

MoS Episode Transcript – Jenn Hyman

KEVIN VENARDOS: The Venardos Circus. The magical, musical, traveling circus of your dreams – one of the catchphrases I have used to describe it. Actually, my favorite, of all of them is “the little circus that could.”

REID HOFFMAN: That’s Kevin Venardos, ringmaster and founder of the Venardos Circus. Yes, circuses can be startups too. Before he started his traveling circus, Kevin was already at the top.

VENARDOS: I got a job out of college as the ringmaster for the Ringling Bros. and Barnum & Bailey Circus. I had found a dream that I never had that kind of came true. Oh, it really did come true. I was at Madison Square Garden with the “Greatest Show on Earth.”

HOFFMAN: When the “Greatest Show on Earth” took its final bow, Kevin set out to build a stage of his own.

VENARDOS: Years later, I started a little show. I convinced the L.A. County Fair to buy a show that didn't exist yet. And then I went out and made it happen. It was a 30-minute circus musical, in 120 degrees, outdoors. And me and a small cast put on a show that is like a musical with aerialists and acrobats, and lots of laughs, and daredevil stuff, and heart.

HOFFMAN: The Venardos Circus started touring, and never stopped. And Kevin learned, just as all startup founders do, that running a successful circus is more than just tightrope routines and acrobatics. Kevin had to master location scouting, ticket sales, and venue permits, just to name a few. He started hiring – fast.

VENARDOS: I have a digital ringleader, who is in charge of our online world. We also have a full-time PR lead. I also have a tour manager, he's the guy who's working with me on permitting. And that is a full-time job, let me tell you. And then I also have operations director on the ground with the tent.

HOFFMAN: Ah. The iconic circus tent. A perfect place to peek inside a hidden business-behind-the-business. Kevin knows how vital it is for his show.

VENARDOS: I think it's one of the most exciting parts of the experience that I provide people, is seeing that tent at a distance, and then stepping inside of it.

HOFFMAN: In a circus, the tent is a business unto itself. And for the Venardos Circus to thrive, Kevin would have to master it. First of all: Where to set it up.

VENARDOS: I and my team have identified locations that people might not have known how valuable they could be.

HOFFMAN: Once you find a good spot, you have to get the tent there.

VENARDOS: Most other circuses, look at Big Apple Circus, there's dozens of semis, dozens. It takes them a couple of weeks to set that tent up and they're not making money while the tent is getting set up. We can put up our little tent in four hours. We have one semi.

HOFFMAN: And now it's time to set it up. Kevin and his team of performers had to master this art as well. And it might be the hardest part.

VENARDOS: It is a poled tent. There are two king poles. There's 22 poles around the outside. Each of those poles goes down to a plate that has three stakes in it. So that means, with 22 poles, there's 66 stakes on that tent...

They get driven into the ground with an electric hammer: dah-dah-dah-dah-dah-dah, down. Usually, is a couple of guys it takes to be driving those stakes in... If it's a rough surface like asphalt, we would lay out a ground cloth. If it's fresh-cut grass and there's no obstruction, we might just put the tent top right down in place...

We connect all the ratchets and the webbing around... we raise the poles on the outer edge of the top. Once those poles are loosely hanging there in place, the two king poles rise up in position...

It used to be elephants were used to raise those king poles. And there's a wheel that sits at the bottom of each of the king poles. So as the thing rises up into the air, we pull it up into position, and we get the top in place, and you hang the wall and add the trim. And then we all, as a team, tear the tent down, and move onto the next city.

HOFFMAN: Kevin has to know the tent business as well as he knows the entertainment business. Because when it all comes together, it can be a magical thing.

VENARDOS: We just finished a long tour and sometimes you get tired, but something about the circus always has made me wake up the next day and want to try again. Because it's worth it. It's worth all that sweat and the blood and the tears. It's worth it.

I want to bring them into a world of dreams and magic and wonder. And I want them to bring their families, and I want to create memories for them there that will draw them back year after year.

