

Machine transcribed but not human edited
Lots of errors

Jennifer Hyman: Rent The Runway's Journey to \$1.7B IPO; Lessons from Beyoncé & Estée Lauder | E1031

<https://www.thetwentyminutevc.com/jennifer-hyman/> | 28th June 2023

<https://www.youtube.com/watch?v=PvZbugU-ftU>

Jennifer : The most important thing about building a business is forward momentum. It's just continuing to wake up in the morning. And put one foot in front of the other, have positivity, and just keep going. I think that people give up way too soon.

Harry : Jen, I am so excited for this. I heard so many good things both from Skofran and from Jennifer Fly. So thank you so much for joining me today.

Jennifer : Thank you. I've been looking forward to this.

Harry : That is very kind of you, but I wanted to start. I love a good AHA moment. So what was the AHA moment for you with Rent The Runway? And what was that idea inspiration?

Jennifer : Yeah. Moment was my sister going into credit card debt after buying a expensive dress that she knew she was only gonna wear once. and really this idea of why in clothing, we have to buy things that we own forever was the only option. And couldn't there be an option for rental? Couldn't there be an option for a closet in the cloud where the closet could actually change with you as your life evolved and changed.

Harry : Jen can ask, did people get it? Like, when you first have the idea where people are like, oh, that's a great idea, Jen. This is good. or people like, no. I don't see that.

Jennifer : I think that the demographic we were going after really did get it. I mean, women in their twenties and thirties who were the primary segment we were targeting at the beginning of Rent The Runway, understood that they were going out and buying dresses to be bridesmaids and to go to holiday parties and to celebrate events that they were wearing once or twice and then throwing away. I think that the rest of the universe, it took a little bit longer. But one of the things that I, you know, shared with investors and really shared as well with even designers, I had to convince that this was a good idea, is that the concept of Rent The Runway is not a new idea. Renting clothes existed in another form already, and it was the majority of the fashion industry.

Fast fashion, is clothing rental. Whenever you go into H and M or Zara and you buy a top that you is cheap, that you know that you're gonna wear once or twice and then push the back of your closet, that is renting the runway. You're renting something. You're using something for a short period of time where it has utility in your life, and then you don't need it anymore. And what we were really doing with Rent The Runway is really taking fast fashion, making it way more financially sustainable, giving you the real aspirational brands, making it environmentally sustainable and doing it in a personalized tech forward way.

Harry : So it's been incredible now, I think, 15 years from my understanding. before we dive in, agent

Jennifer : -- Here, since I had the idea, 14 years since launching.

Harry : Okay. So 14 years since launching, 15 years since the idea. You you've learned so much since then. What do you know now today, Jen, you wish you'd known when you started 14 years ago?

Jennifer : That's a really hard question because I knew nothing when I started 4 years ago. I was twenty seven years old, and I had to really figure out I think the main themes of how do you go from having a great idea to becoming a great leader, inspiring others, building the team, And, you know, figuring out what are the investments that this company is going to make over time to create sustainable competitive advantages. I think an idea is a dime a dozen. And, you know, the success of a company is really based on execution. Execution is based on where you choose to spend your human capital resources, and really directing your human capital towards things that are gonna create sustainable competitive advantage in the market is really one of the most important lessons to me of entrepreneurship.

Harry : Can I ask for most like, as you said that you started, like, twenty seven year old respectfully, not as, like, a, you know, 0 entrepreneur and incredible business either that you are staying. What one or 2 moments really changed your mindset on how you lead companies?

Jennifer : Let's see. I mean, I think that COVID was a transformative moment for me as a leader, where you really realize that even 10 or 12 years into a business, whatever it was at that time. You still have to lead a team of missionaries. and not mercenaries. And the people that are gonna stay with you through COVID when you when we lost an enormous amount of revenue overnight, are people that fundamentally are working here for more than just their job, are working here for more than just the interest of an

interesting problem. They're a working year because they believe in the mission of what we're doing to change an industry, which is about empowering women to feel their best every single day.

So really understanding the power of that missionary mentality, the power of having hired a team of people who ascribe to this core value of everyone's a founder of renter runway. So we've always had that value up on the wall. We look for people that even when the company gets big still can kind of act small and act scrappy at various points in time. And that's never been more important than we when we were in COVID and when we had figure out how to reinvent the company in many ways.

Harry : Can I ask how do you hire for that? I wish everyone felt like an owner of my businesses. But the truth is Jen, none of them do. None of them. Only I act like an owner, and that that may be unhealthy in many respects.

But, like, how do you hire this ownership mentality? Because honestly, I don't see it today in 99%. And maybe I'm terrible at hiring, but What do you do to get those people, and how does one do it?

Jennifer : I so I feel the opposite of you. I think that the team here is you know, 99 plus percent missionary. And that's actually been the greatest privilege of my experience leading Rent The Runway that over the past 14 years, I've worked with people that really consider themselves to be founders of Rent The Runway. Founders of a new chapter of our company, founders of a new business line. How do you interview for that?

I actually think it's one of the easiest things to see. You know, one of the one of the things I say to someone when they come to rent the runway is Hey, I'm giving you this job today. The only promise that I'm gonna make to you is that you're gonna be doing something totally different 6 months from now. and that I have no assurance of what that is. If you're not comfortable with this idea of consistent and constant change, This is not gonna be the right environment for you.

I want people who thrive in times of change who love that who love the idea of, you know, taking chaotic situations and making those chaotic situations periods of innovation. So finding that kind of resilience, founders really fundamentally are just unbelievably resilient people. So what I'm interviewing for when I'm interviewing for a founder mentality is I'm interviewing for resilience, and that shows up in asking people about their lives, I think that people when they interview are focused way too much on someone's career experiences. You may have shown resilience in a career experience,

but more often, at the point when you know, I'm interviewing someone. The resilience that has shown up in their lives has happened in their personal lives.

