

Masters of Scale: Rapid Response Transcript – Jenn Hyman

“Fashioning a greener closet”

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I do think that being locked away from all of the people that we truly love over the last 15 months has, yes, of course, people want to celebrate and they want to party right now. That might be a short-term thing. But what the long term thing is going to be is the level of appreciation that we have for those moments with the people that we love. And that is the real driver of not only my business, but that's the real driver of the fashion industry.

BOB SAFIAN: That's Jenn Hyman, co-founder and CEO of Rent The Runway, the pioneer fashion-apparel subscription service.

After Covid-19 lockdowns decimated the business, forcing layoffs and furloughs, Rent The Runway began to see a dramatic rebound early this year, fueled by new customers in unexpected places.

I'm Bob Safian, former editor of Fast Company, founder of The Flux Group, and host of Masters of Scale: Rapid Response.

I wanted to talk to Jenn because Rent The Runway's experience illuminates key consumer trends, as well as how businesses can prepare for them.

Jenn says that sustainability has vaulted to the No. 2 reason cited by consumers for using the service – up from around No 15 in pre-pandemic days.

She also outlines how the slowdown in 2020 enabled Rent The Runway to improve its capacity, through automation and new processes.

Building a “closet in the cloud,” as Jenn describes Rent The Runway, may not have been the essential service in crisis times that other cloud providers offered.

But as we move into the next phase, her situation offers a window into how accelerated change is remaking the marketplace for all of us.

[THEME SONG]

SAFIAN: I'm Bob Safian and I'm here with Jen Hyman, co-founder and CEO of Rent the Runway. Jen is joining us from her home in New York as I asked my questions from my home nearby in Brooklyn. Jen, thanks for joining us.

HYMAN: Well, I'm in Brooklyn too.

SAFIAN: You've new offices in Brooklyn, don't you?

HYMAN: We do. Right on the water. It's so exciting.

SAFIAN: New offices that you had not had before the pandemic, right? This is a new place for everyone to work.

HYMAN: We were one of the lucky ones that signed our lease in January, 2020.

SAFIAN: So you've been paying for space that you haven't been using? But I guess there are a lot of folks who have been in that boat.

HYMAN: Yes. And it felt pretty horrible until a few weeks ago when I went into the office for the first time and I'm like, "Wow, this is going to be a beautiful place to work."

SAFIAN: Yeah. Recovery seems to be in full swing, certainly here in New York City. The streets are full. People are out and about. It feels pretty good and a little surreal, right?

HYMAN: It feels really wonderful to see customers come back and see new customers come in and it was really hard to maintain that hope and that optimism for such a long period of time. And to have to do that, not only for myself, which was hard enough, but to maintain that optimism for all of our company and for all of our investors and to actually see that the conviction that we had in Run The Runway coming back stronger is coming to fruition. I'm just filled with a massive amount of relief.

We've started to see, in our business, recovery really start in mid-February, way before I felt it on the streets of New York City.

SAFIAN: You recently told the New York Times that your subscriber numbers are up 92 percent from the depths of a year ago. Did you ever wonder during the pandemic like, will Rent the Runway make it through to the other side?

HYMAN: I did. I had been pretty conservative from the beginning of COVID as to how long the pandemic would last. And I knew that our business would not be able to fully recover until there was a vaccine. And until people resumed seeing each other. Because so much of fashion is about the self-expression of seeing other people. It's how you want to express yourself to your friends, your family, your colleagues. So when we're trapped at home, we're less focused on fashion.

SAFIAN: And as you look back over the journey from that point to here, I know you had to close retail outlets at certain points. You had to furlough or lay off staff, you went through the dreaded down round where you had to raise money at a lower valuation, are there moments that you look back on during this period that we've been through that were particularly impactful.

HYMAN: There are so many moments that I look back on where I really think that we showed up authentically, we showed up in the way almost that we had been training for.

As much as people complain about startups being hard, there's nothing as hard as your demand falling off a cliff because of a global pandemic on one random day in March of 2020. And there's nothing we could have done to plan for that, with the exception of we had 12 years of building a business and dealing with the ups and downs that inevitably come from growing a startup from an idea into a fully-fledged company.

SAFIAN: And so there's sort of a, I guess, a metabolism, right? That you build up during those ups and downs, that when a crisis like this hits, you sort of tap into.

HYMAN: So I felt it was my responsibility to put the company in the very best position financially and strategically. So all of the cost cutting that we had to do throughout the business to create the longest possible financial runway.

