Introduction

Neil Blumenthal took off his Warby Parker designer frames and placed them on his desk. The company had come a long way over the last nine years, and they wanted to continue growing and expanding well into the future. Their fan base was strong, and their products were affordable and trendy, but they had yet to turn a profit. Blumenthal looked at the framed WSJ article on the wall, reading, “among private, venture-backed e-commerce companies based in the US, only sport merchandise site [Fanatics] valued at $3.1 billion in 2013, is worth more than Warby Parker.” He picked up the phone and called his co-founders; it was time to meet. Warby Parker needed more capital, and they needed to figure out how to get it.

Background

Launched in 2010, Warby Parker was the product of four students, Neil Blumenthal, Dave Gilboa, Andrew Hunt, and Jeffrey Raider, at the University of Pennsylvania’s Wharton School who realized that eyeglasses were exorbitantly expensive and difficult to purchase. Having personally experienced the burden of eyeglasses priced comparably to iPhones, the four were compelled to change their situation. Additionally, looking at rising e-commerce trends, they also wondered why eyeglasses were not sold online. Online sales would not only reduce costs, but also provide an easier and faster process for purchasing new eyewear. According to the U.S. Census Bureau, total e-commerce sales in the U.S. have grown from $27.6 billion in 2000 to $143.4 billion in 2009, a compound annual growth rate of 20%. Although the rate of increase fell sharply after the 2008 recession, e-commerce was still projected to positively grow.¹

After careful examination of the market, Neil, Dave, Andrew, and Jeffrey decided that the time was right to turn their idea into a reality. They established their company on four key values: treat customers the way we’d like to be treated; create an environment where employees can think big, have fun and do good; get out there; and green is good. Within three weeks of their February 2010 launch, WarbyParker.com not only reached its sales goals for the entire year, but also had a running waitlist of over 20,000 customers.² Since that time, the company’s customer base has grown to over 100,000 new people a year. Guided by the promise of free delivery, free returns, and customer-friendliness, the company continued it expansion offline, opening the first Warby Parker store in Manhattan’s SoHo neighborhood in 2013. Today, the company has 28 brick-and-mortar stores in prime locations in major cities across the U.S., with plans to expand even further. As of today, Warby Parker is valued at $1.2 billion.³

Production and Distribution

The eyeglass industry is dominated by two major players: Luxottica and Essilor. These two companies utilize multiple outlets and avenues in the production of their products. Luxottica, for instance, houses 80% of luxury eyewear brands under its umbrella, such as Ray Ban, Oakley, and Ralph Lauren. They then outsource the creation of their frames, after which another company,

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Essilor, makes the lenses. After the lenses are put in, they are then shipped to an optical retailer owned by Luxottica. Utilizing multiple companies, luxury brands and house owned retail outlets allows for significant markups within the supply chain.

Through online sales, Warby Parker aims to get glasses from manufacturing to its consumer in as few steps as possible. Firstly, in-house designers design their frames and once a design is collectively agreed upon, it is moved into production. The acetate used to create these frames is sourced from a 150-year-old, family-owned Italian company of which is in direct communications with the Warby Parker company. The frames are then assembled in China. Subsequently, once the frames are shipped back to the US to be assembled, pre-made or stock lenses are inserted into the frames in-house. Finally, frames undergo a thorough inspection process before being sent to consumers free of charge.

Similarly, Warby Parker’s adopts a streamlined distribution process and sells directly to consumers through their own channels. Their designs are specifically Warby Parker brand, therefore removing brand licensing fees and retail mark ups. Customers purchasing frames from Warby Parker are able to try them on virtually by uploading their photos onto the website. Warby Parker also has a mail-order try-on program, allowing customers to select five frames, which are then sent to the customer to try, without associated fees and shipping costs. Customers then have five days to select their desired pair, if any, after which they are charged only for the frames they choose.

For customers that still prefer to try on their frames at a physical location, Warby Parker offers their products at showrooms and small rented spaces within boutique stores across the country. Warby Parker is a “blend of offline and online” commerce. The designer storefronts, which started in 2013 as a marketing experiment, now employ about half of the company’s 500 employees and help drive awareness for the Warby Parker brand in each of the 9 U.S. cities where they operate. While customers still need to make the final purchase online either through the boutique’s iPad or through their personal computers, showrooms eased the associated concerns of online purchases.

