

“The RealReal: Shop. Consign. Obsess.” Authentic Luxury Consignment: Case with Brief Instructor’s Note

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ABSTRACT

This case with brief instructor’s note opens with a hypothetical story about a woman who normally purchases second-hand luxury goods through thrift shops but because of the pandemic has resorted to online shopping. The case then includes a description of her first time ordering through The RealReal, an online consignment-based pre-owned luxury clothing retailer, in order to give the reader a feel for what a consumer’s journey might be like buying from this firm. A depiction of the firm and its marketplace is presented in some detail including: the company’s history, the online consignment industry and industry trends, the firm’s business strategy and its competitors, operations and functional strategies, with some final observations. An exercise then proceeds which requests the students to conduct a preliminary strategic analysis of the case that will constitute the content of a PowerPoint Presentation to include the following items/slides:

Macro-environmental Analysis, Industry Analysis, Key Industry Success Factors, Competitive Advantage – Resource Analysis, Value Chain Analysis, SWOT Analysis – Quadrant Placement, Strategic Options and Decision Table. Appendices, including firm financials, and a bibliography are then followed by exercise answers which include basic information per requested slide and slide graphics.

INTRODUCTION

“Authenticity is everythingtous.”

Meet Jackie and Her “Preowned” Chloe Bag

Jackie¹ was a Gen Z’er who had what she would describe as having “The Hamptons” tastes with a Flatbush address.² Her passion was to go “bargain hunting” in Thrift Shops and used clothing stores both in Brooklyn and Lower Manhattan to look for what she would describe as outrageous bargains on second hand luxury clothing items. In particular she was a luxury bag collector – Chanel, Louis Vuitton, Hermes, Saint Laurent, etc... if it was unique, inexpensive and in good taste she just had to have it!

As you can imagine when the pandemic hit New York in January of 2020 and all of these stores were closed Jackie was beside herself. She certainly could shop online but for the most part the online websites she visited were selling either at “retail” prices, or worse, above what the asking price had been in pre-pandemic times – so much for supply and demand! As she was lamenting her fate with a few friends on WhatsApp, one of them suggested that she check out the website of a store called The RealReal, a store where she could not only buy 2nd hand luxury items but also sell any of her own items that she was perhaps getting bored of. Her friend sent her the website (<https://www.therealreal.com/>) and immediately fell in love with the site – as well as the \$25.00 off code for her first purchase.

She first perused the site using her Facebook sign in but then joined as a member (no fee required!) when she saw she could obtain additional deals and early notifications. She was particularly impressed with the sustainability slant of the firm as well as their dedication to ensuring the authenticity of every product they sold through their site.

¹ Jackie is a fictitious name with a fictitious character description for an individual who wrote a review of RealReal on July 11, 2021. The review itself and the associated picture comes from *Sitejabber*, <https://www.sitejabber.com/reviews/therealreal.com#>, 11/2/21.

² “The Hamptons” refers to a very well to do neighborhood associated with the rich and famous on the East End Long Island, New York; “Flatbush” is considered a low to middle income racially mixed neighborhood in Brooklyn, New York with many immigrants and first generation Americans.

“Knock offs” (imitations) were a dime a dozen on the streets of New York (did people really think they were going to buy a real Gucci for \$25?) and she prided herself and only wearing “the real deal.” Her first shopping experience was so “amazing” that she had to share it with her friends through Instagram. See below.

I bought my first Chloe bag, and the quality is amazing! The description mentioned why it received their rating of "very good", but you never know what it'll look like in person. It came with the auth. Cards, booklet, etc. and in beautiful condition! Super happy! Got a great deal on it since the color isn't sold in stores, but the bag still is. \$639 for a \$1400 bag!



Figure 1 Jackie's Chloe Bag

<https://www.sitejabber.com/reviews/therealreal.com#>, 11/2/21

Jackie not only became an avid shopper of the site but also recommended the site to her friends and family. It was a great way to shop for gifts as well as to “recycle” any of her wardrobe that she felt she no longer could keep (she had a small apartment with closet space limitations).

The RealReal Way

Jackie is just one of the many “converts” to The RealReal way of shopping – a way that sets itself apart as the world’s largest online marketplace for authenticated, resale luxury goods. It has more than 20 million member who believe in lengthening the life of luxury goods through resale while looking their best. The Real Realmission and vision is to create greater access to authentic luxury goods, extending their life and value through an innovative global marketplace, and by leading innovation in sustainable fashion. (The RealReal Annual Report, 2020)The RealReal believes that the future of the luxury fashion industry is circular, and they promote this belief through their website with their thorough authentic city process which provides buyers and sellers a safe and reliable place to purchase preowned luxury items. They perform significant sustainability effort to promote the importance on the resale industry to the planet (The RealReal.com, 2021). With the luxury resale industry growing four times as fast as the primary luxury industry(LUXE Digital, n.d) and consumer growing need to be more eco-friendly, the primary obstacle The RealReal faces in 2021is how to continue to grow, to increase market share and attract shareholders.

Company History

The RealReal was first created in 2011, by CEO Julie Wainwright. She started the company from her home where she worked at her kitchen table. In those early days of the company, Julie would visit consignors at their homes to collect their luxury consigned items with a U-Haul. The company has come a long way since those early days at the kitchen table. Today, The RealReal (Nasdaq: REAL)now operates from its headquarters in San Francisco, California and is the world’s largest online marketplace for authenticated, resale luxury goods. Known for their trusted website and strong stance on sustainability, The RealReal is the only luxury resale company in the industry that invest in authenticating every item they sell. Their authentication process includes “a rigorous, brand-specific authentication process, overseen by hundreds of experts and brand authenticators, including gemologists and horologists, who inspect thousands of items each day” (The RealReal.com, 2021).

The RealReal has revolutionized luxury resale by providing an end-to-end service that unlocks supply from consignors and creates a trusted, curated marketplace for buyers globally. They consign unique, pre-owned luxury items across multiple categories, including apparel for women, men, and kids’, as well as jewelry, watches, home goods and art. They have built a vibrant marketplace that they believe expands the overall luxury market, promotes the recirculation of luxury goods, and contributes to a more sustainable world(The RealReal.com, 2021).

The RealReal is now a global brand and one of the leading luxury resale consignment companies in the world. The RealReal website, www.therealreal.com, has a loyal fan base and the company was successful enough to go public in 2019 raising \$270 million in its IPO.

On April 9th, 2021, their stock price was \$23.79 with a market capitalization of \$2.14 Billion and Annual Sales of \$318MM (see Appendix 1 – Market Data). The success of The RealReal’s can be attributed in large part to the unwavering trust of consignors and buyers who enthusiastically engage with The RealReal every day.

This is accomplished through the dedication of 2,600+ employees, the commitment of investors, their unique business model of reinvented resale for the luxury-focused, and most importantly, their value conscious and sustainability minded customer.