The second category were decisions related to people. And those weren't just decisions of layoffs and furloughs, but decisions of how are we going to communicate with our team, how are we going to inspire our team, how are we going to protect our team.

And the third set of decisions was how emotionally we wanted to show up as leaders. I felt that it was extremely important to have a culture of transparency. So we went from, prior to the pandemic, having all-hands meetings once a month to having-all hands meetings, at least once a week, where one of the features of our all-hands meetings were just free format ask-me-anything sessions, nothing was off limits.

And we were sharing every metric about how our subscriber rate had decayed. Lack of demand into the business. We were sharing metrics that in many cases were very scary. But part of being authentic with your team is grounding them in the reality of where we are at today and then inspiring them with hope on where we're going to get to.

So one of the benefits of having made so many decisions quickly was that, starting in April of last year, we were able to focus on the strategy of who we wanted to be coming out of the pandemic. And we really were able to shift our attention away from the drama or the trauma of COVID into preparation for the post-COVID world, which we had conviction would be an even bigger platform for Rent the Runway. We just had to get there.

SAFIAN: So many habits have changed over the last year. Do you know yet what of the changes that you're seeing in your marketplace are permanent? And what things may go back to the way they were? You mentioned things came back in some ways a little faster or were more stable maybe than your worst case scenarios had been.

HYMAN: Yeah. The recovery has been far earlier and much steeper than I ever could have imagined. Which is fantastic. There's a few changes that I think are permanent. The first is a change towards living our lives in a more thoughtful, sustainable manner. So we've always tracked data and reasons why people sign up for Rent the Runway. And until 2020 signing up, because Rent the Runway is a more sustainable way to get dressed, fundamentally wasn't even on the list. So millions of customers had signed up and perhaps it was kind of reason number 15 or reason number 20.

SAFIAN: Right. It was more about convenience, or price, or other things about, we used to call this innovating your closet?

HYMAN: Or self-expression, wanting variety, wanting access to fashion freedom. Sustainability is now the number two reason why people are signing up to put their closets in the cloud and have a subscription to fashion. I think that that's fascinating. And that that happened in a 15-month period. Second change that we're seeing is a change around how people think about consumption in general.

We spent over a year being trapped at home, staring at closets and homes filled with stuff that really didn't bring us much joy.

So, there are two things that happened as a result of that. One is that, people spent a lot of 2020 clearing the clutter from their homes and closets, and they don't want to go back into a mode of consumption, and the second was a reconsideration of how people spend their money. I think that we're coming out of this pandemic with a recognition that experiences are in fact more important than ownership, and that spending our money on things that bring us joy, are always going to be more important than the accumulation of stuff.

And, the fashion industry, which is a \$2.4 trillion global industry has fundamentally been based on convincing the consumer to irrationally buy things that she doesn't need. It's trying to convince you to buy an 11th pair of jeans, or a 20th top, that you know you'll wear once or twice and then discard. And so, we're finding that the pandemic was the greatest accelerant to the experience economy that we ever could have hoped for.

Bob, you've heard me talk about for years the experience economy and how much more important I valued access over ownership.

SAFIAN: Yeah.

HYMAN: Well, I think the customer is finally there. And she's not only there as it relates to her closets, I think that she's really there as it relates to all of the stuff that we over consume across all categories. So, those two changes I find to be extremely permanent and they will change every industry. And then there are, of course just some changes which are quite obvious, like the shift from offline shopping to online shopping, across all categories. That's not going away.

Now that stores are reopening all the country, it's not that people are going to resume shopping in physical stores in the same way that they did pre-pandemic.

SAFIAN: Are you going to reopen stores again, or is the purpose of a store different now? Although, it was always a little different for you guys anyway.

HYMAN: Yeah, we had actually seen in 2019 that 90% of our transactions in our stores were customers who were picking up or dropping off their orders. So, our stores were more about a frictionless transportation experience than they were about a shopping experience. So we had been discussing, even before the pandemic, as opposed to having five stores, we should actually have hundreds of pickup and drop off locations all around the country, and that stores weren't as efficient of a mechanism for us, as opposed to the Rent the Runway Dropbox network, which we're able to easily expand in convenient locations across the country. So for us, the decision to close stores was a relatively easy one.

SAFIAN: You guys just announced an expansion about offering secondhand purchases, even to non-members. And as you were talking before about how we don't want stuff, we want less, at the same time you guys are opening the greater opportunity for your customers or your members, I guess it's even for non-members, to be able to buy. Is that as an entry channel for getting them to rent more? How do you see these two parts of the business working together?