HOFFMAN: As Kevin Venardos has learned: going from ringmaster to mastering a business is so much more than walking a tightrope. The crowds may be delighted by the aerialists, clowns, and dancers, but what's happening behind the scenes is just as important.

That's why I believe you need to master the business behind your business – it just might be the critical factor that lets you break out.

[THEME MUSIC]

HOFFMAN: I'm Reid Hoffman, co-founder of LinkedIn, partner at Greylock, and your host. And I believe you need to master the business behind your business – it just might be the critical factor that lets you break out.

Every business that's achieved huge scale has another one fueling it behind the scenes: And that back-end business often looks very different from its public-facing side. Think of Amazon's massive warehouse operations, or the assembly line that builds an iPhone.

To put it in tangible terms: Picture a high-end restaurant. You walk in to delicate ambiance, gracious waitstaff, and gorgeously plated courses. But behind that dining room is a furiously bustling kitchen, fire, and steam. Also: Daily shipments of fresh vegetables, early-morning fish markets; and-the waste removal-service that hauls everything away at the end of the night.

Imagine that restaurant's owners want to branch out, start a franchise. Conventional wisdom says: To take that leap in scale, they should outsource every backend system they can, from linen supply to reservations.

But that only works if they also identify what part of the business behind their business makes them who they are. Is it their ability to import exotic wine? Their locally sourced, farm-to-table produce? Whatever it is, that's the part of the operation they need to invest in most heavily, because that's what will set them apart.

And if that business behind the business grows robust enough, it might even become a stand-alone success. Think of Amazon building AWS to shore up their own internal systems – and then launching it as the platform that captured 48% of the cloud market.

I wanted to talk to Jenn Hyman about this because her company, Rent the Runway, has achieved unicorn status by mastering the business behind their public-facing operation. And the two are about as different as you can possibly imagine. Rent the Runway lets customers rent a single dress for a special occasion or subscribe monthly to create a kind of "closet in the cloud."

For their customers, Rent the Runway offers access to glamour. But underneath the stylish marquee business is the largest dry cleaning operation in the world. And also, a bottomless well of product data: Which skirt is a hit with customers? Where do they wear it? How many times

can it be cleaned before the buttons fall off? No one knows this but Rent the Runway. And that data is deeply valuable to partners.

Because of all this, Jenn explains, her company has to be as tech-forward as it is fashion-forward.

JENN HYMAN: Rent the Runway is very much a technology business and always has been. In fact, 80% of our corporate employees are engineers, data scientists, product managers. We have very few people that are in what you would think are the traditional aspects of what Rent the Runway would be doing, which is merchandising and marketing. The first C-level hire that I made was a chief data officer, and he was in my first 10 employees. So from the very beginning of the company, we were thinking about data.

HOFFMAN: Later in the show, we'll dig into the nuts and bolts of the data business behind Jenn's business. But first, let's take a look at how she found herself poised at the nexus of aesthetics and logistics.

HOFFMAN: When did you start thinking that you might be an entrepreneur?

HYMAN: I'm still thinking whether I'm an entrepreneur. I actually thought that I was going to be a journalist.

HOFFMAN: As an undergrad at Harvard she was editor-in-chief of their daily student paper, the *Crimson*. She prepared herself for a career in news. But then...

HYMAN: The first day of my senior year of college was September 11th, 2001. I ended up writing my thesis on how the mega-merged news structure had framed the content that we received from network news around September 11th.

Because these media organizations were business organizations now, that they had cut investigative journalism, they had cut international bureaus, and therefore we received a very sensationalistic news package in the first few weeks after September 11th.

HOFFMAN: What I find interesting in this story is that even before she graduated, Jenn was keenly aware of the scaffolding behind the products we consume. In this case, TV news. She recognized that the behind-the-scenes business drove the end result. Jenn took a job at Starwood Hotels after Harvard. It turned out to be a serendipitous time.

HYMAN: I saw that the world was completely changing and especially my generation. They were starting to value experiences, like travel, over ownership. And that was actually changing the hotel industry.