Harry : Great, Jan. What questions do you ask then? I'm learning from you. I should take notes. I might actually hire.

Jennifer : But It's illegal actually that I have a set of brilliant questions I just will spend however long it takes in an interview with someone getting to know them as a person. I'll say tell me about yourself, and they might start at their first job, and I was like, no. I don't let's start at where you were born. Where are you from?

Tell me about your family. Do you have siblings? Tell me about your parents. I wanna know who made them and what made them who they are. And you're getting a sense of is this person The sort of person that is going to put, you know, the company before themselves, is this person gonna be a missionary?

Is this person entrepreneurial. It does this person have great values. And that shows up in how they talk about their life experiences.

Harry : We had this great schedule, but I'm just too enjoying this. And the thing I find tough is, like, people check out at 6 PM late. You know, 6 PM. Bang. I'm like, I never check out.

And I never want someone else to check out. Like, 11 PM. Why why is why is the MP3 here? What what what's happening with this deal? and people check out.

And I'm like I feel guilty in a way because I know that they should have some balance.

Jennifer : Honestly, like, unless people are happy in their lives, they're never gonna be happy at work, and they're never gonna be able to give a 110%. And if you're constantly pushing them to be like, they don't have any time with their family. They don't have time to go out. They don't have time to see friends. Like, You're texting them at 7, 8, 9, 10, 11 PM.

Like, how are they gonna live a life? Like, life is about more than just your career. I think that the people that are actually best in their careers have really full and rich and amazing lives. Like, I happen to have a great marriage, great kids. I have a ton of friends.

I put a lot of emphasis on those friends. I feel that now this is not to say that I don't send out emails at 9, 10, 11 PM. I do --

Harry : All all of your team are getting, like, I get emails late to me.

Jennifer : I put my kids to bed. I have some time where I can, like, look at my email, but I don't expect that someone's gonna get back to me. when I send that email at 9, 10, 11 PM, I think that, like, if you want people to be ride or die intense for you at the company, which I do at Rent the runway. Rent the runway is an intense environment. where I want people to give it their all.

I don't think that anyone can give something their all unless they have a rich totality to their life. And that is something that I very much encourage here. I think that people who Put in 24/7 just related to their job are just gonna burn out. And you might have them with intensity for a year or 2, but then they're gonna be gone. And I really like when people are at rent the runway for many years, and can grow their careers here and can transform even what they dream of for their own careers by nature of surprising themselves here, taking on completely new experiences and opportunities that they didn't even expect that they'd be able to do.

Harry : Can I ask you, when when you think about hiring mistakes, you learn a lot over time. Have you made any hiring mistakes? And how did that shape how you think

Jennifer : -- Of course. Of course. I mean, I've been doing this for 14 or 15 years. Like, I've made a ton of hiring mistakes. As much as you can interview someone beforehand, and I do spend a lot of time in getting to know people, and my hit rate has gone up, significantly over time, inevitably until you start really spending time with someone, like, you're never really gonna know if it's the right fit or not.

So I think that giving yourself some graces on both ends of the equation, both as the boss and the person who has just come to that company that sometimes it's just not the right cultural fit. Sometimes it's just not the right relationship not gonna work, and that's okay. And that doesn't mean that they're not great at their job. It doesn't mean that you're, you know, not running a great company, it just means that sometimes there's a mismatch. And just being open about that earlier on in somewhat tenure at the company is so much easier than waiting for, you know, 12 to 24 months in when they're already kind of set into the vibe and the culture of the company.

So just like those early conversations when you start and and early, you know, things when you start to notice, like, I'm not sure that this is really working. Like, have that 2, 3 months out, not 2 years out.

Harry : Do you agree with the higher fast, fire fast kind of mentality? I know it's a kind of easy to say difficult to do. But you agree with that.

Jennifer : Higher fast. Sorry. Say it again.

Harry : Higher fast, fire fast.

Jennifer : I don't believe in hiring fast. I believe in, like, the hiring medium. They're getting cutters slow. Like, You know, you need to grow your company, so you need to bring people in. But, like, I wanna get to know you a little bit.

I wanna see how I wanna see demonstrations of how you're going to, you know, present in front of people how you're going, how you present an idea before you get to the company. Now This also matters a lot more as there's more seniority within the organization if I'm hiring someone more senior than I'm hiring slower. I think in hiring, firing fast, I would say yes. That's the goal. that doesn't always happen because of, you know, people are best of intentions.

You wanna give people more chances. You think that Maybe you didn't explain something. Right? I think most of the time, like, our gut feelings are pretty untargeted, and I've done a better job over time at just trusting my guy.

Harry : I think it's the single biggest thing I see is, like, just not being fast enough to respond to to it. And they and he's super hard Also, what you said about founders and how they describe their siblings, if I had Doug Leonie on the show from Sequoia. And he always asked, tell me about your relationship with your siblings. and how they describe that relationship to him is one of the most meaningful kind of signals of who they are as a person.

Jennifer : I couldn't I could not agree more.

Harry : Yeah. I thought it was a fascinating one. That really stuck with me. I do wanna discuss kind of the company and actually, you know, revert to schedule in some way. But you said I wish I had run my business as a private company now that I'm a public company CEO.

And then she saw this, and I was like, oh, that's a great one. What did you mean by this? And why do you wish you ran your company as a private company?

