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Warby Parker: A Blurred Vision of Profitability

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A Blurred Vision of Profitability

B-Corporation Mini Case Study

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Abstract

Warby Parker is a rising competitor in the heavily consolidated eyewear industry. When it launched in 2008, the company took on a blue ocean strategy, which incorporates both cost leadership and product differentiation, in hopes of defeating powerful incumbents. Rather than selling its frames in existing eyewear retailers, many of which are owned by competitors, Warby Parker launched online, selling high-quality frames at an affordable price. More than a decade later, the company is reevaluating its strategy as it has yet to become profitable.

Learning Objectives

1. Discover how Warby Parker disrupted the monopolistic eyewear industry and consider similar approaches other firms can use to accomplish the same goal.
2. Examine Warby Parker's evolving blue ocean strategy and identify adjustments the firm could make to achieve profitability.
3. Contemplate how Warby Parker can best balance its commitment to social good and profitability.

Emily Dalton, Nathan Gentry, Emily Kraai, Anna Kreuger, and Zachary Streich, students of the Jeffrey S. Raikes School of Computer Science and Management, prepared this case. This case was developed solely to serve as a tool for class discussion and is not intended to serve as an endorsement, source of primary data, or illustration of effective or ineffective management.

Introduction

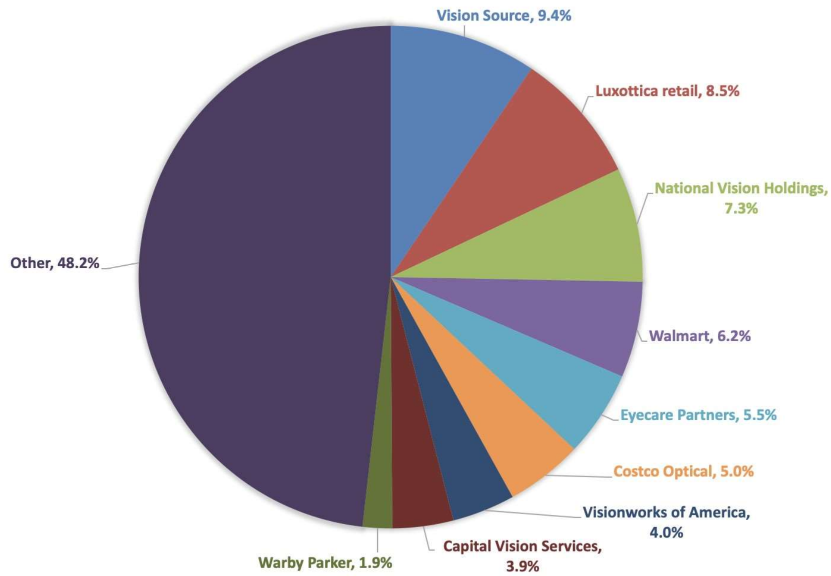
Warby Parker is a rising competitor in the heavily consolidated eyewear industry. When it launched in 2008, the company took on a blue ocean strategy, which incorporates both cost leadership and product differentiation, in hopes of defeating powerful incumbents. Rather than selling its frames in existing eyewear retailers, many of which are owned by competitors, Warby Parker launched online, selling high-quality frames at an affordable price. More than a decade later, the company is reevaluating its strategy as it has yet to become profitable.

The Industry

On the surface, the eyewear industry appears fragmented. Customers can purchase eyewear from numerous retailers including LensCrafters, Pearle Vision, Target Optical, and Oliver Peoples. Additionally, these stores offer products from a wide variety of well-known brands like Coach, Ray-Ban, Burberry, Ralph Lauren, Vogue, Oakley, Prada, and Chanel. With so many retailers and brands for customers to choose from, the industry should be competitive. However, much of this competition is an illusion since many eyewear retailers and brands are owned by large conglomerates. For example, all of the retailers and brands mentioned above are controlled by one company: EssilorLuxottica (Swanson, 2018).

In 2018, the two largest eyewear companies, Essilor and Luxottica, merged to form a massive conglomerate. Essilor was a leader in prescription lenses, controlling 45% of the market in 2017, and Luxottica owned several iconic eyewear brands and retailers (Summerfield, 2017). Once merged, EssilorLuxottica was worth $49 billion and sold nearly 1 billion pairs of glasses per year (Lieber, 2019). The newly formed company gained control not only over where customers purchase their glasses but also over the glasses themselves, which gives the company substantial pricing power. The firm leverages this power by marking products up nearly 1,000%, frequently charging consumers hundreds of dollars for a single pair of glasses (Lieber, 2019).

