CASE 3.1

"Something Borrowed"—How Feasibility Analysis Shaped Rent the Runway into the Business It Is Today

• *Web: www.renttherunway.com* • *Facebook: RentTheRunway* • *Twitter: @RenttheRunway*

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Introduction

In 2007, Jennifer Hyman and Jennifer Fleiss met at Harvard Business School. They were in the same cohort and quickly became friends. Both were interested in entrepreneurship and frequently met for lunch to talk about business ideas. Prior to coming to Harvard, Hyman had worked for Starwood Hotels where she was given the chance to start a business inside the company. She started a wedding business and launched the first bridal registry for honeymoons. She figured since people were waiting longer to get married, they no longer needed china and pots and pans as wedding gifts. So why not let the wedding guests help contribute to the honeymoon trip? Fleiss was an internal strategy consultant at Morgan Stanley and Lehman Brothers and also founded an essay editing service for college applicants.

The idea for Rent the Runway originated in November 2008, during Hyman and Fleiss' second year at Harvard. On a trip home to New York City, Hyman visited her sister, Becky. Becky, who made about $60,000 per year as a buyer for Bloomingdales, had just bought a $2,000 Marchesa red gown to wear to a wedding. Hyman was looking in Becky's closet which was full of designer clothes. She started teasing her sister asking why she didn't just wear something she already owned. Becky's response was that those dresses were dead to her. She'd worn them, been photographed in them, and the photos were up on Facebook. She felt she needed something new for the wedding. Hyman thought what if women like Becky could just rent clothes for special occasions rather than buying them? Hyman later learned that the average woman has 28 occasions per year where she dresses in something special. The occasions include weddings, New Year's Eve parties, dates, sorority parties, job interviews, class reunions, graduations, and so forth.

On arriving back in Boston after her weekend trip, Hyman had lunch with Fleiss and told her about her idea. Fleiss said she thought the idea sounded fun, and the two started brainstorming about who to talk to about it. To find out if the idea had legs, they felt they needed to validate both the supplier side (the provider of designer dresses) and the consumer side (the women who would rent the dresses).

Feasibility Analysis

The Designers. They decided to start on the supplier side, the designers of women's designer clothing. One such designer suggested they talk to Diane von Furstenberg, a well-known fashion designer. Hyman sent her an e-mail stating that she was a student at Harvard,

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had a business idea, and would like to get her feedback. Hyman got a response—in 28 point hot pink bubble font—agreeing to meet the next day. Hyman and Fleiss drove to New York City for the meeting. The original idea for Rent the Runway was a little different from where it ended up. The initial idea was to create a platform that would allow Hyman and Fleiss to rent the existing inventory of top designers, at 10 percent of the retail cost, rather than owning the inventory themselves. The pitch to women would be, "why buy designer clothes when you can rent them for 10 percent of the price?" Ms. von Furstenberg hated the idea. She said it could ruin her brand and cannibalize her retail sales. She was gracious, however, and spent time talking through the designer clothing industry with the two young women. By the end of the conversation, Hyman and Fleiss had learned two things they didn't know previously. First, most women who buy designer clothes are in their 50s and 60s. Younger women shy away because of the cost and the availability of attractive clothes at lower price points. Second, designer fashion was concentrated in major metropolitan areas, such as New York City, Los Angeles, and San Francisco. There wasn't sufficient demand in smaller cities and rural areas for designers to maintain stores. The combination of these insights created an "aha" moment for Hyman and Fleiss. There was a customer acquisition problem in the designer fashion industry. What if they could open the market to younger women and bring geographical diversity to the industry? Von Furstenberg told them if they could make her clothes relevant to younger women, she might work with them.

During the summer months of 2009, Hyman and Fleiss met with additional designers, now pitching the idea as a way to bring younger women and geographical diversity to the women's designer clothing industry rather than saving women money. The reason that getting buy-in from the designers was so important is that Hyman and Fleiss knew they needed them for their business to work. They couldn't go to retail stores and buy their inventory—that would be too expensive and they couldn't control the supply. Instead, they needed to buy at wholesale and work with designers to curate their purchases. Many of the meetings were rough, with designers expressing the same concerns that Ms. von Furstenberg had. They started to make headway, however, and several agreed to sign on if Hyman and Fleiss launched the business.

Jumping ahead a bit, after Rent the Runway launched, Hyman and Fleiss still had a lot of convincing to do. Many of the top designers still hadn't come on board. So when they started renting dresses, they put a place on their website where women could upload photos of themselves at events wearing Rent the Runway clothing. One out of every four customers posted a photo. So they started to accumulate tens of thousands of photos of young women celebrating their lives. Hyman later said in an interview that she thinks that the photos were the clincher in getting designers to feel comfortable working with Rent the Runway. They could see for themselves the demographic to whom the service was appealing.