HOFFMAN: Six months into her tenure at Starwood, Jenn had an idea.

HYMAN: I went to pitch the president of Starwood and I asked him for \$2 million dollars to start a honeymoon registry, where couples could register for their honeymoon, and their friends and family could give them room nights and massages as opposed to registering for pots and pans from Crate and Barrel.

HOFFMAN: Jenn was discovering one of her great strengths that would go on to serve her at Rent the Runway: an ability to spot shifts in the culture that create opportunities. In this case, Jenn saw the experience economy coming and she thought the hotel industry had a new role to play. That's what she told the president of the company.

HYMAN: He didn't really respond in the meeting. He didn't say yes, he didn't say no. But I went back downstairs to my boss after the meeting and I said, "He approved it." And I proceeded to spend the next three and a half years at Starwood building this business for them. So I became an intrapreneur.

HOFFMAN: It's important to note that Jenn's boss did, of course, get on board for real. And I'm not sure I'd recommend following her exact tactics there. But I admire her persistence. That persistence also got her to the next stage: implementation.

HYMAN: I had to learn how to work with an engineering team to build an entirely new way of selling travel, and how to integrate with partners, how to think about the creative associated with this entirely new brand.

HOFFMAN: What Jenn just summed up in one sentence are actually three distinct businesses behind the business: Working with engineering to make sure the technical framework is there; working with partners to ensure they benefit from your new project and don't undermine it; and making sure your customers are drawn to your idea. You can think of these as legs on a stool – if one of them is wobbly, so is your product.

Starwood's honeymoon registry launch was not wobbly. In fact, Oprah named it as one of the most innovative ideas of the year, and the project survives to this day. Jenn left Starwood after three years, and – after a sequence of roles – found herself at Harvard Business School, in search of her next step. What she found was her co-founder, Jenny Fleiss.

HYMAN: I'm not sure that I ever would have founded Rent the Runway had I not met my co-founder, because she was such a galvanizing force in turning this from a fun school project into an actual business.

HOFFMAN: The story of Jenn's "fun school project" has become Rent the Runway canon – and with good reason. It's a classic entrepreneurial lightbulb moment.

HYMAN: I was home in November of 2008 for Thanksgiving in New York City and I was with my younger sister, Becky, and she had just purchased a \$4,500 dress that put her into credit card debt and it was multiples of her rent at the time.

I was yelling at her, as her older sister, that she should return that dress that she just bought and wear something that was already in her closet. And I was staring at her closet and she was like, "Everything in this closet is dead to me. I've been photographed in everything. The photos are up on Facebook. I need to wear something new."

The clothing itself, the closet, was dead. And so the idea that I had is what if the closet was a living thing? What if this closet that we each have in our bedrooms all over the world could adapt to changes in the weather, changes in our mood, changes in our lifestyle, changes in our size? Why is it that we have this closet that's a museum to who we once were?

HOFFMAN: Jenn took this idea of a "living closet" to her HBS classmate, Jenny Fleiss. As with any great co-foundership, Jenny encouraged Jenn to take her idea and turn it into something concrete. Even in the earliest phase, as you're dreaming about everything your new business will do, someone on your team should be focusing on how it's going to work.

The first step was for Jenn and Jenny to get perspective from someone in the fashion world.

HYMAN: I said, "Well, we should probably call Diane von Furstenberg, because she knows a lot about the fashion business." She was the president of the CFDA.

COMPUTER VOICE: CFDA: Council of Fashion Designers of America.

HYMAN: Jenny was like, "Well, do you know Diane von Furstenberg?" And I said that of course, I did not.

HOFFMAN: Like any entrepreneur with grit, Jenn was determined to find a way.

HYMAN: That afternoon, Jenny and I wrote a cold email to 12 different iterations of dvf@dvf.com. One of those emails was correct.

HOFFMAN: Incredibly, this method worked. They got through to Diane Von Furstenberg and shared with her their vision for the company.