EssilorLuxottica controls significant portions of the U.S. eyewear manufacturing, wholesaling, and retailing industries, with 2022 market shares of 37.6%, 31.4%, and 44% respectively. There are no other major eyewear manufacturers, and the firm's closest wholesaling competitor, ABB Optical Group, controls only 12.2% of the industry. Conversely, EssilorLuxottica faces stiff competition in the eyewear retailing industry with four companies (EssilorLuxottica, Costco Wholesale, National Vision, and Visionworks) dominating 97.4% of the market (Al Bari, 2022; Govdysh, 2022; O'Malley, 2022). However, traditional eyewear retailers are not responsible for the majority of eyewear sales since around half of all glasses are purchased from optometrists' offices. Additionally, online eyewear retailers generated around $1 billion in revenue in 2022 (Warby Parker, 2021; Brocker, 2022). When considering all retail channels, EssilorLuxottica and its subsidiaries still dominate the industry. In 2021, Warby Parker generated just 1.9% of all U.S. eyewear sales (Statista, n.d.; "Key Optical Players Ranked by U.S. Sales in 2021," n.d.). Figure 1: Market Shares of Top U.S. Optical Retailers in 2021 by eyewear sales



Source: (Statista, n.d.; "Key Optical Players Ranked by U.S. Sales in 2021," n.d.).

Enter Warby Parker

In 2008, this heavily consolidated eyewear industry sparked the imaginations of four graduate students at the University of Pennsylvania. After losing a $700 pair of glasses on a flight, Dave Gilboa completed his first semester without replacing them because he was stunned at how needlessly expensive glasses were. Frustrated by this experience, he complained to fellow classmate Neil Blumenthal who had experience in the eyewear industry working for a non-profit. Sensing an opportunity, Gilboa and Blumenthal teamed up with two other classmates, Jeff Raider and Andy Hunt, to formulate a business plan (Shontell, 2017).

The team had limited funding and wanted to sell high-quality glasses at an affordable price point, so they needed to eliminate costs. Instead of paying large licensing fees to use established brand names, they would design their own brand and products internally. They also planned to eliminate large upfront costs by outsourcing manufacturing and selling directly to consumers on an online store. Using an online direct-to-consumer model would enable them to cut out retailers entirely and avoid the high costs associated with brick-and-mortar stores. With all of these cost-saving measures, Warby Parker could provide a quality product while undercutting the competition by charging just $95 per pair of glasses (Shontell, 2017).

While the team was confident in their plan, there was one glaring question that threatened the entire operation: would customers feel comfortable buying glasses online? Since glasses are highly personal, people want to try them on, which is a challenge for an online-only store. To address this issue, the team created an innovative "Home Try-On" program where the company would ship customers five frames of their choosing to try on before making a purchase (Winfrey, 2015). On February 15, 2010, Warby Parker finally launched, and the team's careful planning paid off. Within three weeks, the company reached its first-year sales targets, and by week four, it sold out of its 15 most popular styles (Groth, 2012).

A little over a decade later, Warby Parker went public through a direct listing on the New York Stock Exchange in September 2021 (Thomas, 2021b). The stock performed well initially, trading around 30% higher than its reference price; however, it has largely trended downward since then (Thomas, 2021b; "Warby Parker Inc.", n.d.). As of March 2023, Warby Parker has lost around 80% of its initial value, hovering between $9 and $18 per share over the past 10 months ("Warby Parker Inc.", n.d.).

Despite the stock's poor performance, the company saw a 10.6% increase in sales in 2022 paired with a 23.1% increase in net income. However, Warby Parker has still never recorded a profitable year in its public history, and in 2022, the firm lost over $110 million (Warby Parker, 2022).

Figure 2: Warby Parker Stock Price

Source: ("Warby Parker Inc.", 2023)

Social Good

Warby Parker's mission is to inspire and impact the world with vision, purpose, and style. It accomplishes this by selling high-quality glasses at an affordable price point. The firm is also a certified B-Corp, which means it is dedicated to making a positive social and environmental impact ("Warby Parker," n.d.). Warby Parker demonstrates its commitment to social good through its "buy a pair, give a pair" program. For every pair of glasses purchased, the company donates a pair to someone in need. Since the program's inception, the company has donated over 10 million pairs of glasses ("Buy a Pair, Give a Pair," n.d.). While these donations are crucial to Warby Parker's social mission, they also negatively impact the firm's bottom line (Shontell, 2017).