The fashion industry is widely regarded as one of the top industries for pollution in the world (The RealReal.com, 2021). The RealReal actively promotes the importance of the resale industry as a way to reduce the carbon footprint of retail globally. The RealReal has gone as far as creating the first ever sustainability calculator to quantify their companies’ positive environmental impact since their inception. Unlike the traditional retail economy of make, use, and dispose of, the resale or circular economy is restorative and regenerative by design. With the help of shoppers and sellers, companies like The RealReal are contributing to a more sustainable fashion industry where luxury goods stay in circulation. The numbers speak for themselves, 827 Million Liters of Water and 17,032 Metric Tons of Carbon saved by selling on The RealReal since 2011, that is equivalent to 3,308,000,000 glasses of water and about the same amount 2,816,289 trees absorb in one year (The RealReal.com, 2021).

Company Trends

The RealReal is showing signs of healthy, continued growth with the exception of a slight dip in 2020 due largely to the pandemic shutdown in the second quarter. The company continues to capitalize on the rise of the sustainability conscious consumer, most of whom are environmentally friendly fashion lovers who are committed to buying online. The continuous rise in Operating Expenses is driven by increasing operations and technology expenses. These expenses primarily consist of personnel-related costs for employees involved with the authentication, merchandising and fulfillment of goods sold through online marketplace, as well as general information technology expense.

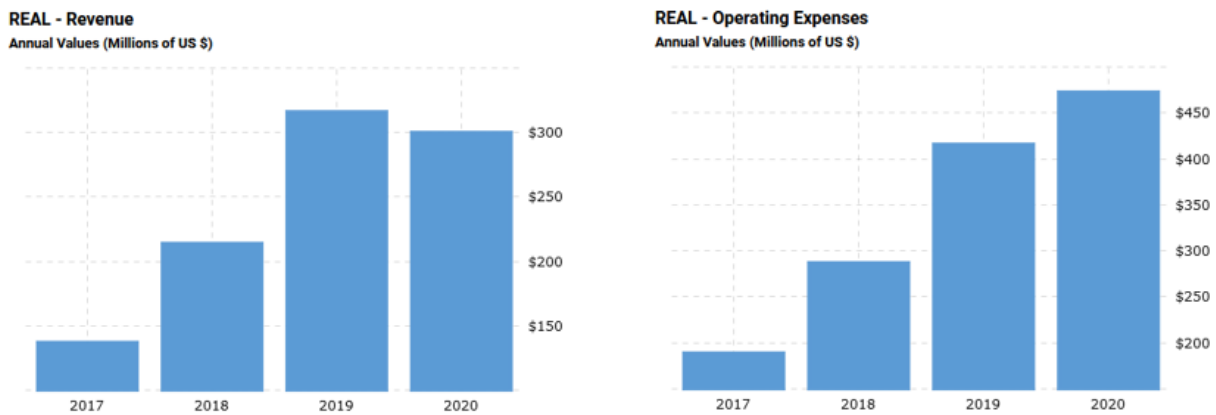


Figure2 The RealReal Revenue and Operating Trend | Source
 (<https://www.macrotrends.net/stocks/charts/REAL/realreal/financial-statements>)

Since The RealReal went public in 2019 at around \$29.00/share. Their fluctuating stock price (high \$28.90/low \$6.40/average \$17.11) reveal shaky investor confidence especially with the pandemic. The RealReal’s share price dropped 4% after the company announced its store opening in Chicago in March yet the stock has been rated a buy with a one year target price of \$21.80. (RealReal, Inc., 10/26/21)

The Online Consignment Industry

Online consignment shopping became popular after the Great Recession in 2007, with the creation of new online stores that allowed people to buy and sell used clothing. eBay was first to market, the original online consignment store. Since then, many other firms have entered and the market has experienced tremendous growth. Online consignment is just a fraction of the entire apparel market however it is now almost three times the size of the traditional brick-- and-- mortar consignment shop market. The biggest driver to the resale industry is the

consumers. They are fashion forward and driven by their desire to be more eco-- friendly and are shifting to more sustainable consumption habits. Consignment is a great way to shop for clothes for those concerned about the environment, sustainability and limiting waste.(Hume, 4/8/19). Within the resale industry a few retailers have identified a niche and only resale luxury brands like Burberry, Gucci, Chanel, and Prada. (Russell, 2017)

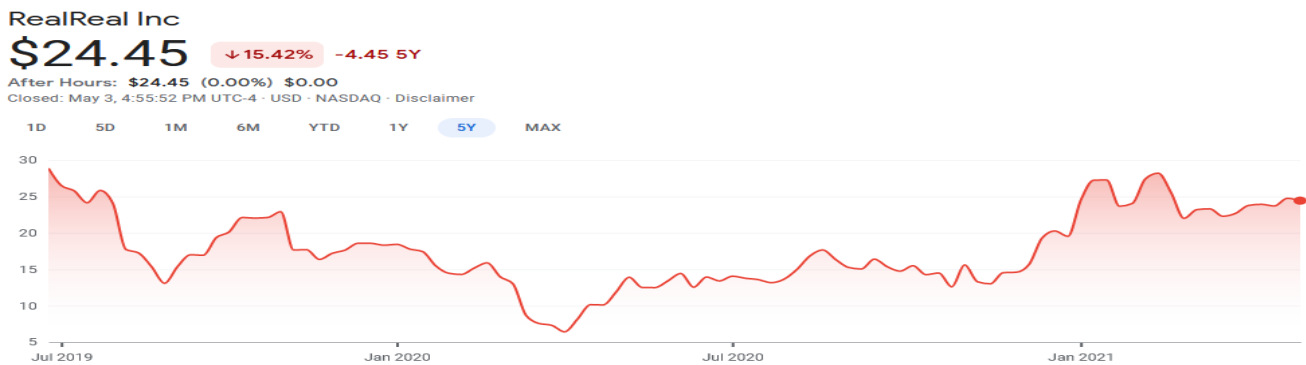


Figure 3 The RealReal Stock Price
 Source (<https://www.google.com/finance/quote/REAL:NASDAQ?window=5Y>)

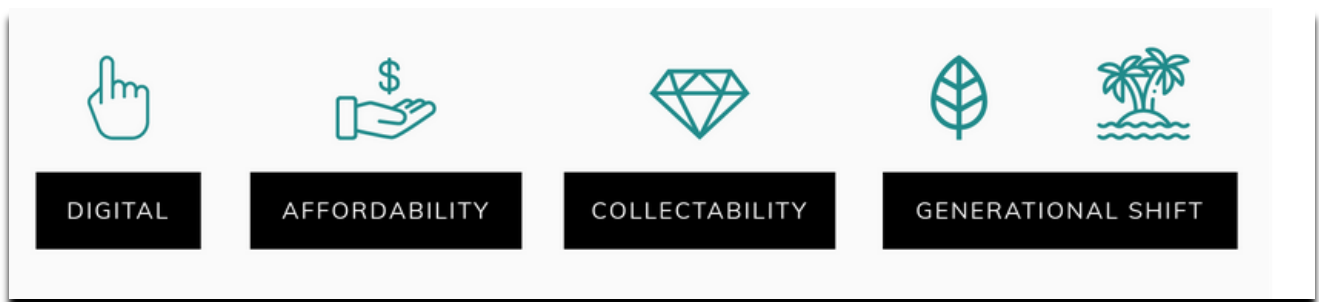


Figure 4 Four drivers fueling the growth of luxury resale
 Source (<https://lux.digital/business/digital-luxury-reports/luxury-resale-transformation/>)

Industry Trends

In 2021 the luxury resale industry is a \$24 billion industry and is growing four times as fast as the primary luxury resale industry; 12 percent per year versus 3 percent. This growth is driven by online resellers and the rise of a younger affluent generation and their desire for more sustainability. The fast-growing online luxury resale sites, like The RealReal, are drastically changing the luxury resale landscape. However, most luxury brands have yet to identify a way to capitalize on the booming resale industry. The below table forecasts the share of customer wardrobe by purchase category from 2020 to 2023.