Warby Parker’s unique production and distribution processes ultimately manifest in the cost of their product. According to the National Association of Vision Care Plans, the average price of eyeglasses is $263, however, it is very common to see $500 luxury glasses on the market. Most of Warby Parker’s eyewear is priced uniformly at $95, with titanium frames costing $145. When first

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4 Marquis and Villa, 2.
7 Marquis and Villa, 4-5
8 Warby Parker, Design, https://www.warbyparker.com/design
11 Ibid.
13 Ibid.
discussing price, its founders were aimed to sell their product at $45. Quickly deciding it was too low, mainly for profitability purposes, but also in terms of the image they wanted to create for their customers. According to Wharton marketing professor Jagmohan 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.”

**Marketing**

**Pillars of Identity**

Warby Parker set to revolutionize the function of eyeglasses. They identified the opportunity created by the lack of brand high-quality and low-priced eyewear, and set on a mission to offer $95 eyeglasses with “anti-reflective polycarbonate prescription lenses by avoiding traditional costs.”

From the start, the partners were interested in building a brand with a competitive advantage. They wanted Warby Parker’s identity to be defined as “classic, American heritage design, exceptional value, amazing customer service, and social good.” Although the company’s aesthetic identity and social mission had been clear components of the brand since the beginning, the founders recognized the need to prioritize the stories they wanted to share with customers. They established the following brand hierarchy:

1. Aesthetic: Warby Parker is foremost a fashion brand
2. Price: Prescription glasses would cost less than $95.
3. Customer experience: Warby Parker would offer free shipping, free returns as well as other customer friendly policies.
4. Social mission: for every pair of glasses sold, Warby parker would distribute a pair to someone in need.

The order of the hierarchy developed through the understanding of the “purchase calculus of potential customers.” The driving premise was that “customers bought glasses first and foremost for ‘how they look on their eyes.’”

**Reaching New Customers**

Warby Parker’s marketing strategy focuses on guerilla style advertising to raise brand awareness and offer customers the opportunity to view the frames in person. During Fashion Week in September 2011, “Warby Parker models and friends wearing various brand styles ‘took over the New York Public Library’ by simultaneously raising robin’s-egg-blue books titled with the name of the style they were wearing. Between the end of 2011 and the first week of 2012, the company set up the Warby parker Holiday Spectacle Bazaar, a temporary installation that offered eye exams and displayed all of its frames.” That December, the company customized blue bicycles with front display vitrines that showcased 15 frames available for immediate purchase while driving around the Miami Art Basel grounds.

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14 Knowledge@Wharton.
15 Marquis and Villa, 2.
16 Ibid.
17 Ibid.
18 Ibid.
19 Ibid.
Stylish yet Affordable

The chunky, classic glasses target young millennia’s who care about fashion but cannot afford pricey prescription glasses. Warby Parker wants consumers to stop thinking of eyeglasses as “something they buy every time their prescription expires.”20 By pricing glasses under $100 people can start thinking about eyeglasses as a fashion accessory. According to David Gilboa, in the U.S. today the average eyewear consumer buys a new pair every 2.1 years. A statistic the company is striving to change by “making people think about eyeglasses the same way that women think about purses or shoes.”21 Through Warby Parker people can own multiple pairs of eyeglasses, match them to different outfits, and wear them for different occasions. The company has licensed the best virtual try-on technology in the market and devised a home try-on program. They are also investing in technology to let customers conduct eye exams using just their mobile phones22 to make shopping for frames in stores and online easier.

Customer Engagement and Company Culture

Warby Parker’s brand was built through customer interaction with their fun and high-spirited company culture. Employees are expected and invited to collaborate with the founders and stakeholders on everything from frame design and direction to the newest snacks in the break room. Their company’s “culture team” plans company outings, fun themed competitions, quarterly company surprises, and interactive employee relationship building. All with the intention to build a fun but accountable environment that they want to share with their customers! Nothing speaks more clearly to this than their publically released annual reports. These highly visual and colorful annual reports detail the company’s day-to-to activities, listing their employee’s favorite colors, activities, snacks eaten, guilty pleasures and cheeky competitions occurring throughout the year. Their company’s accomplishments detailed very little financial information in lieu of their more interesting milestones such as new partners they’ve collaborated with, their founder’s spirit animals and a new store opening. In addition to the fun and interactive annual report, customers and fans can generate their own annual report through their online site generator. The personalized annual report is easily and often shared over popular social media sites.