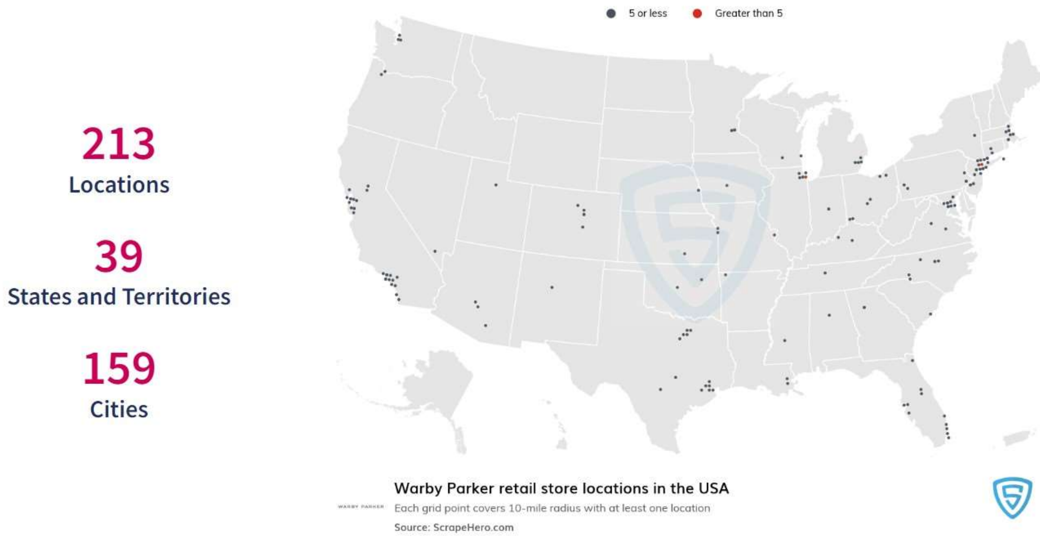
Clicks to Bricks

As a newly public company that has yet to achieve profitability, Warby Parker must decide how it is going to expand its business. The company successfully entered the monopolistic eyewear industry and generated sales of nearly $600 million in 2022; however, it controls less than 2% of the market (Warby Parker, 2022; Statista, n.d.; "Key Optimal Players in the U.S. Sales," n.d.). To achieve its current level of success, Warby Parker relied heavily on e-commerce. This approach was attractive early on because it enabled the four founders to launch their business with minimal upfront capital. As an online store, Warby Parker instantly gained access to customers all over the United States, and people enjoyed the new convenience of ordering glasses online. Additionally, the e-commerce approach enabled Warby Parker to easily collect user data to improve its products.

While e-commerce is an attractive distribution channel, especially for new companies, it still only makes up approximately 20% of all purchases with an annual growth rate of 1-2% (Cramer-Flood, 2022). Before Warby Parker entered the U.S. eyewear industry, less than 1% of all glasses were sold online. The company drove unprecedented online growth in the industry, but still, e-commerce was responsible for only 7% of 2021 glasses sales (Scott, 2021). This discrepancy points back to an issue Warby Parker's founders anticipated before they started the company. Even with the firm's innovative "Home Try-On" program, many customers may not feel comfortable purchasing glasses online.

To reach these customers, Warby Parker decided to invest in physical retail, opening its first official store in New York City in 2013 (Collins, 2022). Although Warby Parker has experimented with physical retail for ten years, it has only recently become a major priority. In 2017, the company owned just 46 stores, but today, Warby Parker has 213 stores located in 159 cities across the U.S. and Canada (Hensel, 2022; ScrapeHero, 2023). The firm opened 40 new storefronts in 2022 and has plans to open another 40 in 2023 ("Warby Parker Announces Fourth Quarter," 2023). Ultimately, Warby Parker believes it has room to open over 900 retail locations in the United States (Warby Parker, 2021).