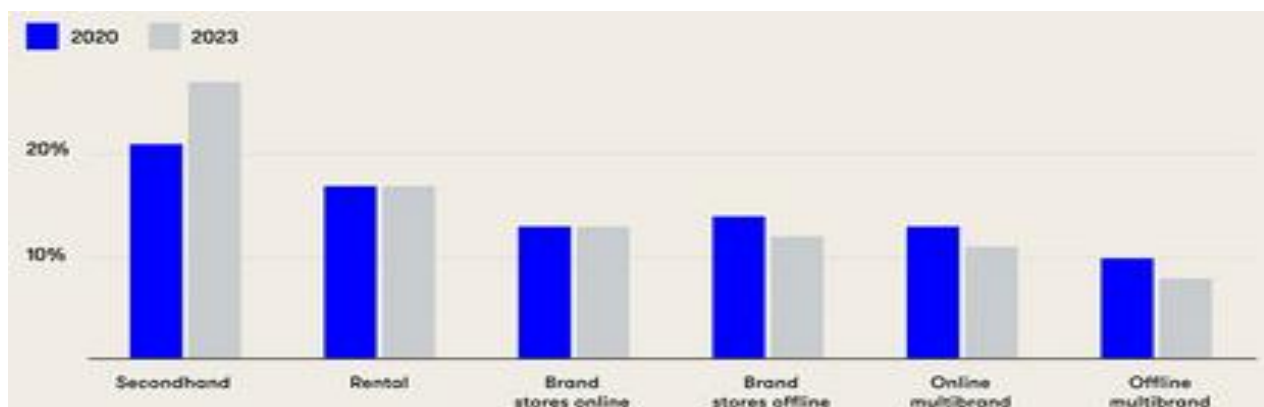


Figure5 Share of Customer Wardrobe by Purchase Category
 Source (<https://www.voguebusiness.com/sustainability/should-luxury-fashion-brands-offer-resale-richard-mille-mark-cross-do>)

Luxury brands are hesitant to encourage resale of their merchandise for fear that it would cannibalize sales of new products and somehow dilute the exclusivity of their brands (LUXE Digital, n.d). In fact, luxury brands have stooped to burning their clothing and accessories rather than flood the market with their goods and potentially diluting the brand image as well as the price point of their goods. (Cole, July 19, 2018)

Business Strategy

This firm looks at strategic positioning on several levels – international, corporate and business unit.

International Strategy: Global Strategy – Think Global, Act Global. The RealReal use this international strategy to emphasize efficiency in the value chain regardless to where the buyer or seller is located.

Corporate Strategy: Growth Concentration Strategy. The RealReal focuses its resources on its authentication process which is continuously building trust with consumers via its website. That trust has resulted in new consignments and sales all over the world.

Business Strategy: Narrow Differentiation Strategy. The RealReal is focused on capitalizing on sustainability conscious, environmentally friendly fashion lovers who are committed to buying luxury products online.

The Competitors

The top three competitors of The RealReal in this niche luxury resale industry are Vestiaire Collective (founded in 2009, headquartered in France), Fashionphile (founded in 1999, headquartered in the US) and Yoogi's Closet (founded in 2008, headquartered in the US). All three are privately held companies with 535, 191 and 8 employees, respectively. What sets The RealReal apart from their competitors is the strict “no fakes” policy and the rigorous authentication process they employ. Another attribute that sets The RealReal apart is their focus on educating the world on the importance of sustainability in luxury resale where the competitors’ primary focus is to simply resell the item, The RealReal emphasizes the important role of the resale industry; it is selling the fact that the buyer is doing something good for the planet when they keep these luxury items in circulation. [Since all three top competitors are privately held companies, there are no financial data to compare against.]





	 The RealReal The RealReal is a company engaged in authenticated luxury consignment.	 Vestiaire Collective Vestiaire Collective is a marketplace enabling people to buy and sell luxury, pre-owned fashion products.	 Fashionphile Fashionphile is a specialist in vintage, rare, limited-edition and discontinued luxury bags.	 Yoogi's Closet Yoogi's Closet is a service for buying and selling authentic pre-owned luxury items.
Founding Date	2011	2009	1999	2008
Type	Public	Private	Private	Private
Tags	Retail clothing ecommerce fashion footwear jewellery luxury used goods	Retail clothing fashion luxury marketplace used goods	Retail ecommerce fashion luxury	Retail ecommerce fashion jewellery
Locations	San Francisco, US HQ Chicago, US Dallas, US Los Angeles, US Miami, US New York, US New York, US see more	Paris-15E-Arrondissement, FR HQ Berlin, DE London, GB New York, US	Carlsbad, US HQ	Seattle, US HQ
Employees	1,748	525 ^{~2%} increase	191 ^{~3%} increase	8
Valuation (\$)	2 b	1 b	N/A	N/A

Figure 6 The ReaReal Competitors

Source (<https://craft.co/the-realreal/competitors?competitors=the-realreal%2Cvestiaire-collective%2Cfashionphile%2Cyooigis-closet>)

Operations

The RealReal makes selling effortless with free virtual appointments, in-home pickup, drop-off, and direct shipping. They do all the work for consignors, including authenticating, using AI and machine learning to determine optimal pricing, photographing, and listing their items, as well as handling shipping and customer service.