Corporate Social Responsibility

A Socially Responsible Company

Part of making people care about the brand has been to include a purposeful mission that makes people feel great about their purchasing choice. Before coming to Wharton, Neil Blumenthal was the director of VisionSpring, a nonprofit organization that trains local people, or ‘vision entrepreneurs’, on how to give basic eye exams, conduct outreach and sell quality, low cost eyeglasses in their communities. Their model facilitates socio-economic development by creating businesses that can scale within the community and provide the tools needed for a sustainable and impactful practice. Using his leadership experience at VisionSpring, Neil built social responsibility into Warby Parker’s DNA. To be a “good” company, Warby Parker initiated the “Buy a Pair, Give a Pair” program at its conception. Partnering with VisionSpring and their model of distribution and

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21 Ibid.

22 Ibid.
scale, the program does not simply donate eyeglasses but feeds into the business model of VisionSpring.

Warby Parker makes monthly donations to the NGO based on the number of glasses sold in their stores and covering the sourcing cost of donating the same number of glasses. By adopting this unique model, Warby Parker believes it addresses the two biggest issues associated with traditional charity. Firstly, Warby Parker believes simple donation is often a temporary solution, not a lasting one; it cannot solve poverty and low productivity. Second, simple donation contributes to a culture of dependency, which is rarely sustainable. Lane Wood, the director of Social Innovation of Warby Parker explained,

“As we grow we want to expand our impact by making investments in nonprofits with social enterprise models in order to avoid the unintended negative consequences of charity. That is why we partner with innovators that, like VisionSpring and Community Enterprise Solution, are not just addressing the symptom but trying to address the larger issue of extreme poverty at the same time.”

In addition, Warby Parker incorporated environmental responsibility within their production system, making them the only carbon-neutral eyewear brand in the world. Beginning in 2001, the company mapped out greenhouse gas emissions produced through their activities, production, shipping, promotion, and office work. To offset this accumulated number, they purchase its equivalent amount of carbon offsets to become carbon neutral. Furthering their “green is part of good,” they were evaluated by B Lab and the Warby Parker Company was B Corp certified with the highest standards of social and environmental performance, accountability, and transparency.

Financials

Funding Path

The company was born in the apartment of one of its co-founder and funded with the four founders’ personal savings. With a waiting list of over 20,000 customers three weeks after launching their website, the need for capital magnified. It took 6 months to get a $50,000 loan from a bank with collateral of the same amount of cash in June 2010. Four months later, a second loan of $200,000 was realized. In November, the company issued a capped convertible note of $550,000 to friends and family. Through this funding, the foundation of the company was built.

March 2011, Warby Parker opened their funding stream to include acceptances from external investors in order to expand their brand online as well as offline retail stores. Completed in May, the first round raised $2.5 million. The end of 2011 raised another round of $12.5 million in capital rom investors, including Tiger Global Management, Thrive Capital, and Menlo Talent Fund. Finally in 2015, T. Rowe Price gave $100 million in funding, ultimately valuing the company at $1.2 billion. The company is not yet profitable.

Competition

Warby Parker had competition before its launch, and its success encouraged others to imitate. In 2009, Luxottica formed a partnership with the second-most important online optical retailer, Vision Direct (a subsidiary of drugstore.com) to sell contact lenses in the North American
market. Essilor partnered with FramesDirect.com and launched MyOnlineOptical.com. Whereas these companies were selling eyeglasses online, they were not disrupting their production chain, and therefore not competitively priced. More challenging competition comes from companies like Eyefly, Made Eyewear, Classic Specs Lookmatic, and Zenni Optical. Consumer Reports listed Zenni Optical as the most widely used online source of eyeglasses in 2015. Zenni holds eyeglasses starting at as low as $15.95 and are able to keep prices low due to the 248,000 square-foot manufacturing facility they own, equipped with labs, where all customer orders are produced. Similarly, Made Eyewear owns a manufacturing facility in China, and can therefore keep prices competitive. Both Zenni and Made offer delivery and return services, but neither of them own brick-and-mortar stores.