Jennifer : Oh, So I wish that I had taken I think that what I said is I wish I had taken the way that I run the company today as a public company, is how I wish I had run it more as a private company. That's what I said. And I'll tell you why. As a private company, The name of the game in terms of how you raise capital and how therefore you grow is by proving that you are different. by proving and saying, I'm this special snowflake.

I'm gonna disrupt the way that women wear clothes. Everything about rent the runway is different. We're not a fashion company. We are a technology logistics data company that happens to be in the fashion business. How you run a public company is by looking at all of the ways that you're the same as everyone else in your industry, And by nature of looking at the ways that you're the same, it's very clear to see and distinguish what are the aspects of your business model and your p and I that actually give you a competitive advantage.

And what are the aspects where you're falling behind? And so, As a public company, because I was evaluated against a lot of other apparel companies, really, for the first time, I had never been compared to apparel companies before I went public. And then I went public and everyone suddenly like, you're in the apparel business. You're in apparel business. And I started looking at the P and Ls of all of these other apparel companies, and I realized, oh my god.

My competitive advantage is the thing that as a private company, I thought, was a problem. So the Comatted advantage of Red The Runway, which seems so obvious right now, is our product cost as a percentage of revenue, meaning the cost of our inventory. The cost of our inventory is about 30% of our revenue. And in most apparel businesses, apparel of the inventory cost is 50 to 55 percent of revenue. Now why is our inventory cost only 30 percent of revenue?

It's because we make very high ROI on all of the garments that we have because of the special business model that we have of this subscription to fashion and of renting clothes. So we have this kind of 20 to 25 point margin advantage versus other apparel retailers as it relates to this really unique aspect of ensuring that the clothing that we have remains in perfect condition, that we can rent it out to dozens of women, etcetera. Now What it also does is it points out very very clearly, well, where are your biggest opportunities to improve? So when I lined up my p and I versus others in the apparel space, and I looked at everyone in the apparel space when they were around \$300,000,000 in revenue, which is what we were last year. So when Etsy had around

\$300,000,000 in revenue, when Asus, when Revolve, when everyone. And by the way, you can't call yourself a special snowflake anymore when you're looking at everyone in the apparel business because there's a lot of really special companies there as well.

And this the problem that I realized we had was our SG and A as a percentage of revenue was completely out of whack. Like, for the size of business that we were, we just had a much bigger expense base than we should have had. We took massive steps in correcting that via restructuring that we executed last year, but also really over the last 2 years have been executing a financial transformation of the business which has effectively doubled our gross margins since our IPO, and, you know, improved our gross margins. Q4 of '21, our gross margins were around 30%, Q4 of '22, our gross margins were 44%. So we're making really big improvements in, you know, the margin profile of the business. Based on running this business kind of as a public company.

So, yeah, I wish I could go back and say, yeah, like, we're doing something that's really cool. It's really innovative. We're getting people to red clothes and use our service a 100 days of the year. But don't talk to yourself as a private company as if everything you do is different, the the harm in doing that is then you can make an excuse for all of your metrics.

Harry : So I'm gonna make an excuse for you, but it's, like, could you have got to the revenue scale as fast as you did without having the expenses in terms of whatever the expenses were, that you had to then cut back on? Like, were they necessary to achieve the scale?

Jennifer : So our expenses actually were necessary if building out the competitive moats of the business. It was really expensive for us. This is a CapEx Heavy business. We have to have distribution facilities. We have pioneered just in time reverse logistics of clothing and accessories, meaning all these clothes are sent back to us from women who have worn them, we have to ingest them single skew.

We have to inspect them. We have to clean them. We have to repair them. We have to store them, we have to then ship them out quality control them, we have to then ship them out to new customers often with a 0 or 1 day turnaround time. None of that technology existed off the shelf, and none of those processes existed off the shelf.

So we had to develop all of you know, the the infrastructure to be able to do this. At the time, you know, that we launched Rent The Runway, there was WMS systems that we could buy, but WMS systems, which is a warehouse management system, were for pick pack and ship operations. It was just for outbound logistics, which is only about like 15%

of what happens. in our facility, so we had to build the whole thing from scratch. So I would say that there were, you know, significant investments that we had to make into the technology, which has become a mode of ours into the operational, you know, prowess of the business, which is a massive mode, of the business, and then, of course, we had to spend money on our inventory.

And the thing about a rental model is you are making a lot of money off your inventory. as evidenced by the fact that it's only 30 percent of our revenue versus the 55% for other companies, but you're laying out that money before you make it back. So there's a working capital issue related to the cost of of growth.

Harry : There's so many things from me that I've had here. It's, like, a kid in a sweet shop, but there's, like, 30% of us

Jennifer : 55%.

Harry : Do do like, what does that look like though? Post, bluntly, the I mean, there's a lot of logistics to the business. It is not an easy business to run. Did I does that not make the margin profile very, very different post all the

Jennifer : No. So that's the amazing thing about run the runway that our gross margins, which include the cost of all of our inventory, and all of our fulfillment. And by the way, our fulfillment has all the 2 way shipping, all the dry cleaning, all the restoration of the goods, all the reverse logistics, etcetera, our gross margins are 44% in q 4. Stack that against the gross margins of other apparel retailers, and we have a 15 to 20 point gross margin advantage versus those companies, which and those companies many of them are profitable today. So there's no reason why you shouldn't believe that rent the runway will be profitable, and in fact, should be more profitable than those companies because we already have a 15 to 20 point gross margin advantage.

the thing that has kept us from being profitable and and put us into the camp where we were losing a lot of money was the spence of our SG And A.

Harry : Which has now been changed?