At their 4 retail locations, including their nine shoppable stores, customers can sell, meet with experts, and receive free valuations (TheRealReal.com, 2021). The workflow is as follows:

1. **Receive item for consignment:** Consignor either schedules an in-home pickup, ship to one of the company's e-commerce centers, or makes a drop-off in one of their brick-and-mortar stores.
2. **Authentication:** Upon receipt, the item is authenticated via "a rigorous, brand-specific authentication process, overseen by hundreds of experts and brand authenticators, including gemmologists and horologists, who inspect thousands of items each day." (The RealReal.com, 2021)
3. **Creating the Listing:** After the item is authenticated, the company's copywriting and photography teams creates the best description and images for the items. All the required information on an item is provided as part of a standard listing, including measurements, and authentication specs.
4. **Pricing:** A team of trained mathematicians and statisticians using AI and machine learning to determine the optimal price.
5. **Listing:** Once the price is the determined, the item is then listed on the company website. All the listings are uniformed with similar pictures and descriptions.
6. **Payment:** After the item is sold, the seller receives payment minus The RealReal applied commissions.
7. **Shipping:** Finally, the purchased item is shipped. "The RealReal ships orders to the United States via UPS and globally via UPS Worldwide Expedited. The company ships to over 60 countries" (see Appendix 2 - Shipping fees).
8. **Marketing:** The RealReal spent over \$100 million on advertising in digital, print, and national TV in 2020. They invest in premium ad units and advertise on over 100 different Media Properties across multiple Media formats. (MEDIARadar, 2021)
9. **Customer Service:** Unlike other resale websites, The RealReal allows the consumer to return items with some restrictions. For example, the request must be made within 14 days of shipment and received within 21 days of shipment. Returns are subject to certain conditions and are in line with Retail industry standards (Final sales, handbags, swimwear, luggage, beauty, etc., are not eligible for return. (see Appendix 3 – Return Process)

Functional Strategies

To implement their corporate strategy, The RealReal employs the following Functional Strategies:

1. **Service:** Infuse the consignment process with exceptional service, ease of use, pricing transparency and regular payments that keep consignors returning consistently (The RealReal.com, 2021).
2. **Trust:** The trust engendered by the investment in authentication is the force that attracts buyers and keeps them coming back (The RealReal.com, 2021).
3. **Human Resources:** Strong management with 2600+ employees. They are a truly diverse team and believe diversity and inclusion foster a collaborative culture, which fuels their ability to innovate and disrupt as they work to help create a more sustainable future (The RealReal.com, 2021).
4. **Data:** Unique data insights combined with artificial intelligence and expert analysts' judgment results in price optimization, increased sales velocity, and business model efficiencies (The RealReal.com, 2021).
5. **Technology:** Proprietary technology developed over eight years to manage the complexity of operating a marketplace with up to 14,000 single-SKU items per day and 1.6 million transactions is an important part of competitive strength (The RealReal.com, 2021).
6. **Sustainability:** The RealReal has even developed a first-of-its-kind sustainability calculator to quantify positive environmental impact since their inception (The RealReal.com, 2021).
7. **Marketing:** The RealReal spent under \$100 million on advertising in digital and national TV in the last year. They invest in premium ad units and advertise on over 250 different Media Properties in the last year across multiple Media formats.
8. **Financial:** The RealReal finances operations and technology expense activities through debt.
9. **Website:** The RealReal has the most structured websites in the luxury resale industry niche. All the listings are uniformed with similar pictures and descriptions. This makes searching and finding the right item easier than competitor sites. All the required information on an item is provided as part of a standard listing, measurement, and authentication specs. There is no bidding on items and most items are discounted periodically.

Final Observations

Julie Wainwright remains proud that The RealReal has championed this circular economy and continues to extend the life of luxury goods through resale and repairs (The RealReal.com, 2021). The luxury online consignment stores may offer discounts and deals, but that does not mean that they are cheap - some items sell for more than the original retail price.

Luxury brand retailers will have to figure out a way to coexist with the luxury resale store because “stopping consumers from reselling their authentic preloved luxury goods and preventing customers from buying those goods at discounted prices is mission impossible” (LUXE Digital, n.d). Given changing consumer attitudes towards ownership and sustainability, what does The RealReal need to do to establish its unique place among the luxury brands?







EXERCISE

Conduct a preliminary strategic analysis of this case that will constitute the content of a PowerPoint Presentation to include the following items/slides:

1. Macro-environmental Analysis
2. Industry Analysis
3. Key Industry Success Factors
4. Competitive Advantage – Resource Analysis
5. Value Chain Analysis
6. SWOT Analysis – Quadrant Placement
7. Strategic Options
8. Decision Table

APPENDICES

Appendix 1 – Market Data (April 2021)

 INDUSTRY, SECTOR AND SYMBOL		 SALES & BOOK VALUE	
Stock Exchange	NASDAQ	Annual Sales	\$318.04 million
Industry	Miscellaneous retail	Price / Sales	6.72
Sub-Industry	N/A	Cash Flow	N/A
Sector	Consumer Discretionary	Price / Cash Flow	N/A
Current Symbol	NASDAQ:REAL	Book Value	\$3.95 per share
Previous Symbol		Price / Book	6.02
CUSIP	N/A	 PROFITABILITY	
CIK	N/A	EPS (Most Recent Fiscal Year)	(\$1.97)
Web	www.therealreal.com	Net Income	\$-96,750,000.00
Phone	855-435-5893	Net Margins	-46.90%
Employees	2,604	Return on Equity	-48.99%
Year Founded	N/A	Return on Assets	-25.03%
 DEBT		 MISCELLANEOUS	
Debt-to-Equity Ratio	0.63	Outstanding Shares	89,835,000
Current Ratio	3.62	Market Cap	\$2.14 billion
Quick Ratio	3.46	Next Earnings Date	5/5/2021 (Estimated)
 PRICE-TO-EARNINGS		Optionable	Not Optionable
Trailing P/E Ratio	N/A		
Forward P/E Ratio	N/A		
P/E Growth	N/A		

<https://www.marketbeat.com/stocks/NASDAQ/REAL/>

Appendix 2 – Shipping Fees

Domestic Shipping

- Standard: 3-5 business days for \$11.95, plus an extra \$5 for Hawaii and Alaska
- Express: 2 business days for \$20
- Next Day: 1 business day for \$30
- High value orders or orders shipped to an address different from the billing address takes an additional two days for processing.
- A high value order consists of goods of value totaling \$1,000 or multiple orders which add up to that amount.

International Shipping

- Packages travelling to Canada, Mexico, and Puerto Rico 3-6 business days (\$30)
- Packages travelling to Europe take 4-6 business days (\$40)
- Packages travelling to the Middle East, Asia Pacific and Australia take 4-7 business days and cost \$50.
- Add 2 days for any orders placed after 12 PM Thursday Pacific Time
- Orders shipped outside of the US may be subject to taxes and duties.

Appendix 3 – Return Process

To go through The RealReal return process:

1. Go to My Purchases on The RealReal website
2. Click on the order number containing the item you wish to return.
3. Click return on the times you wish to return in your order summary.
4. Fill out the requested information.
5. You will receive a confirmation label, shipping instructions and a shipping label. You may print it and \$11.95 will be deducted when your item is processed.
6. Follow the instructions in the email to complete your return.