HYMAN: Yeah. So, one of the things that we had conviction for throughout the pandemic was that the secondhand economy would come out as a massive winner post-COVID, and that people's desire to consume more sustainably would be a permanent change.

What it means from a business perspective is that it opens up the funnel of potential customers that Rent the Runway can have. We've seen a huge amount of success over the years at getting women who had come to our business to rent to convert into becoming a subscriber. And we similarly think that our resell business is going to be an excellent funnel into subscription over time.

So, we find it really as providing the customer flexibility and providing us a wider funnel of new customers.

SAFIAN: But the core business for you guys at this point is still the rental and subscription business.

HYMAN: Yes, our core business is subscription. Subscription is over 75% of our revenue, subscription is what fundamentally changes your behavior. Our most engaged subscribers are using our service over 100 days of the year to get dressed, as opposed to wearing clothes that they have in their closets or buying something new. So, that's really the game changing behavior of Rent the Runway.

SAFIAN: The trends that you mentioned in the marketplace. I mean, you guys aren't the only brands that are recognizing this. The other brands have been launching rental options following you, even Ralph Lauren, Etsy just announced it's buying Depop for over \$1.5 billion. The competition seems to be exploding. Does that worry you?

HYMAN: I don't think that we have competitors to the core business of what Rent the Runway does. Which is, offer women an unlimited closet. I think that the best mechanism for a Closet in the Cloud is having an unlimited assortment, having hundreds

and hundreds of brands, and tens of thousands of styles, and providing women with really the freedom to change.

I applaud individual brands launching subscriptions, but I think it's a very different experience to have a subscription to a monolithic brand, than it is to have a subscription to every brand and have that unlimited access. So I would compare it to, would you rather subscribe to Spotify, or would you subscribe to Dua Lipa?

SAFIAN: Well, we know where most people are subscribing certainly, right? Because the experiences is more satisfying, more choice, more options, right?

HYMAN: I think that fashion has been a category historically, where people had to make a long-term choice. You had to buy something and then wear it for many years, or you had to buy it and then just throw it away. And, an unlimited closet really provides the customer with the freedom for her life to evolve. And I think that, that's a really powerful proposition.

In a world specifically now, where we're going to be more mobile than we've ever been before. Because of hybrid work, people might actually be living in many different places, they might not have physical closets in all of the places that they're living. So the ability for your closet to adapt as your life changes, which truly only Rent the Runway's unlimited closet can do, I think will be a feature of how the modern person is living.

SAFIAN: When you appeared on the classic Masters of Scale with Reid Hoffman, pre-pandemic, you both talked a fair amount about the logistical needs and priorities of the business. How were those operations altered during the pandemic?

HYMAN: So there were really two categories of strategic work streams that we focused on from April 2020 until now. One was increasing the strategic aperture of the business and really offering the customer this ultimate circular platform where you can rent, buy, or subscribe. The second component was everything related to scaling our operations and logistics.

Now, for all of the pain that the pandemic caused to our business, one of the very best things was that we didn't have many shipments going through. So, for the first 12 years of the business, the only problem that we had in our operations was the problem of growth. How could we ship out more? We actually had an opportunity in April of 2020 to see what our processes were with very little volume going through them. And therefore, we had the time and the space to actually fundamental.

Transform most of the processes in our facilities. We added in machine vision, automation, various technologies that would actually step function our fulfillment margins, and our efficiency within our facilities. And all of these projects were things that we wouldn't have been able to do in the climate of 2018 and 2019, where our subscription business was growing like wildfire.

So we've been able to quadruple our capacity and our efficiency through this period of time.

SAFIAN: So the same physical footprint, and the same number of human workers are moving through that much more product, because of equipment, technology, process?

HYMAN: Yep.

SAFIAN: All of those things?

HYMAN: All of those things. Better technology, better automation, better processes, better garment science, better machine vision. So much of our business within our operations is focused on two things. It's inbound reverse logistics. So we receive back 100% of the product we send out. When we get it back from individual customers, we have to restore it to perfect condition before sending it out to the next customer. So we have to be experts in inbound logistics and experts in garment science. And those are really the two areas where we focused most of our innovation in 2020.

SAFIAN: What do you feel is at stake for Rent the Runway right now?