Jennifer : Which has now been changed Which is why we're a stones throw away from profitability right now and why we shared kind of on our last earnings call that this was going to be a transformative year where it was gonna be obvious to, you know, even a layperson who spends 30 seconds on our financials that, like, our cash burn was

coming way down, and you can see that with a little bit more revenue scale, this business starts producing a really nice amount of cash.

Harry : You're in. Yeah. I'm sorry. I'm I'm I'm I'm not diverse in the whole question to say, but I'm loving. It's what does the street not get then?

Like, I hear everything you say, normally, it's total sense. What does the street not get then?

Jennifer : Yeah. Okay. So the first thing here is that The street in general right now isn't looking at all paying any attention to companies that are unprofitable. And until recently rent the runway is a company that has spurred a lot of cash, and we've been unprofitable. So number 1, like, I don't think anyone's really looking at us today.

then once you kind of deal with that issue, I think there's 2 major questions about rent the runway. Number 1 is, is this a market? Like, is there TAM? And number 2 is, can this business make money? and we've made significant progress on both of those in a very short period of time.

I mean, the fact that on, you know, can we make money the fact that we've improved the gross margin from 30% at the end of Q4 to 1 to 44% at the end of Q4 to 2, that's significant over a very short period of time. Is there a TAM? Well, we've shown that You know, we've had some significant growth coming out of 22 with these investments we're making in customer experience. But what's really exciting to us is as opposed to this being this closet in the cloud being a market that I invented in my head, 14 years ago. Now there's actual competitors to rent the runway.

And some of those competitors release their information and they also have similar amounts of subscribers, which really proves like women are ready to do this. Like, this is a something that is in the consideration set in a way that it wasn't really even 3 or 4 years ago. So that's exciting that the tailwinds around subscription to fashion, certainly the tailwinds around circular fashion, I think, have never been stronger.

Harry : Can I ask for you as a leader? When you think about, you know, the short term demands of the street in terms of profitability, in terms of next quarter's earnings, it doesn't allow really blunt me for long term innovation, research, thinking around how and the classic VCs. Forgive me for this example, how AI impacts, you know, future consumer shopping habits, collaboration of shopping, whatever that is. do you feel there is a misalignment between what the what the street expects tomorrow and what you want to invest in over time?

Jennifer : I think that over time, you get the investors you deserve. And I'm here, as evidenced by the 15 years that I've already spent, Creating this market, building this company, I'm here for the long haul. I'm here to create a sustainable business that is around many, many decades to come, I believe that 50% plus of the closet in the future doesn't have to be filled with items that we own forever. And so, how we think about building this company is for the long term. Now that has not shown up at all in our stock price to this point because we have not been able to amass those long term invest because of long term investors are looking for profitable companies.

And by the way, it's not that we are trying to get to profitability because that's what the market favors. We're trying to get to profitability because I want to build a sustainable company that is around for, you know, 50 years from now. So we're focused on the right things here, and we've actually never been more a excited about how big this market is, how much momentum there is in the market. I mean, just little things that we're seeing in terms of The diversity of what the customer base, the diversity of who signs up for subscription. Like, she's more geographically diverse than she's ever been before.

She's you know, coming in with more age diversity than she's ever had before. This just is now something that feels like it's in the water. in a way that, like, didn't really feel that way to me a few years ago. So coming back to like something that you said about AI, which I think is really gonna divide companies in half. They're gonna be companies that are AI beneficiaries.

And then there are gonna be companies in full industries that are just decimated by AI. I am of the mindset that AI is going to be the biggest change to how we operate businesses, you know, since since the iPhone. And interestingly, fashion, which is a very physical business. I just talked about all of the CapEx. Like, the good the bad thing about my business is it's been very expensive to build.

The good thing about my business is it's not being disrupted by AI. We are gonna be a massive AI beneficiary. It's really freaking annoying right now, be it on Amazon, or on Rent the runway, or on Zara, or on Nordstrom, to shop the endless aisle of products in fashion and figure out what you wanna wear. AI is gonna make the equation of discovery so much more efficient, so much more delightful. And we are starting to furiously run inside of run the runway to use the data advantage that we have.

to really harness the power of AI. So I've never really been more excited about a technical, you know, I don't even wanna call it innovation. I think it's like a new playing field that we're all on and the possibilities for how that impacts run the runway.

Harry : I I totally agree with you there. Does that not add another expense, though? Like, if we look at Von the AI engineers, if you look at machine learning engineers, if you look at any kind of research in this it takes a lot of cash. I mean, your SG and A is gonna go again. So it's a question of do

Jennifer : you need -- We already have I mean, we've been harnessing and using AI for a decade. We already have all those machine learning engineers within the company We already are using personalization and algorithms from our machine learning team across every aspect of our not only consumer experience, but even within our operation of how we care for our inventory in order to maximize turns. So I actually think that the expense has just come down because of products like Chat GPT. The interface that that enables would chat GPT of being able to have almost a shopping companion. that you could have with run the runway that can answer all of your questions, and we have all of the data to deliver into that.

I think it's could be game changing.

Harry : So -- Do do do you want to be a technology company or in a power going back to the question of, like, are you a technology company or in a power company?

Jennifer : We're in the business we're in the business of getting women dressed every day. So in terms of how our customer experiences us, We're an apparel company. And we're not just apparels, we're apparel, we're accessories, we're handbags, we're the full kind of wardrobe for her. Now, is it a company that is certainly enabled by technology a 100%. The majority of my employees are tech.

They're engineers, they're data scientists, their product, their UX, and that's always been the case that rent the runway. And that's one of the reasons that building this company has been expensive. But I definitely think that we're we're a fashion company.

Harry : Can I ask you? You said about kind of the expense of building -- It's

Jennifer : taken me 15 years to say that. Why don't I --

Harry : I -- don't touch your outfit.