HOFFMAN: So describe that meeting, describe the pitch, her reaction, and what the iteration look like.

HYMAN: We pitched this idea of a white-label solution on her website. We said, what if we powered the back end enabling you on dvf.com to actually rent your product?

HOFFMAN: What I want you to notice is that Jenn's first concept for the company was very different from what they ultimately built. She initially pitched a behind-the-scenes operation. Maybe it was her past life as an intrapreneur at Starwood. Certainly it was a savvy move to crack into the fashion industry, through an esteemed iconic designer.

Regardless, it shows an early understanding for the business of how, and not just the business of what. That's important for any founder who wants to move from idea to execution. A deep, abiding interest in the process, and not just the end result, can motivate you when the going gets tough. Like when a Diane von Furstenburg tells you "no."

HYMAN: She said, "I don't like this idea of you piloting it on my site. I would only do this if other brands did it too." And in a sense, she kind of gave us the permission in that meeting to go off and be our own site.

HOFFMAN: Rent the Runway's first industry contact had inadvertently provided them with a new business model. Why be the rental service for one brand when you could do it for 20 brands? Or 50? But it was their second call that would reveal to them how they'd do it.

HYMAN: After we had this meeting with Diane we were like, "You know what? Let's do this." I thought, "Who is apt to hate this idea the most? It's going to be a traditional department store."

The second person that I cold-called was a guy named Jim Gold, who at the time was the president of Neiman Marcus.

HOFFMAN: This, by the way, is a highly unusual approach for a new entrepreneur. Asking not just, "Who will love this idea?" but "Who will be most threatened by it?" It goes along with my constant refrain to founders: invite others to poke holes in your idea. And no one's more apt to poke holes than someone who may not want you to exist at all.

Jenn saw big-name, brick-and-mortar department stores not only as her competition, but as powerful gatekeepers that could cut her off from potential suppliers. Because if Neiman Marcus tells a designer they shouldn't trust their merchandise to Rent the Runway, that designer will listen.

HYMAN: I understood that the fashion industry was one that was based on a handshake, and trust and relationship. Because how else can you sell a piece of leather for \$4,000 and convince people to actually buy that? You are investing in your brand. And so you're going to safeguard that brand. You're going to safeguard who gets to distribute it, who gets to carry it.

HOFFMAN: Jenn gathered up her courage, and met with longtime Neiman Marcus president Jim Gold.

HYMAN: I went down to meet him at his office in New York City and I said, "Okay, what if I were to take designer dresses at the exact same time that they're being sold in Neiman Marcus and I were to rent them for 5% to 10% of the price to customers?"

And his response to me was, "Well, women have been renting the runway for my stores for decades. It's called buying a dress, keeping the tags on, and returning it to the store."

I said, "How often does that happen?"

He said, "It actually happens 70% of the time."

And I was like, "Okay, why on Earth do you let that happen if you know that people are stealing from you 70% of the time? Why is it happening?"

He said, "Well, the same customer who's renting from the dress department is buying 10 pairs of shoes downstairs. We actually can't stop the behavior because it's our best customers who are doing it."

HOFFMAN: This was not an ideal situation for any department store. Perhaps it's better to suffer repeat customers' bad behavior than to lose them altogether.

HYMAN: There was kind of an entitlement to this behavior that I thought was really fascinating. This idea like, "I'm spending so much money in this store, I deserve to be able to keep the tags on."

HOFFMAN: As Jenn talked to the heads of other department stores like Macy's and Saks Fifth Avenue, she started to understand the scope of the problem. The dress problem wasn't limited to a single store or chain. It was pervasive, predictable and, so far, unavoidable.

HYMAN: So it was so clear to me that this behavior of rental was happening already and that it was widely known to the retail world. And in fact, whereas I had suspected that department stores would initially be scared of us, the way they thought about it was, "Oh, here's a site who might take away our worst customers."

HOFFMAN: This realization was crucial to the way Jenn built up not just her main pitch to suppliers, but how she could ensure she had the blessing of the very stores she thought would be her main antagonists.