The Customers. After meeting with designers, the next step was to validate their idea with customers. They ran three tests, with the first one conducted at Harvard. They bought 100 dresses and borrowed another 50. Hyman and Fleiss like to joke that a lot of the dresses they bought were in their sizes so if the business didn't work out at least they'd have fantastic wardrobes. They put up pop-up stores with dresses that women could rent. They tried to simulate what their finished business might look like, so they provided the women envelopes to return the dresses by mail.

They let the women try on the dresses. The idea was to answer several questions—"Would women rent dresses?" "What designers will they rent?" "How much would they pay?" "What kinds of occasions would they rent them for?" "Can you return a dress through the mail?" "Will the rented dresses come back destroyed?" They gleaned insight into each of these questions through the test. They also had their second "aha" moment. They observed the women before and after they tried on the dresses. They noticed one woman in particular, who tried on a Tory Burch Celebrity Dress. Her whole demeanor changed after she put on the dress. She

Rent the Runway rents stylish dresses and accessories suitable for many occasions. The company has an excellent assortment of black tie dresses like the one this woman is wearing.

Megan Betteridge/Shutterstock

looked more inspired and confident. Hyman and Fleiss thought, "This is our business. We're not only renting clothes. We're providing young women confidence and determination." This experience caused Hyman and Fleiss to again rethink their positioning. Rent the Runway wouldn't be about saving women money. It would be about providing women incredible moments with fashion.

The second test was at Yale University. During the test, women could see the dresses but could not try them on. About 75 percent rented. For the third test, Hyman and Fleiss sent PDF files to between 1,000 and 2,000 friends, family, and others they knew. The women could see photos of the dresses but couldn't view them or try them on. A much smaller percentage rented, but the response was significant enough that Hyman and Fleiss felt encouraged.

Rent the Runway Becomes a Business

Rent the Runway launched on November 9, 2009, as an e-commerce company. Hyman and Fleiss were able to raise a seed round of just under $2 million for their initial inventory and start-up costs. Initially, the site was an invitation-only website. Membership was free, but you had to be invited or be recommended by a friend to join. In two weeks, Rent the Runway had 100,000 members. There were three keys to gaining so many members so quickly. First, Hyman and Fleiss had built buzz through the feasibility analysis process, by talking to many designers and others in the women's designer fashion industry. Second, they had built an e-mail list of 40,000 people, which included friends, family, friends of friends, and anyone they could think of. They e-mailed them as soon as Rent the Runway launched and invited them to join. They also invited them to invite friends to join. Third, they got incredibly lucky. The day they launched they were featured on the front cover of the business section of *The New York Times*. Someone in their network had recommended them to the paper and they ran the story. More publicity followed which built the momentum.

Rent the Runway launched with an approach that remains largely the same today, although you don't need to be invited anymore to be a member. Customers can rent one of Rent the Runway's designer dresses for 10 percent of the retail price. Each dress includes a back-up size at no additional cost to ensure fit. You can filter pieces by size, color, category, occasion, and even age range.

Customers can get a second dress with their order for a smaller fee. Rent the Runway provides customers with a pre-paid, pre-addressed package to return the dress. Rental prices include the dry cleaning and restocking of the item.

"Listening" to Customers

The practice of listening and testing didn't stop after Rent the Runway launched. In the early days, the company focused heavily on customer feedback and focus groups to refine their processes and offerings. That approach has become an ongoing practice. For example, the company calls its customer service reps its "Customer Insights Team." The team interacts with customers about how a particular dress fits or the most appropriate accessories for a particular garment, but it also collects insights about how the company should innovate its business model. For example, the Customer Insights Team received so many questions early on about accessories, such as "What type of necklace would work the best with this dress?" or "Which earrings would go well with this item?" that the company started renting accessories on its site much earlier than anticipated.

Lessons Learned

Since Rent the Runway launched, Hyman and Fleiss have completed many interviews; this is where much of the information for this case came from. They frequently talk about three or four lessons learned from their experiences. First, they feel as though their complementary strengths have benefited their business. Hyman is the creative person and the visionary while Fleiss is the executor. Although they were friends, they didn't select each other by chance. They were in several classes together in college, allowing them to observe each other's work ethic and how each responded to case questions and where each added value. Second, they don't believe that not having fashion industry experience was a detriment to their business. In fact, they believe their inexperience allowed them to see the industry through fresh sets of eyes. Finally, they're big believers in testing and vetting ideas before trying them. See the nearby quote from Fleiss. The way Hyman and Fleiss vetted Rent the Runway prior to launch and the manner in which the company is now managed is fully consistent with this sentiment.