Jennifer : I've never seen that before, but it's true. We're a fashion company, and I'm proud of it, and we're disrupting. an aspect of fashion, which is a \$3,000,000,000,000 global industry.

Harry : The brands sorry. I'm really just going off PSC, but fuck it. I'm loving it. Do brands like you? Like, if you think about it, the the big brands are like, well, the circular economy is not good for us. Like, we like purchases. We like as many purchases as possible. Showing the relationship that is fictitious. No?

Jennifer : Yeah. So brands used to be very confused by me slash hate, love the runway, because first at first glance, you think, Why on earth? Would anyone buy clothes if they had the option to render to subscribe? Fast forward now 15 years, Who's my customer base? I have a customer base number 1, and my average subscriber spends about \$2000 with me per year.

So this is a luxury customer that I have. This puts me on par with, you know, LVMH or with top luxury beauty companies for how much people spend per year. Number 2, my customer is between 25 45 years old. So I have a wealthy young customer who is not currently the customer of these Designer Brands. I'm introducing these Designer Brands to my customer often for the first time.

In fact, 98% of my customers say, that they're renting brands on rent the runway that they have never owned before. So this is my first experience wearing Ola Johnson, or my first experience wearing Proenza schooler. And then, I am able as the customer to determine whether I wanna purchase that product. So brands, at this point, see me as one of their most powerful marketing engines because they've now have 15 years of data where they assess where do their top customers come from. And most of their top customers they see found out about the brand and started using the brand via Ren the runway.

Now then ask yourself, well, why is that? Why has Rent The runway become so powerful as a marketing engine for the designer fashion industry? And that's because younger women are busy. They're not entering physical retail stores in the way that they did 20 or 30 or 40 years ago. And what is rent the runway really?

It's a replacement to the retail store. You don't have to go into sacks and go into a dressing room and try things on anymore. You can get a rent to run my garment back sent to your home. You have 5 designer items in it. You can wear them in your real life.

You could try them on the dressing room is now. your bedroom. The dressing room is now the street. It's now your office where you're showing up in this new Proenza top. and you're getting compliments.

You're figuring out if you love it. Like, that's what the department store dresser room used to be 50 years ago. So for brands, we're kind of innovating what they've always known to be true, which is when women put on the clothes, they have a 70% higher likelihood to wanna purchase the clothes.

Harry : I'm sorry, Jen. I love that. I was also sitting there going, oh, shit. I really need to update my knowledge of brands. But it it sounded great.

Is there ever stage where brands like, oh, they're not converting. Like because there is a time where they expect the conversions to hit and the marketing So

Jennifer : we we have a 100% retention of all the brands who have ever worked with us. And this is in an industry where typically, if you're a fashion brand, you change somewhere between 10 20 percent of your distribution partners annually. The fact that Every single brand that has ever started working with Rent The Runway has decided they want to continue working with Run the Runway, is really a testament to the power of our platform in the industry to how good of a partner we are and the fact that we're a business that's focused on, yes, delivering this transformative customer experience, but we also are trying to grow these designer businesses. Designers have been really, really hurt over the last few decades because of fast fashion. Right?

Fast fashion has come in and copied their designs, put it out into the universe, into the global marketplace much quicker than the designers at much shipper price points, and that's where all the money has moved. Over 80% of what's purchased in this nearly \$3,000,000,000,000 global market is fast fashion now. So fast fashion is really everything from a sheehan, to, you know, an H and M or a Zara. But it's also, like, all of the kind of cheaper items that you might buy on an Amazon fashion or in a Walmart. Like, all of that is just what the designers are competing against.

Harry : Kass, that's on the supply side. On the demand side, you said something fascinating, which is paid marketing and growth hacking, ruined a generation of startups. I was so intrigued by this statement. What paid marketing and growth hacking ruin a generation of startups gen?

Jennifer : This is, like, a new thing I've been thinking about a lot recently. Because, obviously, we're in this very hard and very bizarre time where a lot of startups are going bankrupt, a lot of companies are having trouble, And I was thinking about my own trajectory as a business. I've always thinking about lessons learned, what could I do better, what you know, what do I wish I would have done a few years ago? And when we were growing up so we first raised money in 2009, And that was really the beginning

of an explosion in venture capital funding throughout the US. So I think that some of, like, the Highest years of venture capital funding were, like, 2011, 2012, 2013.

At this exact time, there was we were running parallel with the massive success of companies like Facebook, Google, and companies like Expediaandbookings.com. And so when you raised money from a VC in 2009 or in 2011, The first thing they would say to you is you need a growth team. You need to start doing growth hacking. And why did they say that? Because there was a culture and with the big personality attached to it, Chemuth, at Facebook, that had built this unbelievable growth machine and it worked for Facebook.

And what was growth hacking? Growth hacking was like looking at your PDP and saying, okay, I wanna change this button on the pdp from blue to green, and that's going to increase the conversion rate on page. It's gonna get more people to be to go further down the funnel. Now Facebook, that might have actually worked because they were dealing with such a big revenue base that moving the metric, 11 100th of a point could actually add up to a \$100,000,000. Is something significant?

But for startups that were very small, changing the button color from blue to green might give you some small, you know, perception that you were changing your metrics, but all of that would be erased, you know, within a few months because what you were doing is you weren't delivering any incremental value to your customers. You weren't actually fundamentally changing their experience in any way whatsoever to make your brand stickier to them, to make your customer experience better. So what happened was all of these startups wasted an inevitable amount of time and money on building these growth departments that were just like pushing chess pieces around the board. Like, that all of the gains would be erased. you know, whether it was within 6 months or was it 18 months and nothing would fundamentally change in the customer experience.