Appendix 4 – Financials

THE REALREAL, INC.				
Statements of Operations				
(In thousands, except share and per share data)				
(Unaudited)				
	Three Months Ended December 31,		Year Ended December 31,	
	2020	2019	2020	2019
Revenue:				
Consignment and service revenue	\$ 69,073	\$ 82,522	\$ 245,643	\$ 267,412
Direct revenue	15,512	11,209	52,623	50,625
Total revenue	84,585	93,731	298,266	318,037
Cost of revenue:				
Cost of consignment and service revenue	19,723	20,987	66,976	73,579
Cost of direct revenue	13,728	10,197	45,406	41,252
Total cost of revenue	33,451	31,184	112,382	114,831
Gross profit	51,134	62,547	185,884	203,206
Operating expenses:				
Marketing	17,066	10,896	54,813	47,734
Operations and technology	45,950	39,960	163,808	143,231
Selling, general and administrative	38,715	34,553	141,762	110,663
Total operating expenses (1)	101,731	85,409	360,383	301,628
Loss from operations	(50,597)	(22,862)	(174,499)	(98,422)
Interest income	168	1,675	2,518	4,593
Interest expense	(2,454)	(45)	(5,264)	(616)
Other income (expense), net	(80)	5	(169)	(2,102)
Loss before provision for income taxes	(52,963)	(21,227)	(177,414)	(96,547)
Provision (benefit) for income taxes	63	147	101	199
Net loss	\$ (53,026)	\$ (21,374)	\$ (177,515)	\$ (96,746)
Accretion of redeemable convertible preferred stock to redemption value	\$ —	\$ —	\$ —	\$ (3,355)
Net loss attributable to common stockholders	\$ (53,026)	\$ (21,374)	\$ (177,515)	\$ (100,101)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.60)	\$ (0.25)	\$ (2.03)	\$ (2.11)
Weighted average shares used to compute net loss per share attributable to common stockholders, basic and diluted	88,810,674	85,823,352	87,587,409	47,478,544
(1) Includes stock-based compensation as follows:				
Marketing	\$ 527	\$ 104	\$ 1,755	\$ 392
Operating and technology	3,019	1,083	10,241	3,148
Selling, general and administrative (2)	3,865	1,608	12,326	4,990
Total	\$ 7,411	\$ 2,795	\$ 24,322	\$ 8,530

(2) Includes compensation expense related to stock sales by current and former employees in March 2019.

<https://investor.therealreal.com/news-releases/news-release-details/realreal-announces-fourth-quarter-and-full-year-2020-results>

THE REALREAL, INC.				
Condensed Balance Sheets				
(In thousands, except share and per share data)				
(Unaudited)				
	December 31, 2020		December 31, 2019	
Assets				
Current assets				
Cash and cash equivalents	\$	350,846	\$	154,446
Short-term investments		4,017		208,811
Accounts receivable		7,213		7,779
Inventory, net		42,321		23,599
Prepaid expenses and other current assets		17,072		13,804
Total current assets		421,469		408,439
Property and equipment, net		63,454		55,831
Operating lease right-of-use assets		118,136		—
Other assets		2,050		2,660
Total assets	\$	605,109	\$	466,930
Liabilities and Stockholders' Equity				
Current liabilities				
Accounts payable	\$	14,346	\$	11,159
Accrued consignee payable		57,053		52,820
Operating lease liabilities, current portion		14,999		—
Other accrued and current liabilities		61,862		54,567
Total current liabilities		148,260		118,546
Operating lease liabilities, net of current portion		115,084		—
Convertible senior notes, net		149,188		—
Other noncurrent liabilities		1,284		9,456
Total liabilities		413,816		128,002
Stockholders' equity:				
Common stock, \$0.00001 par value; 500,000,000 shares authorized as of December 31, 2020 and December 31, 2019; 89,301,664 and 85,872,320 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively		1		1
Additional paid-in capital		723,302		693,426
Accumulated other comprehensive income		11		7
Accumulated deficit		(532,021)		(354,506)
Total stockholders' equity		191,293		338,928
Total liabilities and stockholders' equity	\$	605,109	\$	466,930

<https://investor.therealreal.com/news-releases/news-release-details/realreal-announces-fourth-quarter-and-full-year-2020-results>

THE REALREAL, INC.		
Condensed Statements of Cash Flows		
(In thousands)		
(Unaudited)		
	Year Ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (177,515)	\$ (96,746)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	18,845	13,408
Stock-based compensation expense	24,322	7,711
Reduction of operating lease right-of-use assets	16,062	—
Bad debt expense	903	1,371
Compensation expense related to stock sales by current and former employees	—	819
Change in fair value of convertible preferred stock warrant liability	—	2,100
Accrued interest on convertible notes	216	—
Loss on retirement of property and equipment	280	—
Accretion of unconditional endowment grant liability	51	94
Accretion of debt discounts and issuance costs	2,399	11
Amortization of premiums (discounts) on short-term investments	(137)	(320)
Changes in operating assets and liabilities:		
Accounts receivable	(337)	(1,579)
Inventory, net	(18,722)	(13,244)
Prepaid expenses and other current assets	(3,443)	(4,108)
Other assets	548	(1,026)
Operating lease liability	(12,752)	—
Accounts payable	4,457	6,010
Accrued consignor payable	4,233	17,561
Other accrued and current liabilities	7,994	10,686
Other noncurrent liabilities	(166)	2,762
Net cash used in operating activities	(132,762)	(54,490)
Cash flow from investing activities:		
Purchases of short-term investments	(73,280)	(220,609)
Proceeds from maturities of short-term investments	278,215	39,281
Capitalized proprietary software development costs	(8,678)	(9,267)
Purchases of property and equipment	(19,910)	(24,761)
Net cash provided by (used in) investing activities	176,347	(215,356)
Cash flow from financing activities:		
Proceeds from issuance of common stock in initial public offering, net of issuance costs	—	315,541
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	—	43,492
Proceeds from issuance of convertible preferred stock, net of issuance costs	—	26,283
Proceeds from issuance of convertible senior notes, net of issuance costs	166,278	—
Purchase of capped calls	(22,546)	—
Proceeds from exercise of stock options and common stock warrants	8,859	2,729
Proceeds from issuance of Employee Stock Purchase Program	972	—
Taxes paid related to restricted stock vesting	(748)	(130)
Repayment of debt	—	(9,250)
Net cash provided by financing activities	152,815	378,665
Net increase in cash, cash equivalents and restricted cash	196,400	108,819
Cash, cash equivalents, and restricted cash		
Beginning of period	154,446	45,627
End of period	\$ 350,846	\$ 154,446

<https://investor.therealreal.com/news-releases/news-release-details/realreal-announces-fourth-quarter-and-full-year-2020-results>

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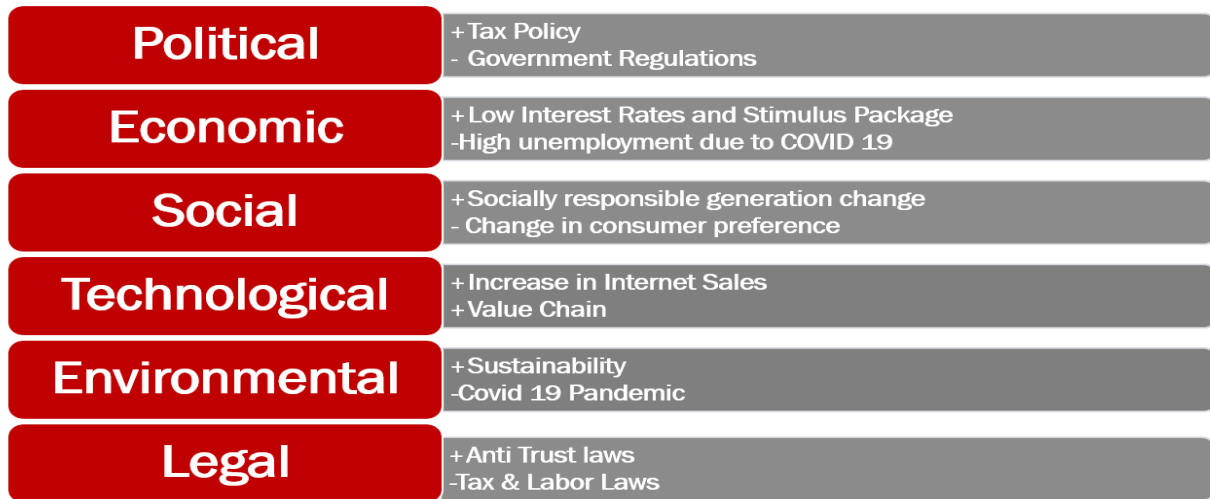
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**EXERCISE ANSWERS:
Basic Information and Slide Graphics**

