What Eyeware Startup Warby Parker Sees That Others Don't

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Shortly after Neil Blumenthal launched Warby Parker, the e-commerce eyeware startup known for its $95 retro-cool frames, customers emailed asking if they could "stop by" the company's Philadelphia headquarters and check out the glasses for themselves. There was just one problem: Warby Parker -- the brainchild of Blumenthal and three Wharton classmates, Andrew Hunt, Jeffrey Raider and David Gilboa -- didn't have a showroom. So they improvised.

"We said, 'Sure, you can come to our... apartment,' and we laid the glasses on the dining room table," Blumenthal says.

When those would-be customers visited the makeshift shop back in 2010, "something special happened," according to Blumenthal, 32. "They saw us sitting on the couch working our laptops, responding to orders, talking on the phone with customers. They saw the people behind the brand, which is so rare," he says. "We realized we could learn from those customers -- what they liked and what they wanted. Those people became some of our best advocates."

Today, Warby Parker is a beloved and booming brand. The company's hipster eyewear, coupled with its customer-centric strategy and socially conscious business model, has won over shoppers and impressed top-notch investors. In February, Warby Parker closed a round of financing worth $41.5 million, including funds from Millard Drexler, the chief executive of J. Crew, and American Express. The retail world is watching as the company embarks on its latest venture -- an expansive store in New York City's Soho neighborhood, across from the Apple store and next to Ralph Lauren.

The store opened in mid-April. During the next three weekends, more than 4,000 people came through its doors. On Saturday, there were lines down the block to get in. According to Blumenthal, the store represents "uncharted territory," not just for Warby Parker but also for the future of retail. "This is the convergence of e-commerce and bricks and mortar. The idea that it's one or the other is ridiculous," he says. "E-commerce as a term will become obsolete in five or six years."

'Nerdy Cool Appeal'

Before co-founding Warby Parker, Blumenthal directed VisionSpring, a group that trains women in developing countries to sell affordable glasses in their communities. The job left an impression. "It helped me recognize the power of a pair of glasses to change someone's life," he notes. Research conducted by the University of Michigan demonstrated that users of VisionSpring eyeglasses experienced a 35% increase in productivity and a 20% increase in monthly income, Blumenthal points out. "In international development terms, that is a miracle."

His work there also exposed him to the vagaries of the economics of eyewear. "There's a big disconnect between what it costs to make glasses and what they are sold for in the U.S.,” he says.

An Industry Ripe for Disruption

A little background: One company -- Luxottica -- dominates the eyewear industry. As of 2012, Milan-based Luxottica's retail network consisted of more than 7,000 stores, including LensCrafters, Pearle Vision and Sunglass Hut stores. The company owns the optical shops in Target and Sears in addition to chains throughout Europe and Asia. It also owns Ray-Ban, Oakley and Oliver Peoples. And it
manufactures, under license, for many designer labels including Versace, Prada, Burberry, DKNY, Chanel and Ralph Lauren.

It's an industry ripe for disruption, but because of Luxottica's heft, "it takes incredible creativity and brilliance" to go up "against an opponent that has that much power," says Barbara Kahn, director of the Jay H. Baker Retailing Center at Wharton. "But they have it," she notes, referring to Warby Parker's founding team. The brand is urban, cool and quirky, and "they have the Midas touch when it comes to tapping into the hipster culture. They have a story -- an authentic and genuine narrative."

The origins of Warby Parker are a key part of the company's identity. According to the company's website, it was conceived "with a rebellious spirit" as a "collaboration between four close friends ... as an alternative to the overpriced and bland eyewear available today.... By circumventing traditional channels and engaging with customers directly through our website, Warby Parker is able to provide higher-quality, better-looking prescription eyewear at a fraction of the price."

Warby Parker's glasses are made from cellulose acetate, sourced from a family-owned Italian company. Its frames are assembled in China and crafted on the same production lines as many of its competitors, but because the company cuts out the middlemen, the prices are lower.

Until recently, Warby Parker was primarily an e-commerce company, which meant that the tone, usability and personality of its website were a critical part of its business strategy. The women depicted on the site look like funky grad students or magazine editors; the men look like architects or jazz musicians. Warby Parker offers customers a way to upload photos of themselves and virtually "try on" frames. It also has a mail order try-on program that allows people to test five frames at a time, free of charge.

"People have no clue how to buy eyeglasses," says Kahn. "It's a completely overwhelming chore. You go into a store where there are thousands of pairs, and you don't know how they're going to look and which frames are right for you. The salesperson 'helps' you by narrowing [your selections] down to five pairs. So how do you do this without the salesperson's expertise? Warby Parker figured it out with an offer to let customers choose five pairs of glasses for five days. You can try them on in front of your mirror, show your friends, post it to Facebook and get other people's opinions."

The home try-on program engenders loyalty, notes Davia Temin, CEO of Temin and Company, the brand consultancy. "It doesn't say: 'You trust me and then I will trust you.' It says: 'I will trust you and you can trust me.'"

Then there are the glasses themselves. They come in many varieties, but they all have similar attributes: simple frames with slightly chunky temples that feature subdued colors: gray, crystal, blue and burgundy. The glasses have preppy, country club names like Chandler, Winston and Beckett. (The name Warby Parker is a combination of two characters from unpublished Jack Kerouac writings.) They are described in playful terms. The Linwood model, for example, is portrayed this way: "Sometimes less is more. With its trim, sleek (and incorrigibly smart-looking) shape, the Linwood is equally suited to poolside reading and boardroom-running."