So VCs at the time were taking the lessons learned that were true lessons from mega companies and they were falsely thinking that those mega lessons could actually benefit small companies, which they did not. Then let's move to paid marketing. Okay. So you had these successful companies. You had Facebook.

You had Google. They wanted you to spend money. on ads. Those VCs also were investors in Facebook and in Google. they wanted you to spend money on those ads.

And there was a mathematical equation at the time where, you know, people just thought, hey. We've outsmarted decades of marketing knowledge. What we can do here is we can buy an ad For a really cheap cat, we can buy a search ad on Google. And if

the LTV is higher than the cat, we should do this all day long cha ching. Let's just keep on doing this.

what people couldn't foresee or couldn't think about is buying that search ad on Google just like growth hacking is doing nothing to fundamentally improve your customer experience. Buying the search ad on Google is doing nothing to fundamentally improve your brand. How do brands grow? Brands only grow based on the organic growth of a business. You gotta get people to love your brand.

You gotta get people to talk about your brand. The best brands on earth are brands that grow virally and organically. And the way that you do that is you invest in either delivering a much better customer experience, or you invest in building a brand that is so emotionally resonant with the consumer that they want to come to you. So what was happening at the time was there was almost this arrogance within Silicon Valley of which by the way, I'm viewing myself as being a part of that. I'm not saying, oh, they made me do this.

I did this, made these mistakes as well. there was an arrogance where we thought that we were smarter than these old school companies. who were spending their marketing dollars on things like retail stores and billboards and events and connecting with their customers and all of those things. And you know what? We were completely wrong because buying an ad on Facebook or buying an ad on Google might give you a quick hit.

It might give you a quick conversion, but that is fundamentally doing nothing to breed brand loyalty to improve your customer experience, to build morality, to build organic growth, and I think 1,000,000,000 of dollars have been wasted there where they should have been built on the real and bolts of kind of building customer experience. So a a business that I think did this absolutely right that the 1 tech company that I can think of well, there's 2 that have done it really, really well. One is obviously Amazon. where they have invested all of their time and effort on improving their customer experience. I mean, the evolution of Amazon is just like, let's give customer more and more and more value so that it is actually ridiculous to think about not having a subscription to Amazon Prime in your life.

Another company that I think has done this unbelievably well and their change has really happened more over the last few years is Airbnb. where Airbnb has said, let's forget everything about paid marketing. Let's take all of our dollars and invest it into The brand into PR, into product innovation that's actually gonna breed loyalty, and I think now, like, over 90% of Airbnb's traffic is organic. No rent the runway, over 80% of our

traffic and over sorry, over 80% of our customers have always come to us organic So we've never really fallen privy in the same way to paid marketing. Like many of our peers, paid marketing has always been less than 10% of our revenue.

But even that 10% of our revenue that I was spending on paid marketing, I wish that I can go back in time and say, that was stupid. I should have spent that on more engineers to build better customer experiences for my users, or I should have spent that on more brand marketing that would have enhanced the value and the, you know, emotional connection between my customers and my brand.

Harry : Can I ask you, when you say about the paid marketing, I mean, I have said I I I disagree because it's a form of discovery. Like, I tend to get you in terms of brand loyalty, champions, ambassadors, I love many products because I found them through paid marketing. It is a great way to find new customers, and that is what it's about. And so it does work. The VCs don't acknowledge it.

There's, like, half a quarter of a quarter of a percent and Facebook or Google sadly, Jen. I would love it if there were more. But, like, we're not, like, evil masterminds being, like, invest in Facebook.

Jennifer : -- is my I I just I started off a call saying I spend I talked to my VC investors still several times a week. They're my favorite people on the planet. Most of the time, if you look at startups over the last 15 years, The funnel has been inverted, meaning that you would take marketing spend And less than 10% of that marketing spend was often spent on top of funnel or mid funnel activities and 90% was spent on bottom of funnel. Bottom of funnel being direct response paid marketing. That's the problem.

The funnel should have never got into a place where 90% of your marketing budget was spent on those kind of ads that make you feel good. It makes you feel like customers are coming in and converting. But are those customers really staying with you? Like, The only way that customers are gonna stay, the only way way that you're gonna get high net promoter score, high net high morality is if alongside you kind of getting them at the front door, you're improving that customer experience, or you're improving your brand. And I think that we all had limited resources.

Also, over the last 10 to 15 years, or many of us did, and the allocation was off, where people were favoring just the paid marketing around growth as opposed to the continuous improvement of the customer experience. So it's really just about, like, how do you allocate your resource and I think way too many resources went to bottom of the funnel, number 1, within the marketing budget, and then way too many resources in

general went to marketing over things like, fundamentally improving your product experience, improving your operational experience, the things that actually keep customers loyal.

Harry : Is that not gross? I you know, I I we have 20 growth entering the world's biggest growth leaders. They will work on things like simplifying a home screen or removing annoying features or elements which cause churn. And so when you say, like, do people stay? Do they retain?

That is uncertain. This is why growth is difficult because the definition is kind of blurred. Like, to some people, that's just product teams. And to some people, that's gross. Do you see what I mean?

Jennifer : That there's always within a product team, there is always an element in any business of simplification. Let's make this site easier to use. Let's take this, like, archaic, screen away, and reduce this reduce this the friction around the product funnel. Yeah. That that's a part of the health of a product organization.

But growth hacking is something that's fundamentally different. That is literally you are hacking the difference between, you know, changing your fog color from this to that, like moving this line from here to there, you're you're you're running hundreds of experiments at one time that may show up mathematically in the metrics, but to the customer, like, does it really freaking matter? Like, does that change their fundamental relationship with Rent The Runway? that you move the button from here to there. Like, the only thing that's gonna get customers to stay with rent the runway longer is if they wear more clothes for me, they get more utility out of those clothes.

