor and replacement blades. Originally, the razor had been priced at US$5, roughly a third of an average weekly wage. However, Gillette realised an approach of using the razor as a loss-leader and the blades as the profit-driver when its patent expired in 1921. It introduced its first razor giveaway (with Wrigley's gum) in 1922 and popularised this profit model with the now famous statement "Give 'em the razor; sell 'em the blades" – one that is now the norm in the world of two-stage products, such as the iPod and iTunes, or Nespresso's single-serve coffee system. The key, of course, is to lock the blades to the razor in order to create barriers to entry and to prevent competitors from free-riding on your platform.

Evolution of Gillette razors

Source: https://gillette.com/en-us/shaving-tips/how-to-shave/safety-razor

Over the years, numerous competitors entered the market. And by providing cheap (or free) proprietary razors themselves, drastically lowered switching costs. But instead of leading to a fall in prices, steady price rises were justified by constant incremental innovation. In the mid-1960s the production of blades in the form of very thin steel "ribbons" became possible and, in 1971, these very thin blades were used by Gillette to develop a new concept: a plastic cartridge incorporating two very fine blades that locked into a handle: the Gillette Trac II. This was a significant development as, unlike the previous flat, rectangular blades that could be interchanged across different brands of handles, the new Gillette razor heads were proprietary and could only be used with Gillette handles. Competition did not stand still, either. In 1962 Schick (Wilkinson Sword in Europe) introduced rust-free stainless steel blades. In 1974 French company BiC invented the world's first fully disposable razor. And Gillette introduced the lubricating strip in 1985 and the spring-loaded Sensor in 1990.

Innovation took a new turn when, almost three decades after the Trac II, the blade wars began in earnest. After Gillette introduced the three-blade Mach3 in 1998, Schick fought back with the four-blade Quattro in 2003. In 2006 the first five-blade razor, Gillette Fusion, arrived armed with 75 design patent filings. It also included a blade on the back for easy access to trickier tasks such as shaving under the nose and creating neat sideburns. Schick launched its own five-blade razor, the Hydro 5 Power Select, in 2012. DSC introduced its own 6-blade versions in 2016, thereby leapfrogging the industry leaders with a value proposition increasingly mocked as gimmicky by industry observers and consumers alike.

With around US$750m in research and development costs for the Mach3 – launched by a US$300m marketing campaign with adverts that showed a fighter jet breaking through the sound barrier – Gillette fiercely protected its franchise with over 50 patents and legal action to keep competitors and new entrants at bay. Unsurprisingly, DSC was sued by P&G in 2015 over patent infringement around the coating of its blades. Unafraid of publicity, DSC filed a counterclaim stating: "We are not intimidated by Gillette's attempts to thwart competition with litigation."

According to some critics of the razor industry, it was not clear whether all this innovation increased the experience of shaving for consumers. For example, in 2005 a US court found – in response to an injunction filed by its #2 rival – that the product demonstrations in some of Gillette's advertising were "greatly exaggerated" and "literally false." The court agreed that Gillette's claim – an advantage of 0.0143mm in stubble reduction – was technically correct but deemed that the claim of a better shave was "neither visible" nor "noticeable to the consumer." The court levied a fine and forced Gillette to cease making false advertising claims and ordered it to change packaging.

Shaving companies have not only tried to attract consumers using performance claims, but also through non-tangible dimensions, such as Gillette's "The Best a Man Can Get" slogan that was launched in 1989. The humble blade not only promised to perform the best, but also to bring out the best in its user. Above-the-line spend on television, print media and billboards was and remains heavy across the industry. Gillette's annual global advertising budget was reported to be around US$750 million in 2016 (out of a P&G's total advertising budget of some US$8.3 billion). None of this was spent on communicating the functional longevity of replacement blades, a tactic that industry experts believed was used to encourage consumers to replace their blades more frequently than necessary. Independent testing suggested a functional longevity with daily use of up to four weeks for Gillette's top-of-the-range Fusion replacement cartridge, five weeks for the Mach3, and three weeks for the entry-level, two-blade Sensor.

And all this push marketing paid off. Industry experts estimated that a refill pack of four top-of-the-line Gillette Fusion cartridges cost around US$0.40 to manufacture, plus US$0.10 for packaging. Retailers typically retailed Fusion four-pack refills for somewhere between US$19.95 (discount hypermarkets) and US$24.95 (airport shops), a mark-up of up to 4,700%. Gillette took the lion's share of around 65%, with approximately 20% going to the retailer and the remainder (depending on country) to government in sales tax.