HYMAN: They gave us permission to survive at the beginning. Because when we approached designers like DVF, the first phone calls would always be to the CEOs of

Neiman Marcus and the CEOs of Saks. And they were like, "Yeah, you know what? I've met Jenn, kind of like this idea, you should try it."

HOFFMAN: Right at the beginning, Jenn was looking to shore up one of the most critical businesses underneath her business: the relationship trade. Relationships are the engine that powers every business, of course. It's how you establish your supply chain, as well as your customers. But Jenn had observed that in fashion this was especially true, where brands matter. As she mentioned earlier, a strong brand is what moves \$4,000 pieces of leather.

HYMAN: I could have very easily gone to third parties, gone to retail stores, bought inventory on sale and populated my site initially with the exact assortment that I thought my customers would want. But I had this very long term point of view that we were going to build this closet in the Cloud and that the relationships with the industry would be critically important.

HOFFMAN: This long-term view is one I wish more entrepreneurs would adopt early on. Because the business behind your business is not always easy to retrofit. It's much simpler, more elegant, and cheaper to scale at the same time you're scaling your public-facing brand. In Jenn's case, she wanted to build in those relationships from day one.

After the break, we'll take a deep dive into the business-behind-the-business at Rent the Runway.

[AD BREAK]

HOFFMAN: Before the break, we heard how Rent the Runway figured out it's customer facing business. Now we're going to fast-forward a little – through Rent the Runway's seed round, and VC funding, and inventory stocking – and to their high-profile launch in November 2009. Through some scrappy list-building efforts and old-fashioned hustle, they managed to get a front-page placement on the front page of the *New York Times* business section, as well as 100,000 brand-new signups.

Positioning Rent the Runway as a tech company as well as a fashion concern was by design. Jenn recognized that female entrepreneurs get short shrift in this space. A two-woman co-founding team in the *New York Times* tech section would stand out.

But also, the mechanics of the service were newsworthy. Innovations like an integrated reservation system, or the ability to book backup sizes, or providing an option for free, fast returns. And maybe most importantly, the guarantee that the dress a customer receives is clean, stain-free, and functional, with all zippers working and nothing stretched out.

HYMAN: The customer experience of Rent the Runway is not the website or an app. That is easy. The customer experience is receiving back millions of units of worn

clothing, capturing data on those units, restoring them to perfect condition, dry cleaning them, repairing them, reassembling them with new units and shipping them out, often with a zero-day turnaround time.

We also understood from the very beginning that if we wanted to create a brand that people used and would recommend, and that was aspirational, that we had to control the end-to-end experience of ensuring that the clothing actually looked great when it went out and that it was perfect.

HOFFMAN: So, as promised, let's take a good, long look under the hood at the business powering this business.

HYMAN: The business of 100% returns is one that traditional WMS systems were not accounting for.

COMPUTER VOICE: WMS: Warehouse Management Systems.

HYMAN: So we've had to build all of our underlying logistics technology from scratch. I really did think that we were going to be able to outsource part of our technology stack. I thought that we'd be able to outsource, potentially, our dry cleaning at the very beginning and I'm, like, "Wait, that is the business."

HOFFMAN: As technologically advanced as Rent the Runway's operations are, the most important quality control functions come down to expressly human tasks. Like... smelling.

HYMAN: There's nothing that replaces a sniff test. There's nothing that replaces a visual quality inspection of being able to zip something up and move the zipper down, seeing if the hook and eye can close, stretching the material out and seeing if there are small holes that you wouldn't have noticed via the technology. I think that this is a business where specialized labor has to exist in our warehouses.

HOFFMAN: Making sure they have access to this critical specialized labor isn't as easy as it sounds. In fact, it's a major consideration in where Rent the Runway decides to place its massive distribution centers.

HYMAN: It's actually hard to find people who are expert seamstresses. It's often a trade that is passed down from generation to generation in certain communities. The same thing with spotting, the same thing with dry cleaning. The talent recruiting and retention is even more important as it relates to my hourly employees than to my corporate employees.