Jennifer Fleiss on Feasibility Analysis

"A big mistake that many entrepreneurs make is being hesitant to share information about their concept with others. Jenn (Hyman) and I did the exact opposite. We shared our idea with as many designers, women, and investors as we possibly could and utilized their feedback to tweak our original idea." *Inc*., "Best Advice I Ever Got: Jennifer Fleiss," September 10, 2012.

Opportunities Ahead

Although the essence of Rent the Runway's original vision remains the same, the company has made some changes. The company now has several physical locations—New York City, Washington, D.C., Chicago, Los Angeles and Las Vegas—along with its e-commerce business.

In March 2016 the company launched Unlimited, which, for $139 per month, allows customers to have three Rent the Runway items at any given time. The items can be kept for as long as the customer wants or swapped out for new selections. Rent the Runway has also broadened its product line. It now rents a full line of accessories, including jewelry and handbags, and sells essentials including lingerie, tights, shapewear, and cosmetics. As of October 2016, Rent the Runway had over six million members, 975 employees, and over 400 designer partners.

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The company doesn't have plans to branch into men's clothing, preferring instead to remain focused on women's designer apparel. In March of 2017, cofounder Jennifer Fleiss stepped down from her executive role in Rent the Runway. She remains a member of the firm's board of directors and intends to pursue other earlier-stage entrepreneurial ventures. Now running the company herself, Jennifer Hyman is preparing the firm for an eventual IPO event.

Discussion Questions

3-34. Make a list of the ways in which Hyman and Fleiss vetted their business idea prior to launch. How long was it between the initial idea for Rent the Runway and when the business launched? What does the amount of time between the two events tell you about Hyman and Fleiss' feasibility analysis process?

3-35. To what degree would Rent the Runway be a different company today if Hyman and Fleiss had not conducted a feasibility analysis? Do you think the business would be as successful as is currently the case?

3-36. Identify at least two "take aways" from the Rent the Runway story not mentioned in the Lessons Learned portion of the case.

3-37. What can young entrepreneurs with business ideas learn from Hyman and Fleiss' experiences?

Sources: Rent the Runway Homepage, www.renttherunway.com (accessed February 8, 2017); N. D'Souza-Wolfe. "Rent-a-Work Wardrobe, *The Wall Street Journal*, May 21, 2016, D2; Girlboss Radio, "Jenn Hyman, Co-Founder & CEO of Rent the Runway, available at https://www.girlboss.com/girlboss/2016/5/31/girlboss-radio-jenn-hyman-co-founder-ceo-rent-the-runway (posted April 14, 2016, accessed February 8, 2016); *Inc*. "Best Advice I Ever Got: Jennifer Fleiss. *Inc*., September 10, 2012; "Open Q&A about Rent the Runway CEO of Rent the Runway Jennifer Hyman, available at https://www.youtube.com/watch?v=xjmSDeK4_x4 Draper TV (posted June 26, 2015, accessed February 8, 2017); Wikipedia, Rent the Runway (accessed February 8, 2017).

CASE 3.2

Embrace Infant Warmer: Sometimes a Business Start Is a Matter of Life and Death

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Introduction

When Rahul Panicker, Jane Chen, and Linus Liang enrolled in Design for Extreme Affordability, a course taught in the Design School at Stanford University, little did they know that the class would change their lives. And little did they know that, a short three years later, premature babies born in rural India, who often don't survive because of hypothermia, would have a new chance at life because of a product they designed.

The Design for Extreme Affordability class draws students from across the Stanford campus. The goal of the class is to develop solutions for formidable, real-world problems. The project Panicker, Chen, and Liang were assigned was to develop a low-cost infant incubator for use in developing countries. This was a topic that the three knew nothing about. They were electrical engineering, MBA, and computer science students, respectively. To get started, they did some simple Google searches. They learned that 15 million pre-term and underweight babies are born annually in developing countries. Three million babies die in the first 28 days of their life—that's six babies every minute. The biggest cause of death is hypothermia. Premature babies don't have enough fat to regulate their body temperature. As a result, they can literally freeze to death in a room that is at room temperature. Nearly half of the world's low-birth-weight babies are born in India. Hospitals have incubators that provide consistent, life-saving heat to premature babies. But incubators cost up to $20,000 apiece, require a constant supply of electricity, and are difficult to operate.