1. Macroenvironmental [PESTEL] Analysis

A PESTEL Analysis is used to analyze the external factors that may drive The RealReal's opportunities and threats in the macro-environment.



Exercise Figure 1 The RealReal PESTEL Analysis

Political

- +Tax policy: Jobs Act of 2017, which amended the Internal Revenue Code and reduced corporate tax rates. This can also be a negative if rates go back up under current administration.
- -Government regulations: Example possible government sanctions that prevent the online buying or selling from certain countries

Economic

- +low interest rates and stimulus package
- -High unemployment rate due to Covid-19 resulted in low disposable income

Social

- +Socially responsible generation change
- -Change in Consumers Preferences

Technological

- + Internet sales: Consumers spent \$861.12 billion online with U.S. merchants in 2020, up an incredible 44.0% year over year, according to Digital Commerce 360 estimates. It is also nearly triple the 15.1% jump in 2019.
- + Value chain: Retailers are using technology to improve all aspects of the value chain. They use AI for gathering data on consumer and internet of things to be connected to every step of the supply chain, to name a few.

Environmental

- +Sustainability: In recent years we've see that a company's environmental impact influence consumer spending and stores are taking on greater focus in boosting their Corporate Social Responsibility
- -Covid pandemic: This significantly impact the economy with the rise in unemployment and the closing of stores

Legal

- +Anti-trust law: Anti-trust law are changing online shopping. For example, laws like "no more tax-free shopping on the internet"
- -tax and labor laws

2. Industry Analysis [Five Force Analysis]

Based on an analysis of the immediate industry and competitive environment using Porter's Five Force Industry Analysis, the luxury resale industry has medium profitability.



Exercise Figure 2 The RealReal Industry [Five Forces] Analysis

- **Threat of New Entrants:** Anyone can set-up a resale luxury site however there is level of customer trust that is required to be successful that takes time and capital to establish making the threat of new entry **Medium**.
- **Bargaining Power of Buyers:** Buyers do not have many Luxury resale retailers to choose from, however there is low switching cost that makes the bargaining power of buyer's **Medium**.
- **Threat of Substitute Products:** Buyer can shop Luxury goods on sale at retail stores or at outlet malls making the threat of substitute product **High**.
- **Bargaining Power of Suppliers:** The resale industry has a symbiotic between the seller and the resale sites making the bargaining power of suppliers **Medium**.
- **Rivalry Among Existing Competitors:** Few competitors in luxury resale but not all with the ability to compete at top level making rivalry among existing firms **Medium**.

3. Key Industry Success Factors

Key Success Factors were developed from information available on each company’s website listed below.

Luxury Resale		The RealReal		Vestiaire Collective		Fashionphile		Yoogi’s Closet	
Key Industry Success Factors	Weight	Rating	Score	Rating	Score	Rating	Score	Rating	Score
Authentication	.3	10	3	6	1.8	5	1.5	6	1.8
Consignments	.2	7	1.4	7	1.4	6	1.2	6	1.2
Size/ volume of listed items	.15	8	1.2	8	1.2	6	0.9	5	0.75
Variety of listed items	.15	8	1.2	7	1.05	6	0.9	5	0.75
Innovation	.1	8	0.8	8	0.8	7	0.7	7	0.7
Sustainability efforts	.1	9	0.9	7	0.7	5	0.5	5	0.5
Total	1		8.5		6.95		5.7		5.7

Exercise Figure 3 The RealReal Key Success Factors

- **Authentication:** To be successful in this industry, customers will only purchase if they trust that the item, they are purchasing is authentic. So here we measure the number of authenticators and quality of the authentication process. The RealReal is rated 10 here because they have over 43 authenticators in various areas of authentications and authenticates all listed items. Vestiaire has 3 authenticators but only authenticates after the buyer has made a purchase. Fashionphile does not authenticate listings and authenticity is based on the sellers say so. Yoogi’s only has 8 employees, and we must assume that at least 1 is an authenticator to the scope of authentication is limited.
- **Consignment:** The consignment fee is an industry standard of 30% however the companies can discount the items. The RealReal is the only company where the 30% is based on the original listed price and not the discounted price. Vestiaire does not consign but charges a 17-25% fee on all sales.

- **Size/ volume of listing & Variety:** These are based on our research on the individual sites. We found that the RealReal had the greatest volume and variety, well above all three competitors. Yoogi’s closet stood out as being the worse of the lot, it was difficult to find anything except for Gucci.
- **Innovation:** All four companies have taken advantage of the advancement in technology in some way. It was difficult to tell them apart with the limited information on their websites, so we ranked them the same except for The RealReal. The RealReal received one point more because of the structure of their website which was the easiest to maneuver because of the standardization of listings that provides all necessary information in the same format and included measurements and authentications information.
- **Sustainability efforts:** This is what is driving this circular economy. All the companies have listed their efforts on their websites and the RealReal stands out with doing the most. For example, in Sept. 2020, The RealReal joined the United Nations Global Compact, the world’s largest corporate sustainability initiative. The RealReal, alongside thousands of other global companies, will uphold and implement the United Nation Global Compact of 10 universally accepted principles related to human rights, labor, environment and anti-corruption into its overall strategy and operations.