HOFFMAN: This is such an important point. A consistent misconception among entrepreneurs is that finding skilled hourly labor is easier than filling the C-suite. This is clearly false. And it's something that Rent the Runway recognizes.

Last year, the company made a policy that their hourly workers would receive the same benefits package as their corporate employees, a move that's so unusual in the garment industry – not to mention the tech industry – that when she first announced it, the reaction of the factory workers themselves was... complicated.

HYMAN: I thought that the reaction was going to be like euphoria. The reaction was actually shock and skepticism, "There must be a catch." And I had to work hard over the next few months to prove to my team, "No, there's no catch. In fact, you already have these benefits. You can start taking them. You're not going to be punished for them."

HOFFMAN: Eventually, the skilled laborers did start using their benefits. Which, besides being the right thing to do, also helped-secure the critical foundation of Rent the Runway's behind-the-scenes business. Because it is these team members repairing and restoring the clothes to Rent the Runway's painstaking standards, that gives the company its edge.

Jenn knew this service was so important, it was worth building themselves. They could have simply farmed out this work to outside partners. Instead, they made it a pillar of operations.

Jenn isn't the first entrepreneur to make this type of decision. For another example, we can look to the messaging juggernaut, Slack. Here's Slack founder Stewart Butterfield recalling the birth of their current business. It just so happened to have risen from the ashes of their gaming company, that made a game called Glitch.

STEWART BUTTERFIELD: We were in an interesting position where we still had \$5.5 million or something like that left in the bank. So we didn't have to shut down. And I think that there's a real temptation to go to the last dollar and hope that there's some kind of Hail Mary that will save it. The good thing about shutting it down early was that we had the ability to just not do anything for a couple of months.

HOFFMAN: As Stewart and his team planned their next steps, they turned their attention to an internal messaging system they'd developed.

BUTTERFIELD: So when we first got started, the natural thing for us to use was a very old internet protocol called IRC, an internet relay chat. It predates the web by a couple years. And because it's so old, it misses a bunch of features that are now considered just standard.

So one of the things it misses is store and forward of messages. So if I want to send you a message, and you're not connected at the moment I want to send it, I just can't.

There's just no way for me to do it. And so we built a bot that would log all messages that were sent when you were offline, so you could read them when you got back online.

And once we had that, we were like, "Oh, wow. It would be super convenient to be able to search these messages." And since we already had them in a database, it was easy to search them.

HOFFMAN: The more Stewart's team built up their message relay system, the better it got. And the better it got, more people used it.

BUTTERFIELD: It wasn't something that we thought about or talked about. It didn't have a name. It was just in the background.

HOFFMAN: Without giving it a name, Slack was born to help a specific team excel, Stewart's own team. So when it was time to find his next big thing, he needed only to look in his own backyard.

In the same way, Jenn was starting to realize the value of her underlying business. Not only had her company perfected the art of cleaning, repairing, processing, and shipping millions of outfits per year, they had also figured out something foundational: how to turn that process into data.

HYMAN: The way that I make money is about asset utilization. So my asset is a sweater, my asset is a coat or a dress, and I need to understand that asset down to the factory it was made in, the stitching that's used, the fabric that's used, what kinds of chemicals I should use in a dry cleaning process, how do I repair it, how do I store it, how do I care for it in order to maximize the IRR on that unit over time and how to extend the duration of its life. And so the data that we are capturing on the inventory and how that flows through the technology is actually what enables us to make money.

HOFFMAN: Calculating the 'IRR,' or internal rate of return, on a sweater or a coat, is the initial reason for collecting this data. After all, you want to be able to rent that sweater as many times as you can, without sacrificing the user experience. You want to know how long it will take before that sweater wears out, which the team in the Rent the Runway warehouses will be carefully noting.

You also want to know: How was that sweater reviewed? How did actual customers look in it? Did it fit as expected? That type of data is collected too, voluntarily input by the customers themselves. Users can post photos of themselves wearing the items. They can list their own height, age, body type, and whether the outfit was a success.