The main distribution channels for razors had traditionally been retail outlets, such as department stores, general stores, supermarkets and drugstores. More recently, online retailers such as Amazon had also entered the fray. Due to the increasingly high cost of razors, there was a growing 'grey market' for blades on e-commerce sites such as eBay. Theft also had become an increasingly significant issue. Disposable razor blades fit into a group of products security experts refer to as 'craved': concealable, removable, available, valued, enjoyed and disposable. As a result, bricks-and-mortar retailers tend to lock them away in glass cabinets or place them behind sales counters. This was much to the irritation of genuine customers. In many situations, such as in large supermarkets, the consumer had to seek out an employee to unlock the razor display cabinet in order to make a purchase.

About Dollar Shave Club

DSC was founded by Michael Dubin and Mark Levine after they met at a party in January 2011. There they had vented their frustrations about buying razor blades, which they considered to be over-expensive, over-engineered and over-marketed products that were increasingly tedious to buy at physical retailers. They decided to embark on an entrepreneurial venture to disrupt industry norms, with Dubin investing his life's savings of about US$35,000 to help get the business off the ground. He described the company's purpose as follows:

> *What we're doing is helping guys find the products they want in a really easy way, in an affordable way, and hold their hand as they make these grooming decisions… What we are doing for razors is what Starbucks did for coffee. Starbucks made coffee special for you. They turned it from something you had daily, to something that deserves a lifestyle around it. Now it's impossible to think of getting coffee another way … [Starbucks] built a culture around it. They built a shared language around it and created space for it. They created a church for this brand.*

DSC used a subscription-based business model targeted primarily at male consumers, described by Dubin as "just regular American guys who don't like getting ripped off and who value their time." The median age of DSC's subscribers was 36, with a household income above US$75,000. Approximately

20% of its members were women, who primarily ordered products on behalf of their sons, boyfriends or husbands, although some female subscribers also ordered for their own use.

The company was initially operated out of Dubin's apartment, before attracting investments from start-up incubator Science Inc. and moving to a business park in Marina Del Rey, California. Subsequent venture funding rounds took place in 2012, 2014 and 2015, raising a total of almost US$165 million in capital funding.

Dollar Shave Club Product Packaging

Source: *https://www.hooperswar.com/dollar-shave-club-advertising.html*

1. **DSC products**

As of mid-2016, DSC's products were grouped into easy-to-understand product lines, with the company offering three types of razors, with two, four and six blades, respectively. While their razors are unisex, they have not targeted women with a differentiated razor or in their communications.

- **The Humble Twin**: 2 stainless steel blades, 5 cartridges per month, lubricating strip;
- **The 4X**: 4 stainless steel blades, 4 cartridges per month, full 90-degree pivot head;
- **The Executive**: 6 stainless steel blades, 4 cartridges per month, special trimmer edge.

The design and manufacture of DSC's razors was left to the company's supplier, Dorco. Founded in South Korea in 1995, Dorco had fought several patent battles with Gillette over the years and grown to become Asia's market leader for shaving razors and blades. It had emerged as a major outsource manufacturer for the own-brand products of US and European hypermarket and supermarket chains such as Walmart, Aldi and Lidl, as well as other razor brands. The company had also set up its own direct-to-consumer business in the US in 2015. Industry experts estimated Dorco's production costs to be somewhat higher than Gillette due to economies of scale – perhaps US$0.55 to manufacture four of its most sophisticated razor heads, plus US$0.15 for packaging.

Dorco provided DSC with own-branded products that were not compatible with other Dorco products sold by competing brands. DSC also gradually introduced other men's grooming products, divided into Shave (shave creams, butter, oils and lathers), Clean (shampoos, conditioners, cleansers and soap), Style (hair creams and gels), Protect (lip balm, moisturisers and sunscreen), Fresh (for example, "One Wipe Charlies" described as "butt wipes for men" and the subject of Dubin's second video), and Traveler (travel-sized DSC products). The company offered some of these as bundles with discounts of up to 30%. As with its razors and blades, the personal care items on offer were all provided by outsource manufacturers. Each element of product and packaging design aimed to demonstrate the quality and simplicity of the brand and its products.