4. Competitive Advantage – Resource Analysis (VRIN)

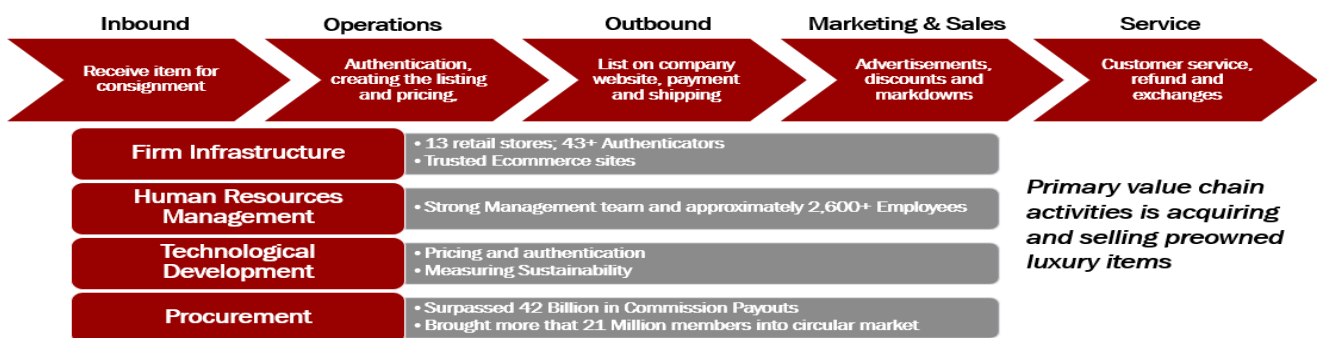
Some of The RealReal key resources and capabilities are listed below in the VRIN analysis. The RealReal VRIN analysis shows that the company has a good competitive advantage and very strong profit potential.

Resources/ Capabilities	Valuable	Rare	Inimitable	Non-substitutable	Competitive Advantage
Authentication	YES	YES	YES	YES	Core Competency
Brand Recognition/ Loyalty/Trust	YES	YES	YES	YES	Core Competency
Consignments Process	YES	YES	YES	YES	Core Competency
Size/ volume of listed items	YES	YES	NO	YES	Core Competency
Variety of listed items	YES	YES	NO	YES	Competency
Innovation	YES	YES	NO	YES	Competency
Rapid Sales velocity	YES	NO	YES	YES	Competency
Optimal Pricing	YES	YES	NO	YES	Competency
Luxury Service	YES	Yes	YES	YES	Core Competency

Exercise Figure 4 The RealReal VRIN Analysis

- **Authentication:** The RealReal is the only resale company that authenticates every single item they sell. They have a rigorous, brand-specific authentication process, overseen by hundreds of experts and brand authenticators, gemmologists, and horologists, that is valuable, rare, and no substitutable/will be difficult to imitate.
- **Brand Recognition/ Loyalty/Trust:** The trust engendered by the investment in authentication is the force that attracts buyers and keeps them coming back.
- **Consignments:** Free end to end service, very costly to imitate.
- **Optimal Pricing:** Unique data insights combined with artificial intelligence and expert analysts’ judgment results
- **Luxury Service:** Infuse the consignment process with exceptional service, ease of use, pricing transparency and regular payments that keep consignors returning consistently.

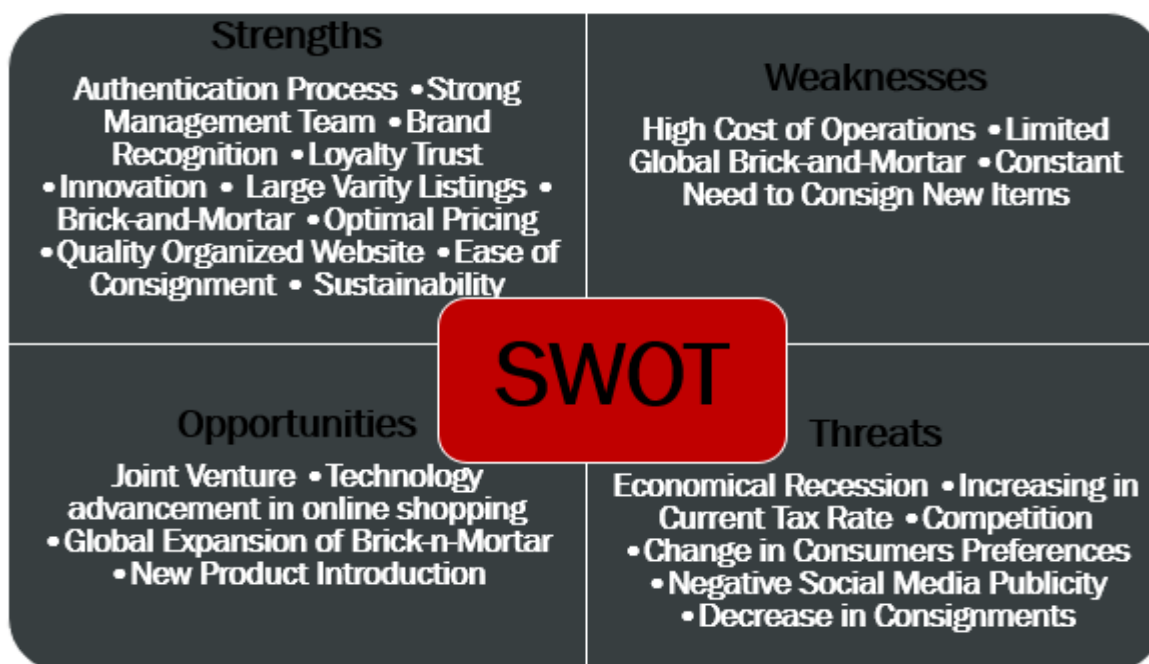
5. Value Chain Analysis



Exercise Figure 5 The Value Chain Analysis

The Primary value chain activity for The RealReal is acquiring and selling preowned luxury. The above value chain shows some of the key competitive function of The RealReal value chain.

- **Inbound: Receive item for consignment** – sellers send their for-sale items to The RealReal. The customer can either schedule an in-home pickup, ship to one of the company’s e-commerce centers, or dropped off in one of their brick-and-mortar stores.
- **Operations: Includes authentication, creating the listing and pricing:**
 - Once the item is received, the item is authenticated via a rigorous, brand-specific authentication process, overseen by hundreds of experts and brand authenticators, including gemologists and horologists, who inspect thousands of items each day.
 - After the item is authenticated, it is photographed, and the best description and images are created for the items.
 - Then a team of trained mathematicians and statisticians using AI and machine learning to determine the best optimal price.
- **Outbound: Includes list on company website, payment, and shipping.**
 - Once price is the determined, the item is then listed on the company website.
 - After the item is sold, the seller receives payment minus The RealReal applied fees.
 - Finally, the item is shipped.
- **Marketing & Sales:** The RealReal spends over \$100 million on advertising in digital, print, and national TV in the last year. Selected items are discounted 20% using code: REAL and items are regularly discounted if not sold by a certain time.
- **Service:** Unlike other resale sites, The RealReal allows you to return items with some restrictions, example a return request must be within 14days of shipment. Customers can receive refunds, store credit or an exchange on their returns.
- **Firm Infrastructure:** 13retail stores over 43 trained authenticators, resulting a trusted Ecommerce site.
- **Human Resources:** Strong management with 2,600+ employees. They are truly diverse team and believe diversity and inclusion foster a collaborative culture, which fuels their ability to innovate and disrupt as they work to help create a more sustainable future.
- **Technological Development:** Proprietary technology developed over eight years to manage the complexity of operating a marketplace with up to 14,000 single-SKU items per day and 1.6 million transactions is an important part of competitive strength. The RealReal has even developed a first-of-its-kind sustainability calculator to quantify positive environmental impact since their inception.
- **Procurement:** Surpassed \$2 Billion in Commission Payouts or the 18+ million items it has kept in circulation by April2021. Have brought more than 21 million members into our circular marketplace.



