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Thread: Discussion Wrap-up-Rent the Runway

Post: Discussion Wrap-up-Rent the Runway

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Situation/Context

Two months after a successful launch, the cofounders of the company are debating whether to grow their startup at a measured pace and focus on improving operational effectiveness, or raise a new round of venture capital sooner than originally planned. Raising more venture capital would allow the company to aggressively expand its inventory and customer acquisition efforts, in order to serve a broader range of customer segments with a wider selection of products.

Question #1: The founders did a number of things. Some worked and some didn't. The key is that they traveled down the learning curve in a short period of time. This enables the investor to understand some of the risks that may have been mitigated prior to funding.

Actions that help in the fund-raising process:

The personal interview with the designer, Furstenberg, encouraged them and provided initial validation. This caused them to pivot away from their turn-key solution as a result of Furstenberg's influence. This is where they decided to build their own rental business.

Twenty additional customer discovery interviews with designers.

Board of advisors.

Campus trunk shows. Good use of the MVP concept. Validation of the basic concept of renting with trial participants in their target demo. The video-taped trunk shows demonstrated the participants' excitement which they showed to the potential investors.

Hiring of Guillemette, Crystal and Hartmann-industry insiders with industry experience, crucial relationships and know-how. They were the "jack-of-all trades" types.

Beta trial.

Prelaunch publicity.

Customer insights team-able to explain the new service that requires some behavioral change and address customers' concerns about fit. Also did a lot of troubleshooting in the wake of a chaotic launch helping soothe the customers' frayed nerves. Provided excellent feedback on feature needs into the product development process

Actions less well managed that might concern funding types:

Ability to assemble operational capability (especially IT) to support rapid prototyping and iterative testing.

Launching with a publicity blast, rather than managing customer growth at a pace that more readily allowed experiments and adaptation.

What about customer acquisition cost (CAC)?

It is too early to tell if the team can scale the business profitability and therefore it seems premature to conclude that the business has achieved product-market fit.

Question #2:

The founders are worried about copycats, but there is no immediate competitive threat pushing them to capture this turf. The company does not harness meaningful network effects, customer switching costs do not seem big, nor are there large fixed, upfront overhead costs.

Adding new product categories will require the company to significantly expand activities:

- Signing up new dress designers
- Testing marketing messages and website design
- Training for the stylists
- Adding new vendors
- Backend systems will need to be modified
- Reconfiguration of the warehouse

Fund-raising could be a big distraction given the limited management talent in the company.

Question #3:

Founder distraction at a crucial juncture.

Dilution at a low valuation, aborting VC fund-raising after substantial time in the capital markets only to receive low valuation offers.

Too high of a valuation resulting in a next round rachet creating dilution for the founders.

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