Remember how Jenn talked about fashion running on trust?

HYMAN: I understood that the fashion industry was one that was based on a handshake, and trust, and relationship.

HOFFMAN: When customers share their experience of the product, that both represents trust and leads to trust. Any dress can look great on a model. But a dress that looks great on a real person who wants to share it? That builds trust in the service and the brand.

These insights are essential to Jenn's client-facing business. But now that you have that data, you have that data. And who else might need it? Your suppliers. The designers. The manufacturers who made the sweater in the first place. The richness of that data, not to mention its sheer volume, would become a competitive advantage.

HYMAN: If you're a best in class retailer and you're selling apparel, maybe you're getting data four times a year. After something is sold and it's in a customer's closet, it's essentially a black box to you. You have no idea if that customer ever wore that sweater, how many times she wore it, did it really fit her?

We are getting data from our customers over a hundred times a year. And she's telling us: Did she wear it? How many times did she wear it? Did she love it? Did she like it? Was it just okay? What occasion did she wear it to? And all of that data that we receive, we're able to port back both into what we buy or manufacture in the first place to how do we clean it, how do we increase the ROI on that unit, and how do we now fill in the gaps of demand that we see.

We know more about what women want to wear than most retailers on Earth, and that has given us power now to not only buy from brands, but also to take that data to brands and to co-manufacture new collections together.

HOFFMAN: That's right. The data they've collected led them to partnering with designers on original collections. Take the case of Jason Wu, a young designer who rocketed to fame as one of Michelle Obama's favorite designers. Michelle even wore a Jason Wu dress to the presidential farewell address.

Through data insights, Rent the Runway had clocked that their customers were very interested in his brand. But they'd also clocked that the styles he was producing didn't exactly match up with their customers' needs. Jenn's team took these insights to Wu and it led to the creation of a new line initially called Jason Wu Grey, which proved a huge success.

That's the power of the data powering the business behind the business. It's built relationships with customers and with brands. That's also not the end of the story. It was data insights that led Rent the Runway to add an unlimited subscription service to their offerings, a service that has overtaken their a la carte model in popularity, especially among professional women who want a constantly refreshing, "living closet," not just for weddings and parties but for every day.

HYMAN: We understand a huge amount about our customers, because our customers are telling us not only about their style or their fit preferences, but they're telling us about their lives: they're telling us that they're pregnant before they tell anyone else in their life; they're telling us that they have a business meeting this week or they're going to Miami next weekend. So we understand a whole lot about the users and a lot about the inventory and we're able to kind of match those two datasets together.

HOFFMAN: As the company grows – they hit a \$1 billion dollar valuation this past March – Jenn and her team will be keeping a close eye on both their client-facing and behind-the-scenes businesses to make sure they are supporting each other mutually. Because when they don't, it becomes obvious immediately.

For example, this fall, when implementing a new software and racking system in Rent the Runway's warehouses significant issues resulted in weeks of order cancellations and service disruptions that made headlines. Jenn knew that trust with her customers is vital. So she issued customer refunds as well as \$200 in cash. They're accepting new subscribers again but it was a sobering reminder that if your behind-the-scenes businesses run on carefully calibrated systems, your consumer-facing business runs on trust.

HOFFMAN: Well, part of how you build trust is consistency over time.

HYMAN: Exactly. No one trusts from the very beginning. You have to show through your actions.

HOFFMAN: In a way, the business behind your business is most effective when it's invisible to the consumer. If it's working perfectly, they don't even know it's there. Think of your smartphone. It looks like one compact piece of technology, with some ability to do apps, make phone calls, do messages. And yet within that is a whole computer of chip sets; modems to talk to your cell network; operating system platforms in order to build applications on top of; complex governance over the application ecosystem; and security measures. Yet, you can still make a call, answer a call, text people – all that complexity within a simple container.

I'm Reid Hoffman. Thanks for listening.