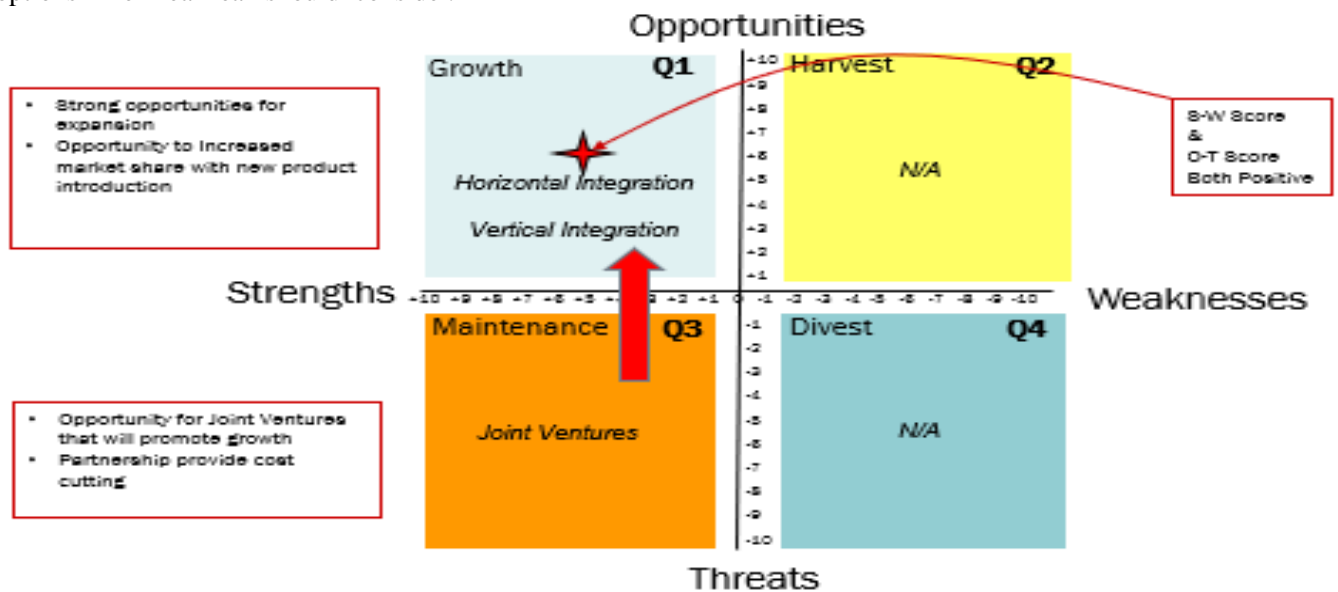
Exercise Figure 6a The RealReal SWOT Analysis

6. SWOT Analysis – Quadrant Placement

The ReaReal SWOT analyse shows that the company’s Strength and Opportunities outweighs the Weaknesses and Threats which has resulted in the company showing significant growth since its inception in 2011 and continued sustainable foreseeable growth.

- **Key Strength:** The authentication process is their biggest strength and is what drives trust for buyers and sellers on their website. Their optimal pricing for brick and mortar stores and sustainability efforts are also standouts.
- **Key Weakness:** largely attributable to be the cost of operations due to their authentication process, brick and mortar stores, free shipping on newly consigned items.
- **Key Opportunities:** Joint venture and global expansion of brick and mortar to generate growth.
- **Key Threats:** Economical recession, change in consumer preference and decrease in consignments. If customers cannot afford to buy or are willing to sell, there is no way for The RealReal to earn commission on consignment.

Tying the SWOT to the long-term Strategy using Quadrant analysis, we are able to identify viable options The RealReal should consider.



Exercise Figure 6B The RealReal Quadrant Analysis

- The RealReal is currently in the Growth quadrant with opportunities for expansion and to increase its market share with the introduction of a new product line.
- Another opportunity is to form a joint venture that will promote growth and a partnership that can cut cost in the value chain.

7. Strategic Options



Exercise Figure 7a: Option 1 International Store Expansion

1. Expand brick and mortar stores to London, Paris, Italy, and China. These are the fashion capitals of the world and should prove to be a rich source for the consignment of luxury resale items.

Strategy:

- International: Global Strategy
- Corporate: Concentration Strategy
- Business: Board Differentiation Strategy

Pros:

These are prime locations for fashion, larger quantity, and variety of luxury consignment.

Additional brick and mortar reduce the shipping cost from consignors in those locations and increase the opportunity for larger consignment.

Cons:

Added cost to establish and maintain additional brick and mortar stores.

Investors may disagree with the need to open additional brick and mortar stores give the recent trend of online shopping.

Fit: This options fits with The RealReal's mission and vision as it an expansion of their existing strategy.

Impact to Value Chain: Horizontal Integration.



Exercise Figure 7b: Option 2 Partnership with USPS

2. Create a partnership with United States Postal Service (USPS). USPS has already formed a successful partnership with Amazon that has proven to be profitable for both.

Strategy:

- International: Global Strategy
- Corporate: Concentration Strategy
- Business: Board Differentiation Strategy

Pros:

Reduced operating cost with an agreed low rate. Provides customer convenience when consigning items.

Cons:

May be difficult to establish a partnership with a government agency. May be subject to government oversight and regulations.

Fit: This options fits with The RealReal's mission and vision of creating greater access to authentic luxury good and expanding the circular economy.

Impact to Value Chain: Horizontal Integration.



Exercise Figure 7c: Option 3 Joint Venture – New Product Line

3. Joint Venture with Luxury Brands to introduce a new product line: Unsold Luxury). Luxury Brand retailers can consign with The RealReal to sell their unsold items. For every item sold on The RealReal the customer is able to apply a discount towards a purchase in the Luxury Brand Retail store.

Strategy:

- International: Global Strategy
- Corporate: Concentration Strategy
- Business: Board Differentiation Strategy

Pros:

- Increased flow luxury items listed for sale.
- Increased sustainability effort as most Luxury Brand Retailers prefer to destroy unsold luxury items rather than dilute their brand.

Cons:

- It will be difficult to form the joint venture with the Luxury Brands. Luxury brands are already hesitant to encourage resale by fear of cannibalizing sales of new products and diluting the exclusivity of their brands.
- **Fit:** This options fits with The RealReal’s mission and vision of extending the lifecycle of luxury items by leading innovation in sustainable fashion.
- **Impact to Value Chain:** Backward Vertical Integration with the addition of a new supplier in the value chain

8. Decision Table

Putting all three option on the Decision table, option 3 scored the highest. When rating the options, option three added the most value to solve the problem of increasing market share and shareholder value and best fit The RealReal mission and vision to expand the circular economy.

	Value Solve the problem=5	Risk Less risk=5	Cost Less costly=5	Fit (values, mission, vision)=5	Total
	Option 1	3	3	3	12
	Option 2	4	4	4	16
	Option 3	5	4	5	18 

Exercise Figure 8 The RealReal Decision Table