They feel awesome every single day wearing them and the experience of receiving those clothes becomes easier and easier over time.

Harry : And no. I I totally agree with you. I think I mean, the difference there is, like, growth and growth hacking. know what I mean? And and the definitions are very different.

So I get you there. Can I ask? I have done the founder of ButcherBox on the show. He said there at 600,000,000 in revenue. He was like, we get to a 1,000,000,000.

We'll be a 3,000,000,000 company. It's not it's not a bunch back business area when you look at the scale. And I I'm saying that as the founder of ButcherBox. And it just made me really pause and think. And he said, like, consumer subscription isn't.

Do you think that's fair, actually? What do you think it's missing something?

Jennifer : Well, I think, Sam, Lumping all subscription businesses together is as wonky as when I used to say that we shouldn't be thought of as an apparel company. Right? So when you look at when you think about what gives Rent the runway the right and what will what gives us the right to become a profitable company? The thing that gives us the right to become a profitable company is that we have this 44% gross margin that we've proven can only go up that we have this competitive advantage in our product cost, we actually have built a highly efficient fulfillment operation as evidence by the fact that our fulfillment expense, which has 2 way shipping, which has restoration of garments, which has cleaning, which has repair. still is only 30 percent of revenue, which leads us to that 44% gross margin.

And what then gives us the right to become profitable over time. It's that in addition to that, we've built a machine of a customer experience in a brand that is extremely viral, that we have that we get to spend less than 10% of our revenue on marketing. and we actually have room in there to actually build a quite profitable business. A lot of subscription companies have actually are a lot of subscription companies are software businesses. Right?

Their software as a service and Those subscription companies may actually be spending 70% of their revenue on their sales organization -- on their marketing or an organization. Like so looking at rent the runway versus a SaaS company doesn't really make sense because the p and l is just completely different. So I don't actually know what the p and l of ButcherBox is like. I know that Actually, that sounds like a very cool business, but subscription is just a way as well. the way that I think about it is what makes rent the runway different is most subscriptions you're just getting more stuff every month.

We're in a lot of subscriptions. Like, here's your box of made I'm making a guess on what butcher box is. Here's your box 8. Here's your buck this month. Here's another box of meat.

Next month. Here's another box of meat in the month after. Rent the runway has taken a business that the fashion industry, which used to be about purchase and wastefulness, so the average American buys 70 new articles of apparel per year. So what does this tell you? It tells you that the customer across class across interest in fashion so even people that don't care about fashion are buying about 70 articles of apparel per year.

It's crazy, so the customer clearly cares about variety. So Rent the runway has taken the business and turned fashion into a replenishment business. Similar to grocery, we've said, okay, you're description is just your wardrobe wardrobe on constant rotation. You don't have to buy these things forever. You're gonna share these items with, you know, all of these other women who are also kind of subscribers to this closet in the cloud.

But we've made the business something where 50% of your closet can be things that you own forever, and 50% of it can be a replenishment business. So you wear them, you return them, you get new things. So you're not accumulating more stuff that you don't need. You're serving this kind of use case this need that customers have for a variety and for self expression and doing it actually in a very efficient way. So I think that Just bunching everything together doesn't really make sense, and this business has Huge rate to win.

I think we're in a market that is growing really quickly. The tailwinds are incredible. We've made tremendous financial transformation over the last 2 years, and the proof is gonna be in the pudding. Like, I know that from my angle, I dedicated the last 15 years of my life to this. This is my first child.

This is my passion, and I am going to bring this business to a place where it is producing a lot of cash because This is the number one passion in my life.

Harry : Jen, I there there's so many a final thing I wanna just discuss before we do a quick fire is actually board exposure. You're on the board of Estee Lauder. I'm, like, the biggest fanboy for Estee Lauder. I think it's the most incredible unbelievable journey. But you also manage a board too, which is fascinating and hat switching between the 2 different exposures, like managing a board and then being on the board.

Jennifer : I'm also the board of Zalando, which is another amazing company.

Harry : That is an amazing company. Still, my heart belongs to Estee Lauder. Sorry. But I agree. Amazing business, totally.

But, like, how do you think about what it takes to be a great board member? And then what it takes to manage your board, Britney, as the founder. or CEO.

Jennifer : I mean, the founder and the CEO is thinking about the vision and the strategy and how build the right team and how do you allocate the resources within the company to actually attain that strategy. A board member's job is not to come up with the strategy of the company. A board member's job is to ask the right questions that might you know,

engage the CEO and the executive team in, you know, slightly different conversations. You know, I would say that as a CEO, I'm actually steering the ship. Right?

And as a board member, you might help to, like, tilt it one way or another by nature of how you challenge the leadership team, how you ask questions, how you maybe direct them to think about areas that they haven't been thinking about or bringing in kind of your experience into the room. Now, Sitting on the board of Estee Lauder is just one of the privileges of my life. I get to sit with, number 1, one of the best CEOs in the world, Fabrizio Freda, and I get to learn from him. He's a genius. Number 2, I get to sit with the Lauder family.

And the Lauder family is really stewards of wanting a company to be around for 100 years. Leonard Lauder, who is, you know, in his eighties, I think, To me, feels like he's in his twenties. He's that much of a visionary. He's that much involved in the business in understanding the details of his company. He cares about the business being around, the business doing the right thing, the business being long term and thinking, and that has been amazing to see that he still loves this company with the passion that he's had for decades, and that's really would I aspire to be for Rent The Runway whether I'm, you know, working at Rent The Runway as the CEO or I'm sitting on board, I want that level of passion and that level of curiosity throughout my career.