"They're hip and they're cool," says Wharton marketing professor Leonard Lodish. "[Warby Parker's founders] have done what they needed to do to become known as the place where people who are in the know go to buy glasses."

They have a "nerdy cool appeal," adds Mike Tesler, a marketing lecturer at Bentley University and president of Retail Concepts, a Boston-based consulting firm. "It taps into the Kendall Square/Silicon Valley/New York City metrosexual vibe. They're not studly, but they've got brains. They're like the nerdy guys in the movies who end up with a beautiful woman."

A Price That's Right

Even apart from its stylish products and slick website, Warby Parker has another big selling point: price. The vast majority of its eyeglasses sell for $95; titanium frames cost $145. Shipping is free, as are returns. By comparison, The National Association of Vision Care Plans puts the average price of eyeglasses at $263.
"As customers, we're so used to being ripped off: We don't know the difference between a pair of $300 glasses and a pair of $400 ones," says Simon Blanchard, a marketing professor at Georgetown University's McDonough School of Business.

Another Warby Parker advantage: uniform pricing. "When all of your products are priced the same, people focus on something else," adds Blanchard, who notes that Swatch Watch was successful with a similar strategy. "In the case of Warby Parker, customers focus on the glasses that best reflect their personality and style."

The decision to price glasses at $95 comes with a back story. Wharton marketing professor Jagmohan Raju recalls that when the founders broached their idea to him, they originally planned to sell their glasses at half that price. "I really liked the idea overall ... but after examining their analysis, I told them it's not going to fly. [At $45 a pair], there's no money [left over] for brand building; there will be no money in it for you and no money for investors."

In addition to squeezing the business, a price tag of $45 was "too low" to be seen as credible to customers, according to Raju. "It would have put [Warby Parker] in a category I believed they did not want to be in. There are many companies selling cheap eyeglasses. Anyone can go on the Internet and buy two pairs for $99. But there is a perception among customers that the quality is not as good."

The goal was to create a new price point that was still reasonable, but not low-end. David Bell, professor of marketing at Wharton, served as an advisor to the founders in an independent study about pricing models and demand analysis. He recalls conversations around the social-psychological reasons for staying under $100. "There was a bit of discussion about what happens [psychologically to the customer] when you get to three digits," he says. ",[At the same time], $99 gets you a little bit of extra margin -- $4 -- but it doesn't feel quite as classy. A price tag of $93 sounds more like a Walmart price: There's too much exactitude there."

The price had to be right for another important reason: For every pair of glasses Warby Parker sells, it gives a pair to someone in need. (According to the company, almost one billion people worldwide -- 15% of the global population -- lack access to glasses.) TOMS, the shoe manufacturer known for its simple cloth espadrilles made with recycled vegan materials, is perhaps the best known company that employs a buy one/give one business model.

That approach increasingly speaks to customers. According to a study last year by Nielsen, the customer information company, 46% of global consumers are willing to pay extra for products and services from companies that have programs to give back to society. A little over 60% of consumers are under age 40, and they say they consult social media when making purchase decisions and are most concerned about environmental, educational and hunger causes, according to Nielsen.

The buy one/give one approach is not just the standard lip service to corporate social responsibility (CSR), according to Bell. "These founders, who are in their late 20s and early 30s, are not traditional managers. They are a new generation of managers who are more globally aware. It's a generational thing. This is not CSR business as usual -- where we pollute the environment and charge customers a lot of money for goods but we also give a bit of money to the local Little League. They are trying to change an industry."

Eyes on Expansion

According to a report by Global Industry Analysts, a market research company, the worldwide market for eyeglasses is expected to reach $95.66 billion by 2015. Warby Parker represents only a sliver of this industry, but a growing one. The company has 175 employees; it does not disclose financial details, but Blumenthal says it "has grown several hundred percent each year" since its founding.

Over the past two years, Warby Parker has partnered with boutiques to open "stores-within-stores" in cities such as L.A., Nashville and San Francisco. The success of those prompted the company to open its flagship store at 121 Greene Street in New York City. "We chose Soho because it has an art and literary history," says Blumenthal. "Our store is near where many of the 'Beat' writers used to eat and drink. It has a great mix of New Yorkers and tourists, and our office is only a few blocks away."
Inspired by classic libraries, the 2,500-square-foot space is lined with books and old-school rolling library ladders. An in-store optometrist is on hand to perform eye exams seven days a week for $50. Shoppers may track their appointments on the appointment board, designed after the train arrival and departure boards at Grand Central Station. Another store is planned for Boston.

Wharton's Lodish says that the stores could attract new customers. "There are some people who are skittish about buying eyeglasses online," he points out. "They want to make sure they fit right and that the measurements are right. The brick and mortar storefronts may give Warby Parker a lot more customers. The question is whether the cost of acquiring those customers is worth it."

That said, he is confident about Warby Parker's expansion plans. "If they launch a sister brand, I would take a look at it ... because you can associate the good feelings you have with Warby Parker with the new brand." One founder, Jeff Raider, recently launched Harrys.com, a razor and shaving cream company.

Blumenthal says that he is open to such ideas -- just not quite yet. "This is a brand that resonates with a lot of people for a lot of different reasons, but we have not spent a lot of time thinking about the next product category. We're only in the bottom of the first inning."