

Case Study: Rent the Runway

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

Cohort 2 - Team 4

- ❖ Nipun Manghi
- ❖ Shreya Vajpayee
- ❖ Prakruthi Mavinakatti
- ❖ Vikas Mahendar Karamallayan
- ❖ Rodrigo Feix
- ❖ Yujing Lin

OVERVIEW


CHALLENGE

SOLUTION

RESULT

Qualitative Analysis

Rent the Runway Action Timeline



Market Survey	Collaboration with Designers	Market Trials	Website Development and Launch	Marketing	Building the Team
Competitive Advantage <ul style="list-style-type: none"> → Reserve clothes 6 months in advance → Buy latest and designer dresses at wholesale prices → Sortable by Occasion → Providing same dress in secondary size for free 	RTR's Elevator Pitch <ul style="list-style-type: none"> → Return rates at departmental stores are over 50% → A segment of young women go for moderately priced dresses. → RTR's vision to offer aspirational experiences by exposing them to designer brands. 	Pilot Testing @ Harvard & Yale <ul style="list-style-type: none"> → Invited 140 women to gauge customer demand for rental dresses. 125 attended. → Targeted at Young Women (15-30 yrs.) → Beta program resulted in an Invitation-Only website with 30k Unique users. → RTR got clarity to proceed to start a website to rent dresses. 	Online Convenient Renting <ul style="list-style-type: none"> → In-House Warehouse and Website Operations → Website where users could view and rent clothes with ease → Analysing User's Online footprint to make strategic decisions → Controlled Growth & Useful Insights 	Never leave a member with nothing to wear! <ul style="list-style-type: none"> → Acquisition through promotions using Word-of-Mouth (40%) & Publicity (60%) → Customer insights team that understand and attend customer needs. → Active Facebook fan pages → 12.5% Return Customers 	Versatile & Multi-Talented <ul style="list-style-type: none"> → Experienced Co-Founders are CFO & CMO → Appointed Director of Technology to oversee Tech-Ops.

Quantitative Analysis

Period	1 (Nov-9th to Jan-15th)	2 (Jan-16th to April 1st)
Duration	70 days	73 days
Orders	2000	$73 \times 18 = 1,314$
Inventory	800	$800 + 200 = 1,000$
COGS [\$] -(1)	$800 \times 226 = 180,800$	$1000 \times 226 = 226,000$
Gross revenue -(2)	$2000 \times 59 = 118,000$	$(2000 + 1314) \times 59 = 195,526$
Funds to Recover - (1) - (2)	62,800	30,474
Orders/Breakeven [\$]	$62800/59 = 1,064$	$30474/59 = 516$
Average rentals/day	$2000/70 = 28.6$	18 (Estimated off-season)
Days to break even	37 days (March)	29 days

Assumptions:

- Cost of purchasing inventory are the only fixed costs
- Average rents/day variations are due events season
- Avg. rents/day is proportional to inventory size

Solutions Considered:

- ❖ Focus on Operational improvements in 2010 followed by fundraising in 2011:
 - The gross revenue after *Period 2* drops below \$195,000 in the off season as the inventory remains the same.
 - The company would reach break-even in 29 days but would not be able to make significant growth thereafter.
 - The cost for operational optimization would be high and they won't be able to recover it without significant growth.
- ❖ Accelerate fundraising in order to expand inventory and product range:
 - The choice for a user increases as the inventory grows, thus leading to a proportionate increase in the average number of orders/day (~143)
 - RTR can potentially break-even in ~138 days (Aug'11) and recover its investment of \$1.1 million on expanding inventory.
 - Increasing inventory can greatly improve customer satisfaction while increasing competitive advantage and reducing customer turnover.

Comparison of Alternatives

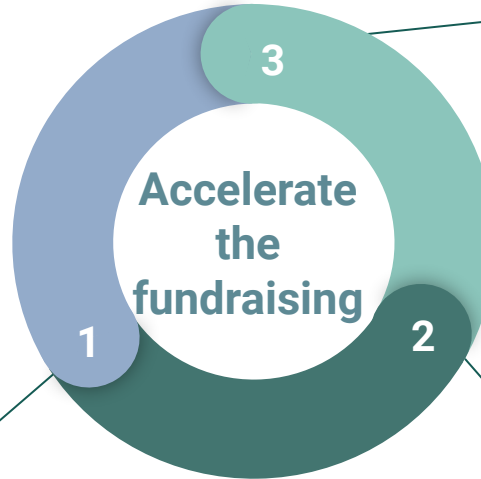
If RTR accelerates fundraising and focuses on expanding their inventory and product range, they can have more than a 5x raise in the number of orders per day. The opportunity cost of expanding the inventory is 4 months. However, even during the off-peak season, RTR can expect an increased demand and enhance trust amongst its consumers since the waitlist will be potentially eliminated. Further, adding new product-lines can potentially attract new customer demographics and enhance reach. Such consistent growth will result in a huge payout for the company.

Strategy	Focus on Operations	Accelerate Fundraising
Inventory	1,000	5,000
COGS [\$] -(1)	$1000 \times 226 = 226,000$	$5000 \times 226 = 1,130,000$
Average rentals/day	~18	~143
Revenue/day	$18 \times 59 = 1,062$	$143 \times 59 = 8,437$

Recommendations

Summary:

On conducting qualitative & quantitative analysis, we propose that RTR should accelerate its fundraising process as they could potentially generate a large turnover. RTR needs to take advantage of the “blue ocean”. Also, this business is ruled by innovation and trends (continuously updated). Increased profitability in long-term diluted owner's equity. Our recommendation for RTR is divided into 3 steps as follows:



Expanding inventory

- Waitlist is reduced during the peak season and improves garment-accessibility when the customers need it.
- Better “Choosing Experience” leading to rent dresses designed for different occasions.
- Widening customer demographics.
- Increase customer satisfaction by providing a wider range of products

Operations improvements

- Improve operations by investing on automations and hiring logistics experts
- Foster strong relationships with designer
- Enhance customer service to assist with returns
- Develop an addressing system to facilitate UPS withdrawals

Website improvements

- Follow a data-driven approach to increase conversion rates from website visitors to renters
- Develop an Engaging Website that lures users into renting a dress
- Hire CTO and expand qualified Engineering staff
- Optimize Inventory by analyzing rental patterns and reservation data