My favorite thing about Leonard Lauder is that, like, as an eighty something year old, he and maybe he's older. I don't even know because to me, he feels like he's 25. But the curiosity he has to continuously learn, to continuously think about the world differently, to push like think of all the changes that have happened over his career. Across this business, and he's the first one to say, let's go for that. Let's try this new thing.

Let's, like, push the envelope here. That's amazing. So the brilliance of Fabrizio and how he's built this unbelievable team around him. And then the unbelievable, you know, innovation curiosity and kind of loyalty of the law family is just it's amazing.

Harry : It's embarrassing. Very final question for a quick fire. But has being on the Estee Lauder board changed how you run the wrong runway at all? Definitely. As.

Jennifer : I think that I'm thinking a lot more long term in nature because of it.

Harry : that's fascinating. And that's because of Fabrizio and the explosion.

Jennifer : It's because of Fabrizio and the Lotter family. I also The other thing that I've learned from Fabrizio that I take into my leadership is strength based leadership. So

Fabricio is a huge proponent that you should spend almost no time thinking about someone's weaknesses and how to improve them. And you should identify what are the things that make someone great, what are their superpowers, and how do you accelerate those strengths. And I have a 100% adopted that within my own leadership style, you know, let's focus on what makes someone amazing.

Let's give them even more runway for them to be even more amazing in this area. And let's build teams around those strengths. We don't even have to waste our time on the weaknesses. And you know, some moderate improvement in weakness like who cares when we can 10 x your strengths.

Harry : I suck at spreadsheets, so I would thoroughly enjoy being under your leadership. You say, you just made me very nervous. But I would love to move into a quick fire round, Jan. So I see a short statement, and then you give me your immediate thoughts. Does that sound okay? Okay.

Great. I I spoke to Jenny before, and she said, how did you meet Beyonce and get her on the homepage of the site? It was something I had to ask. And I was like, here it is.

Jennifer : Yeah. So we in one of our in our first office, there was a designer who Work next to us named Brian Reyes, and Brian's boyfriend became Brian and his boyfriend became good friends of our because I was working long hours and then I would go over to Brian's design studio after work and have drinks and just hang out with him and Jim. And we just for, you know, the 2 years that we worked there became very close. And I never really asked Jim much about his career because we were just having fun together, and I was talking to him, you know, in a personal way. And then a few years later, I got a phone call from Jim because Jim and Brian had broken up, and and I was like, Jim, oh my god.

I'd miss you so much. How are you? What's been going on? And he was like, Jed, I'm back to my old gig. And I was like, oh, like, what's your end gig?

He's like, we never talked about this. I was like, no. He's like, I'm Beyonce's manager. And I was like, what? What why was it as Datocha.

And he had seen the company grow up. He had seen the culture of what we were trying to do, how we were trying to transform you know, how women felt about themselves through fashion and enable women to feel empowered every day. And he thought this is like a perfect, you know, pairing for what Beyonce believes in. And so we met Beyonce, she wanted to do all these things for rent the runway, wish she was on her home page,

She also we dressed the Beehive at all of her concerts around the country and read the runway that year. It was amazing.

Harry : Was it cool meeting? We end up.

Jennifer : With Beyonce Yeah. No. I just thought it was the most fun experience of all time. It wasn't it was a nerve wracking. It was like you're around greatness, and you're just what we were trying to remember is that when you're when you know the something is gonna become like one of the coolest moments of life and you're trying to remember every single second of it, that was more the mode.

Harry : Did that convert to sales? Like, does seeing Bayonne say I'm not in the wrong way? Do people, like, buy more?

Jennifer : It did. I mean, it brought a lot of traffic at the time. And I I do think we got a a nice bump from Beyonce. I mean, we're fools for not turning that into something much bigger. One of my biggest career regrets that I have.

Harry : It's the first time I'd ever had. We got a nice bump from Bayon City on Twenty BC. So you gotta save every moment of a a first experience, work life balance, possible, or a myth.

Jennifer : Totally possible.

Harry : Wanting you know to be true that others do not agree with.

Jennifer : That the most important thing about building a business is forward momentum. It's just continuing to wake up in the morning and put one foot in front of the other and have positivity and just keep going. I think that people give up way too soon.

Harry : I love that. That is that is the boom clip. Fantastic. What have you changed your mind on in the last 12 months, Jim?

Jennifer : I've changed my mind on AI. So I always thought AI was extremely important, and now I think it's like the the next leapfrog moment for companies. I think it is using the word important is is too small of a word. I think that it is a game changing innovation in how we're all going to experience the world around this.

Harry : Panultima 1, craziest thing we saw happen in 2020 to 2023.

Jennifer : All of our revenue kinda go away and then it all come back were us, you know, us going from losing all of our revenue essentially overnight to IPO ing the business 18 months later. with our full team and, you know, all of our alumni kind of standing by and being part of it. It was just a remarkable from the lowest of the lows to the highest of the highs.

Harry : Final one, that is 5 years for you and run the runway. What does run the runway look like in

Jennifer : 2028? Well, we're gonna be very profitable. We're gonna be much bigger. We're gonna have, you know, hopefully, millions of subscribers. I think that what's cool about rent the runway is I think that there's just a much bigger market with the business that we're in today.

I don't think it's gonna be about Massive new changes to what we do. I think it's just about growing what we are already doing. So I think we're at the very beginning of a tidal wave shift in how people get dressed.

Harry : Jen, I've absolutely loved this. Thank you so much for putting up with my very wayward schedule.