The obvious solution was to drive down the cost of incubators. The team could systematically reduce the cost of traditional incubators by eliminating nonessential parts and using cheaper materials. Rather than moving forward, Liang got funding for a trip to Nepal to study incubators in developing countries. While visiting a hospital, he noticed something that was odd. Many of the incubators were empty. He then learned the sad truth. About 80 percent of the premature babies born in the developing world are born in rural villages. They aren't brought to a hospital and placed in an incubator. Even when they are, they're often taken home before the baby is ready to leave due to family needs back at the village.

Back at Stanford, the team grappled with what to do with the insight. The easier road ahead would be to redesign the traditional incubator in order to make them more affordable. But that wasn't the answer. The harder challenge was to find a solution for saving premature babies where they were born—in rural villages.

Early Prototypes

The team tackled the harder challenge: How to create a baby-warming device that doctors and parents in rural villages could use to save premature babies? The team set to work and started creating rough prototypes of an original design. The earliest prototypes were made using old sleeping bags, baby dolls, and blankets. The design was a portable infant warmer that looks like a tiny sleeping bag. The warmer opens in the front, allowing mothers to nurse their babies and maintain intimate contact. The bag contained a pouch of wax-like, phase-change material that keeps the baby warm for up to six hours at regular body temperatures. It required just 30 minutes of electricity to heat the pouch, an ideal situation for areas where the availability of electricity is spotty. To provide additional warmth, mothers would be instructed to hold their babies as much as possible against their skin. This activity prompted the team to call the product "Embrace."

The class ended and the team had a decision to make. All had promising prospects. In the end, the team members couldn't walk away. The lives of premature babies were at stake. They would move forward and continue to work on what was now known as the Embrace Infant Warmer.

Embrace Infant Warmer

The team, now joined by a fourth Stanford student, Naganand Murty, took the prototype to India to solicit customer feedback. They used rapid prototyping techniques to iterate on feedback and zero in on the attributes that are of highest relevance and value in a rural setting. Some of what they found out was surprising, and would have never been learned had they remained in California. For example, they found that women in India believe that Western medicine is very powerful, so they routinely cut back on the recommended dosages of Western medicines, just to be safe. That knowledge impacted early prototypes of the Embrace Infant Warmer. The early prototypes instructed mothers to set the temperature at 37 degrees Celsius. What they found was that the devices were being set at about 30 degrees. To solve the problem, they preprogrammed the ideal temperature into the device and just put an OK and Not OK switch on it. Commenting on the decision to go to India rather than remain at Stanford to flesh out the Embrace Infant Warmer, Chen told Helen Walters, who wrote an article on Embrace, "There are so many nuances that are critical to design and effective implementation, so many nuances that you don't understand unless you're there and living and breathing the culture every day."

Talking to potential customers raised other issues. For example, they learned that villagers wanted different pricing options—like an option to rent the device. Commenting on changes that were made as a result of feedback from rural villagers, Chen said in an *HBR* blog post, "Entrepreneurs often fall in love with their original product idea or business model and fail to listen to customers. We (meaning the Embrace team), on the other hand, have no qualms about modifying our product features and pricing again and again until we find a solution that delivers the highest value to our customers at the lowest cost for them."

Embrace Baby Warmer

Embrace

Gaining Momentum

The initial prototypes of the Embrace Infant Warmer were a success, which emboldened the team to keep working. Additional field research took place, involving village mothers in every aspect of design, from the straps on the warmer to the instructions printed on its front. Spending time in homes in rural India produced additional insights. "Oftentimes the mother-in-law is the decision maker," Chen said in the same interview as the one cited above. As a result, they determined a way to involve these decision makers in the process of using the Embrace Infant Warmer. In December of 2010, Embrace was featured in a segment of the ABC News show *20/20.* The show contained images of a five-pound baby girl in India named Nisha, the first child to use the Embrace Infant Warmer in a clinical trial—and perhaps the first life saved by the device.

The Embrace Infant Warmer was formally launched in April 2011, after completing clinical trials. It went through more than 60 iterations before a final design was settled on. All manufacturing is done in Bangalore, India. Some of the parts are outsourced, but the final assembly and quality testing is done by the company. To ensure distribution, Embrace is partnering with multinational

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medical devices companies like GE Healthcare and with local NGOs. An organizational structure has also emerged. Embrace has both a nonprofit arm, which donates its baby warmers to those in need and runs educational programs, and a for-profit side, named Embrace Innovations, which sells the baby warmers to government entities and private clinics. It's a two-pronged approach that the founders hope will allow the company to prosper, grow, and save an increasing number of premature babies. In spring 2014, Beyoncé made a $125,000 donation, which allowed Embrace to enter several countries in sub-Saharan Africa. Just a few months later, Jen Chen, one of Embrace's cofounders and CEO, was invited to the White House for a Maker Faire, honoring Embrace as an example of the new manufacturing revolution.