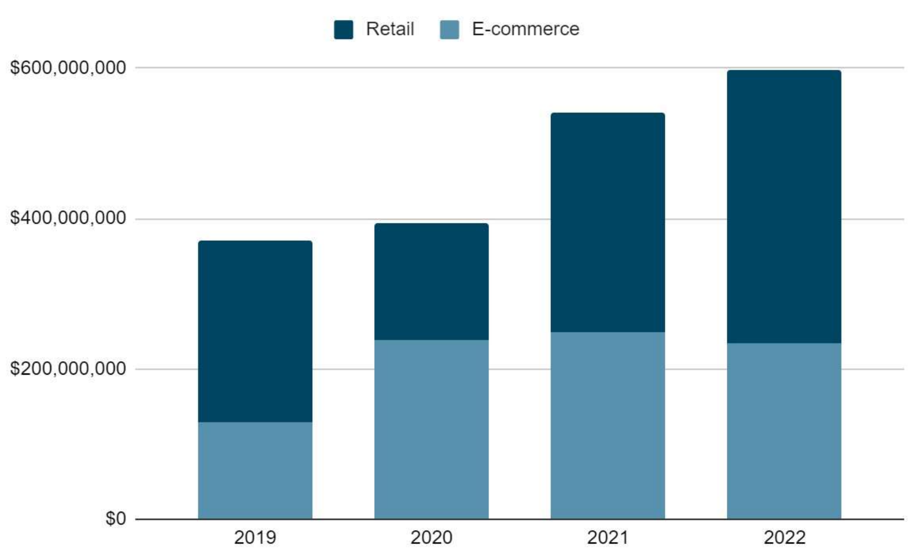
Figure 3: Warby Parker U.S. Store Locations (March 6, 2023)



Source: ("Number of Warby Parker retail," 2023)

So far, the firm's bet on physical retail seems to be working. In 2019, in-person sales represented 60% of the firm's revenue, with 75% of in-store shoppers also shopping online (Collins, 2022). The proportion of in-store sales dropped to 40% in 2020 as Covid-19 drove more shoppers online; however, that number returned to 60% in 2022 (Warby Parker, 2021). The firm's stores are incredibly productive with an annual revenue per square foot of $2,900, which is one of the highest among retailers (Thomas, 2021a).

Figure 4: Warby Parker Revenue by Channel



Source: (Warby Parker, 2022)

Warby Parker's strategy of moving from online-only to a blend of physical and digital retail has been labeled "clicks to bricks," and many other direct-to-consumer brands have pursued a similar path (Dopson, 2021). Like Warby Parker, shoemaker Allbirds owns and operates its own stores. Conversely, mattress producer Casper opted to sell its products in established retailers like Target. While partnering with existing retailers is cheaper and less risky, it decreases the amount of revenue Casper generates from each sale (Thomas, 2021a). Warby Parker's approach comes with several disadvantages as well, namely high costs. Owning or leasing property is expensive, and Warby Parker must train and retain employees. Additionally, managing inventory across online and retail channels introduces new operational challenges (Dopson, 2021).

While there are risks associated with owning and operating physical stores, there are also many benefits. Customers can try on as many glasses as they would like, and Warby Parker can attract new customers through foot traffic. As digital advertisements rise in cost, physical stores are becoming an increasingly frugal way to acquire new customers (Dopson, 2021). Since Warby Parker owns and operates all of its stores, it has complete control over the in-store experience, which enables the company to produce a consistent brand across distribution channels and easily collect customer data. The company also uses its physical stores to offer eye exams, which drives eyewear sales and helps the firm compete against optometrists (Warby Parker, 2021).

Conclusion

Warby Parker entered the highly consolidated eyewear industry using a blue ocean strategy. The firm offered a high-quality product at an affordable price point, and it differentiated itself by creating its own brand, providing a unique online experience with the "Home Try-On" program, and committing itself to a social mission. This initial approach drove incredible growth; however, the firm has yet to achieve profitability.

To address this problem, Warby Parker is investing in new ways to differentiate itself through an omnichannel approach. The firm is rapidly opening new stores and investing in new services, such as eye exams. While these offerings help Warby Parker stand out from the competition, they also raise costs, which threatens the firm's strategy of offering affordable glasses. The company still sells glasses starting at $95, but it has slowly started introducing more expensive products (Garcia, 2022). Only time will tell whether this strategy will lead Warby Parker to profitability.

Discussion Questions

1. How was Warby Parker able to enter the monopolistic eyewear industry? What can other firms trying to disrupt similar industries learn from Warby Parker's strategy?
2. Warby Parker has never achieved profitability.

a. What aspects of Warby Parker’s strategy do you think prevent it from becoming profitable?
b. Should Warby Parker continue to pursue a blue ocean strategy or should it focus on a cost leadership or differentiation strategy?
c. How should Warby Parker adjust its strategy to become more profitable?
d. How can Warby Parker balance its commitment to social good and its desire for profitability?

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