HYMAN: If you had asked me that question three months ago, my answer would have been, everything is at stake. But we have now in this post vaccine world, I think that we're seeing not only recovery back to the scale that we were at in 2019, but we're seeing even wider geographic diversity of customers coming in. Wider use cases that they're using Rent the Runway for. We're seeing wider set of reasons why they joined in the first place. So I think that we are emerging into a business that is much bigger, and much more diverse, and has higher potential than, even our business had in 2019.

SAFIAN: You sound almost a little surprised. Not fully surprised, obviously, but you had a hope for the future, and it's coming back better than you expected.

HYMAN: I'm extremely surprised. First of all, if we look back on the last 15 months, it's literally insane what just occurred. And what is still occurring in many places around the world. It's one thing to talk about, but I can't accurately convey the fear, and the pain, and the difficulty of having spent your entire life building something that you care so deeply for. And to have done that with thousands of people.

And to have all of that be at risk for something that's completely out of left field, a global pandemic. It's still shocking, even though I lived through it every single day. And we took the actions to both save the company, and position it to be stronger coming out of it. I can't believe that we actually accomplished it.

SAFIAN: And it's hard to trust in some ways. Even though you see the numbers and you know it, after having been on a certain trajectory, and then having something out of your control stop that, just completely crush it.

HYMAN: We have been so obsessed with looking at our data every day, really throughout our business, but in the pandemic I was looking at data 10 times a day. And the data doesn't lie. The data didn't lie last year when I saw everyone pausing their subscriptions, and it's not lying right now, when I see that customers in second and third tier cities around the country, in micro areas who had never Rented the Runway before are now suddenly coming to our business, organically signing up for a subscription.

We've not really turned on the paid marketing funnels yet. So the fact that all of these women in Little Rock, Arkansas, and in Charlotte, and in Charleston, and in Dayton, Ohio, and in Knoxville, Tennessee are suddenly signing up, leads me to believe that they had known about Rent the Runway in the past, but didn't find it relevant for their lives until now. And you have to question, "Okay, well, what has changed to make it relevant for their lives now?" It's not our marketing, because we did no marketing in 2020, I think it's fascinating that people have changed so much in terms of their values, that they're reconsidering how they live in such a dramatic fashion.

SAFIAN: And is there anything that you see in all that data that you look at that gives you insights about where the reminders of what Rent the Runway is and does, arrive to that woman in Little Rock, or in the other places where you haven't really been trying to reach. And yet you're reaching in ways that you didn't before the pandemic?

HYMAN: I think that what I'm seeing right now, is that people are using fashion as a means of self-expression. They are looking to celebrate their lives.

So this biggest piece of data that I have for that is the set of occasions that they're using Rent the Runway for. So in 2019, the primary use cases of our business were getting dressed for work and getting dressed for more special occasions. Now, she's using our service for what I would call Rent the Runway casual everyday occasions, going out to dinner with her husband, having brunch with her family.

I do think that being locked away from all of the people that we truly love over the last 15 months has, yes, of course, people want to celebrate and they want to party right now. That might be a short-term thing. But what the longterm thing is going to be is the level of appreciation that we have for those moments with the people that we love. And that is the real driver of not only my business, but that's the real driver of the fashion industry. And so that's what gives me so much confidence going into this post-pandemic period.

SAFIAN: Jen, has the pandemic changed your personal relationship with work?

HYMAN: It really has changed how I think about work and how I think about how I spend my own time. I started Rent the Runway, I love it, it was effectively my first child. But if I'm honest with myself, that dedication that I've made to Rent the Runway has caused me to sacrifice a lot of other elements of my life. And so, on a tactical level, I have two young kids, two daughters, one's four, one's two. Prior to the pandemic, maybe I made it home for two dinners a week.

And I have had the fortune to be able to have dinner with my kids every single night for the last 15 months, and I'm never going to give that up again. I don't think that we have made the right choices as Americans actually over the last few decades. We have focused so much on this workaholic culture. And the last year has really taught me that there's a better way to live, that our teams can truly be productive from anywhere, and that I don't have to make those same kinds of sacrifices as it relates to the time with the people that I love in the same way that I thought that I had to.

So I'm really excited about this next phase in my career where I believe that I am going to have the ability to have more time as a mom, more time as a wife, more time as just a

social person, in addition to running Run The Runway and dedicating a big piece of my heart there.

SAFIAN: Well, Jenn, we appreciate you taking some of that time to share all this and all of your feelings and your experiences with us. I hope we do learn the right lessons and we apply them in the right ways.

HYMAN: And we wear amazing clothes while we're doing it.