Little Lotus

In November 2015, Embrace Innovations started Little Lotus (https://littlelotusbaby.com), a retail line of baby products for the U.S. market. Prior to Little Lotus, Embrace and Embrace Innovations had relied primarily on sales to the Indian government. While grateful for the sales, relying on government contracts is not a sustainable revenue model. Little Lotus is a new line of baby products, including swaddles and sleeping bags, that uses NASA-inspired technology to keep babies at the ideal temperature. The fabric absorbs body heat when the baby is too warm and supplies it when the baby is cold. The Little Lotus products are an intersection of technology, design, art, and social impact. On average, babies sleep an additional hour a day when using a Little Lotus product because of less temperature fluctuation. Following the one-for-one model pioneered by TOMS and Warby Parker, for every Little Lotus sold a portion of the proceeds goes to purchase an Embrace Baby Warmer for a mother in need. Little Lotus' products not only provide warmth and comfort to babies in the United States and elsewhere, but provide a new source of revenue and momentum for Embrace Innovations and the entire Embrace effort.

Embrace Today

As of the end of 2016, roughly five and a half years after launch, the Embrace Infant Warmer had been used to help save the lives of more than 150,000 babies across 10 countries. The company's goal is to impact the lives of 1 million babies. Panicker and Chen lead Embrace, while their Stanford classmates and cofounders have moved on. The company is private and doesn't disclose financial information, other than to say that its margins are sufficient to keep growing and try additional products. In addition to rural villages, the Embrace Infant Warmer is being used in hospitals and clinics, to move premature babies from location to location, and to use when a premature baby is born and all of the traditional incubators are in use.

In addition to continuing to improve the Embrace Infant Warmer, the company has aspirations to tackle some of the other factors that cause infant mortality. Other potentially fatal conditions include meningitis, pneumonia, infections such as sepsis, and diarrhea.

To learn more about Embrace and Embrace Innovations, in October 2016, Jen Chen was featured on eCorner, which is an excellent podcast produced by the Stanford Technology Ventures Program. eCorner podcasts are available at ecorner.stanford.edu/podcasts. Look for Season 12, Episode 4, recorded on October 26, 2016. The title of Chen's talk is "Embrace the Entrepreneurial Journey."

Discussion Questions

3-38. What target market does Embrace seek to serve and how attractive is that market?

3-39. What examples of primary research that Embrace's founders completed appear in the case?

3-40. What actions did Embrace's founders take to solicit feedback from prospective customers and what did they learn from these efforts?

3-41. If you were asked to conduct a financial feasibility analysis for Embrace, what issues would you consider to complete this analysis and why are those important?

Sources: Embrace Homepage, www.embraceglobal.com (accessed February 20, 2017); E. Weil, "Caring for Premature Babies, With a Little Help From Beyoncé, *The New York Times*, November 20, 2015; J. Chen. "Embrace the Entrepreneurial Journey," eCorner podcast, available at ecorner.stanford.edu/podcasts (posted October 26, 2016, accessed February 20, 2017); E. Lelon, "The Baby Saving Revolution: Obama and Beyoncé Embrace Founder, Jane Chen (You Will Too), Huffington Post Blog, available at https://www.huffingtonpost.com/elise-lelon/the-baby-saving-revolution-nonprofit_b_5570683.html (posted July 10, 2014, accessed February 10, 2017); T. Kelley and D. Kelley, *Creative Confidence*, New York: Random House Publishing, 2013.

MyLab Entrepreneurship

If your instructor is using MyLab Entrepreneurship, go to **www.pearson.com/mylab/entrepreneurship** for the following Assisted-graded writing questions:

1. When conducting an industry/target market analysis, why is it critical for a firm to identify and evaluate its target market? Using the story about the Keurig Kold as discussed in the "What Went Wrong?" feature, write a paragraph or two to explain (1) how identifying a target market might have prevented the Kold from being such a failure and (2) what you believe might be a viable target market for this product.
2. Re-read the material in the chapter that describes the components of an organizational feasibility analysis. Given your understanding of Wonder Workshop, the company featured in the "You be the VC 3.2" feature, develop a paragraph or two describing the management expertise and the type of new-venture team that you believe would contribute to this venture's efforts to be successful.