2. Revenue model

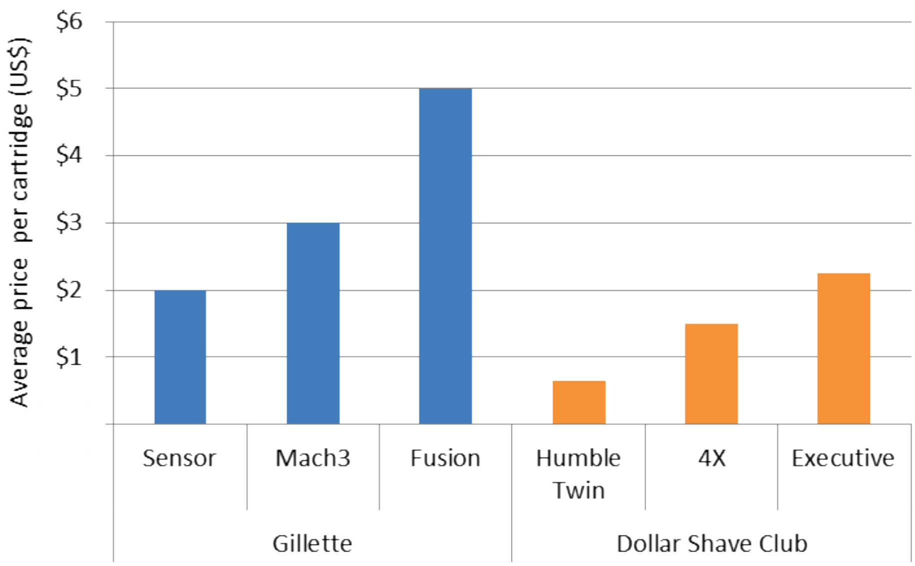
DSC's founding tag line was "Shave Time. Shave Money" and its first online commercial urged customers to "Stop paying for shave-tech you don't need!" Unlike most of its established rivals, the company's offers were structured as a monthly subscription. Subscription fees were automatically debited at the agreed frequency and the sales contract between DSC and customer did not have to be regularly renewed. The customer could change the characteristics of the subscription or cancel whenever desired. The company website provided a Help Center section with customer service issues gathered in easy to navigate sections.

Dollar Shave Club Subscription Offers

Source: https://www.hooperswar.com/dollar-shave-club-advertising.html

During its initial launch phase DSC offered all new customers a first month using the Humble Twin at just US$1 with free shipping costs and without any commitment. After a trial period, the company charged US$2 per month for shipping and handling on top of the US$1 5-cartridge price. The company's other subscription offers, the 4X at US$6 per month for 4 cartridges and the Executive at US$9 per month for 3 cartridges, included shipping and handling costs. In mid-2016 the company began to promote a 'starter' bundle, including an Executive razor and handle, four replacement cartridges and a six-ounce tube of shave butter for US$5. DSC's blades cost 30% to 60% less per individual replacement cartridge (including shipping costs) than those sold by Gillette at retailers such as Walmart or CVS (including value-added tax).

Price Comparison (estimate based on key channels)



According to Dubin, most members chose the US$6 per month 4X option. For less frequent shavers, DSC also offered an 'Every Other Month' shipping option. The company recommended on its website:

> *Everyone's shaving needs are different. We believe in a Fresh Blade Shave, so we recommend changing your blade weekly. By the time you're on your last blade, your next set should be on its way to you.*

Once the customer placed their first order, they could adjust shipping frequency at any time via the company's membership settings on the DSC website. DSC only billed customers for the months that they received shipments. Customers could also skip an upcoming shipment simply by clicking the 'Skip' button near the top of their account page. If a customer was dissatisfied with one of the products, DSC refunded the amount paid for the most recent month of service.

3. Distribution

DSC has a direct-to-consumer, subscription-based, e-commerce model. Though not the first personal care subscription service – Birchbox launched one for beauty products in 2010 – DSC's success had spawned an industry of similar services, whose growth was fuelled by the shift to shopping on mobile devices. A new-comparison online site industry even sprang up, replete with reviews to guide consumers and special offers (e.g., mysubscriptionaddiction.com).

DSC did not sell its products through traditional wholesale or retail distribution networks such as drugstores, supermarkets or hypermarkets. The only way for the consumer to acquire DSC product was to go to the official website and create a membership account with 'the Club'. The consumer could then choose their desired products and services (type of blade, frequency of shipping, additional grooming products). The products were sent monthly by mail and customers could track their orders at any moment on the company website. Orders were initially packaged by hand in a warehouse in Gardena, California, before the company moved its warehouse and fulfilment to a third-party logistics centre in Kentucky.