**Conclusion**

Neil, Dave, Andrew and Jeffrey all looked at each other and poured another round of coffee from their company’s kitchen. They had gone over their options multiple times and were now faced with a rough decision. Copycat companies were pricing their lenses competitively and Warby Parker needed to make a move, not only to grow and build their brand but also to finally get ‘in the black’. Should Warby Parker buy a manufacturing facility rather than investing in more brick-and-mortar stores? How would they finance it? The questioned loomed… Should Warby Parker finally take the initiative to become a public company or should they remain private and continue raising capital as they have been?

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23 Marquis and Villa, 2.
24 Consumer Reports, “Eyeglasses can be Expensive, Discounters and Online Merchants may be a good option,” The Washington Post, January 12, 2015. [https://www.washingtonpost.com/national/health-science/eyeglasses-can-be-expensive-discounters-and-online-merchants-may-be-a-good-option/2015/01/12/c3aa1bec-70c9-11e4-893f-86bd390a3340_story.html](https://www.washingtonpost.com/national/health-science/eyeglasses-can-be-expensive-discounters-and-online-merchants-may-be-a-good-option/2015/01/12/c3aa1bec-70c9-11e4-893f-86bd390a3340_story.html)
26 Pando, “Warby Parker Has One Big Weakness and This Competitor is Exploiting it.” [https://pando.com/2014/01/29/warby-parker-has-one-big-weakness-and-this-competitor-is-exploiting-it/](https://pando.com/2014/01/29/warby-parker-has-one-big-weakness-and-this-competitor-is-exploiting-it/)
Exhibit 1: Warby Parker’s Core Values

INJECT fun and quirkiness into everything we do
TREAT others AS we want to be treated
CONTINUALLY CHALLENGE ourselves to learn and grow
DO good
ACT WITH integrity AND tell the whole truth
PURSUE new AND creative ideas
BE biased toward action
SET ambitious GOALS AND measure results


Exhibit 2: Warby Parker Retail Store (NYC)

Exhibit 3: Warby Parker’s Profits vs. An Optical Shop

<table>
<thead>
<tr>
<th></th>
<th>Warby Parker</th>
<th>Optical Shop</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design</td>
<td>Superior</td>
<td>Superior</td>
</tr>
<tr>
<td>Materials</td>
<td>Highest Quality</td>
<td>Highest Quality</td>
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<tr>
<td>Frame Cost</td>
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<td>Polycarbonate Prescription Lenses</td>
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<tr>
<td>Anti-Reflective Lens Coating</td>
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<td>$75</td>
</tr>
<tr>
<td>Cost to Design, Manufacture &amp; Distribute</td>
<td>$95</td>
<td>$610</td>
</tr>
</tbody>
</table>

Exhibit 4: Warby Parker’s Try On Process

Let’s get started

SELECT AND TRY
Browse our eyeglasses and sunglasses, and hit “Try at home for free” to put them in your box. We’ll ship them out — then take ‘em for a spin, get second opinions, and see which ones you like.

BUY AT ANY TIME
Settle on a good looking pair or two? Make it your own by purchasing online at warbyparker.com, and we’ll send you a fresh new pair.

RETURN THE BOX
Once your 5 days are up, returning your Home Try-On is easy. The box includes a prepaid return label; just put them in the mail.

Exhibit 5: Sales of Leading 15 Optical Retails in U.S. Market.

Sales of the leading 15 optical retailers in the United States in 2014 (in million U.S. dollars)**

This statistic depicts the sales of the leading 15 optical retailers in the United States in 2014. In that year, Visionworks of America was the fifth ranked optical retailer in the United States, with sales that amounted to about 880.1 million U.S. dollars.

Exhibit 6: Retail Sales of Lens Market for Eyewear in the U.S.

Retail sales of the lens market for eyewear in the United States from 2010 to 2012 (in million U.S. dollars)

This statistic depicts the retail sales of the lens market for eyewear in the United States from 2010 to 2012. In 2012, the U.S. lens market for eyewear generated about 10.41 billion U.S. dollars in retail sales.

Exhibit 7: Average Retail Price of Eyeglass Frames in the U.S.

Average retail price of eyeglass frames in the United States from December 2010 to December 2012* (in U.S. dollars)

This statistic depicts the average retail price of eyeglass frames in the United States from December 2010 to December 2012. The average retail price of eyeglass frames with the six month period ending in December of 2012 was at about 125.11 U.S. dollars.