4. Promotion

Dubin had a background in improv comedy and starred in many of the DSC's promotional videos. The company aimed to position itself as the most progressive and entertaining shaving brand on the market, with virtually no traditional above-the-line marketing via channels such as television, radio or print.

DSC's first YouTube video of March 2012 was viewed more than 22 million times by mid-2016. In it, Dubin described the company's razors as "f**king great" and claimed that customers were paying high prices for competitors' razors to fund celebrity endorsements and buy shaving technology they didn't need. He scoffed:

> *Do you like spending US$20 a month on brand-name razors? Nineteen go to Roger Federer. Do you think your razor needs a vibrating handle, a flashlight, a back scratcher and 10 blades? Your handsome-ass grandfather had one blade… and polio. So stop forgetting to buy your blades every month and start deciding where you are going to stack all those dollar bills I'm saving you.*

The website crashed after two hours and DSC's inventory of razors sold out in six.

Within the first two days of the video's launch, some 12,000 people had subscribed as DSC customers. The video won 'Best Out-of-Nowhere Video Campaign' at the 2012 AdAge Viral Video Awards. In the words of Dubin:

> *I have always believed in the power of videos to tell stories … I'm not going to call ourselves a content company … But there's a commitment here to telling strong stories in creative ways and giving our audience and our customers fun stuff to play with. That's part of the fun of being an internet brand.*

DSC continued to use short videos as a major part of its marketing and promotion strategy, with more than 60 videos on its YouTube channel by mid-2016 and a total of more than 38 million views. The company's Facebook page had collected over 3 million likes at the same time. In comparison, Gillette had just over 2 million likes on Facebook and Schick's Hydro page had a mere 370,000.

Dollar Shave Club YouTube Advertisement – March 2012

Source: https://www.hooperswar.com/dollar-shave-club-advertising.html

5. Customer engagement

DSC bases its approach on a direct-to-consumer customer relationship model, with the aim to create a customer experience where the consumer has a sense of belonging to 'the Club'. At the end of its first year, the company offered a certificate and a lapel pin to its first customers for being original members of the DSC club. It also placed an emphasis on customer reviews displayed prominently across its website and offered discounts to existing customers to sponsor new members.

Relations between the company and its customers are simple and informal, with DSC claiming to speak to its customers "like a friend or a local barber", giving advice and without pretence, and different to competitors such as Gillette, whom DSC considered to be distant, serious and dull. The tone of DSC's marketing was casual, the vocabulary familiar and serving a clear purpose: DSC is there to help guys take care of their minds and bodies so they can be the best version of themselves ... without unnecessary expenditure. However, consumers weren't treated like people seeking to save their money at all costs, but as people belonging to a community of stylish members eager to choose the most appropriate and intelligent solution. The personal tone and language of live-chat interactions reflected this desire.

DSC devoted significant resources to its in-house creative team to engage customers. For example, it was on track to spend around US$8 million on internet display advertising in 2016, mostly allocated to Outbrain and Taboola, who use behavioural targeting to present sponsored website links to recommend articles, slideshows, blog posts, photos and videos. Similar materials were included on their website and in *The Bathroom Minutes – Time Well Spent*, a monthly magazine included in each product delivery since 2014. Relevant content ranged from grooming topics such as 'manscaping' and how to properly clean your ears without puncturing the eardrum to life concerns, such as apologising better or braiding one's daughter's hair. The company regularly included small gifts in its members' orders, such as samples, membership cards or other small items. All these elements aimed to be surprising and humorous. And customers seemed genuinely pleased, with DSC claiming customer ratings averaging 4.7 out of 5 and a 97% willingness-to-recommend rate on its US website.

What now for P&G?

Pierce and his executive team at P&G had to consider the options open in responding to the growing threat posed by DSC and how quickly to act. Adding a seventh blade was probably not the way to respond to DSC's disruptive business model; one that was threatening to upend a market Gillette had dominated for more than a century. Not only was DSC continuing its rapid growth in the US, it had also commenced operations in Australia, Canada and the UK. And, in a particularly alarming development, it was rumoured that DSC was in talks with P&G's arch rival Unilever about an acquisition – with a possible valuation as high as US$1 billion. Unilever had no existing shaving business and lacked direct-to-consumer e-commerce experience. But with power brands such as Axe (Lynx in the UK, Ireland, Australia, and New Zealand), Brut, Dove, Lux, Q-Tips, Rexona, Suave, Tony&Guy and Vaseline in the personal care sector, it had a formidable market presence and the war chest to make further inroads, both in male and female markets across the world.

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