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## Wake-Up Call for the Mattress Industry: Casper's Online Mattress Retail Strategy

BY LEN SHERMAN\*

### Introduction

If you're a business school student building the skills and experience to enhance your career, you're probably not likely to put the mattress industry high on your list of exciting opportunities. After all, mattresses (perhaps unfairly) are not considered cutting edge, innovative products. Industry sales have been cyclical and slow growing. From 2011 to 2016, the market value of publicly traded bedding products companies significantly lagged the S&P 500. The industry was dominated by large incumbents, who controlled 70% of the US market in 2014. The retail landscape was already saturated with nearly 10,000 specialty mattress stores in addition to big box retailers like WalMart, Costco, and IKEA that also sold mattresses. And consumers generally dreaded shopping for a new mattress—an experience often considered even more unpleasant and stressful than buying a used car.

As Warren Buffet once said, "With few exceptions, when a manager with a reputation for brilliance tackles a business with a reputation for poor fundamental economics, it is the reputation of the business that remains intact."<sup>1</sup> Why then would *anyone* want to go into such a seemingly uninspiring, mature, and widely reviled industry?

### The Contrarian View

But that's exactly what five young entrepreneurs did in 2014 by launching Casper, an online sleep products company. What did these tech-savvy entrepreneurs see to convince them to leave their impactful careers in e-commerce technology, mobile advertising, social enterprise, and product-design consulting to make the mattress industry the passionate pursuit of their lives?

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Simply stated, Casper CEO Philip Krim and his four cofounders saw the opportunity to completely change the business norms that had defined the hidebound mattress industry for decades. The five hoped that if they were able to do that, Casper would join the pantheon of successful companies in various industries—like Swatch (watches), Southwest (airlines), IKEA (furniture), Warby Parker (eyeglasses), Zappos and Toms (shoes) and Dollar Shave Club and Harry's (razors)—that defied conventional wisdom by entering supposedly bad businesses where dominant players controlled existing markets and/or structural industry characteristics prevented incumbents from earning attractive returns.

Casper took off quickly. Launched in April 2014, by 2016 the company had already raised almost \$70 million in venture capital and had become the fastest-growing online mattress retailer. Casper generated \$1 million in revenue in its first 28 days, and \$100 million in 2015, its first calendar year in business. By mid-2016, the *New York Times* reported that Casper was operating at an annual revenue run rate of \$200 million.<sup>2</sup>

Reviewing the market and competitive landscape in the US mattress industry is a logical starting point for understanding the drivers of Casper's business strategy.

## **Mattress Industry Market Characteristics circa 2014-2016**

US consumers spent about \$15 billion on bedding products in 2014, the second largest category in the furniture market (see Exhibit 1). As a mature, deferrable consumer durable product, mattress sales are typically slow growing and cyclical, tied to the macro economy and housing market. Over the past 20 years, the compound annual growth rate in unit mattress sales had been less than 1% (see Exhibit 2).

As was common in mature industries (e.g. airlines, automobiles, and beer), a wave of acquisitions had increased mattress industry concentration. At the manufacturer level, two companies—Serta Simmons Bedding and Tempur Sealy—accounted for 70% of US mattress sales in 2014 (see Exhibit 3). While mattress distribution remained relatively fragmented, Mattress Firm, the largest US retailer, had been aggressively rolling up competing outlets, acquiring over 2,100 mattress stores since 2007. The company operated over 3,500 stores and 80 distribution centers, with a market share of over 21%, greater than the next 30 largest US mattress retailers combined. In a further move towards consolidation, on August 6, 2016, Mattress Firm agreed to be acquired by South African discount retailer Steinhoff International Holdings NV. The all-cash sale price was \$64 a share, an acquisition premium of 115%. Shares of Mattress Firm had declined 52% in the year prior to the sale.<sup>3</sup>

Specialty mattress stores represented the largest sales channel, accounting for almost half of industry sales (see Exhibit 4). There were over 9,200 mattress stores in the United States in 2014, equivalent to the number of CVS outlets and only 25% fewer than the number of Starbucks stores.<sup>4</sup> It may seem puzzling that there were as many mattress stores selling \$1,000+ items to consumers once every eight years or so as there were CVS drugstores selling toothpaste, shampoo, and pharmaceuticals. However, the ubiquity of mattress stores is explained by industry economics.

Markups in mattress retailing are typically two to three times the wholesale price, and operating costs are extremely low. Stores generally carry no inventory, and manufacturers provide display models on consignment. Manufacturers also pay for promotional advertising and point-of-sale merchandising materials; given their relatively large gross margins—which are considerably higher than those of other consumer durable goods categories—mattress manufacturers can afford to underwrite downstream sales and marketing expenses (see Exhibit 5). Sales personnel in mattress stores are largely paid on a commission basis, which also helps reduce the fixed costs of store operations. The net result is that mattress stores can operate profitably on as few as one to two mattress sales per day.

Mattresses are generally categorized in two basic product-design types: innerspring and foam. Innerspring mattresses date back to the mid 1800s and remained the dominant mattress type sold. An innerspring mattress consists of a system of hundreds of interconnected steel coils that provide support and bounce for a wide variety of consumer body shapes, weights, and sleeping styles. The coils are surrounded by cotton or foam padding, to provide a comfortable, uniform sleeping surface. Innerspring mattresses could be manufactured at relatively low cost, and virtually all mattresses sold at retail prices below \$500 (37% of total unit shipments) used the spring coil design.

Innerspring mattresses accounted for 85% of total 2014 unit sales, at an average price point less than half that of all-foam mattresses (see Exhibit 6). However, despite their high sales rates, innerspring mattresses had relatively low owner appeal; only 60%–65% of customers reported satisfaction with their purchase. The biggest consumer complaints related to product longevity and comfort. Innerspring beds tend to wear faster than all-foam mattresses because the springs lose support and the padding compresses over time. Motion transfer is another drawback, as the design does not keep one person's movements from disturbing the other person when two people share a mattress.<sup>5</sup>

Over the past two decades, all-foam mattresses had grown in popularity, reflecting advances in materials technology. A peek inside an all-foam mattress reveals a layer cake of various permutations of latex, polyurethane, viscoelastic (memory) foams, and gel bead pads. Every manufacturer touted the unique comfort, support, and cooling properties their proprietary blend of foam materials provided. And in fact, all-foam mattresses generally did get high marks, achieving about 80% satisfaction ratings from consumers.<sup>6</sup>

Mattress manufacturers constantly tweak their product designs, driven as much by the hope of gaining a temporary marketing edge as by the goal of creating meaningful comfort improvements. As a result, consumers shopping for a mattress are likely to encounter a dizzying array of product claims such as “verti-coil support systems,” “cushion cloud construction,” “visco lumbar support pads,” “prima cool gel,” “visco-elastic memory foam,” and “no-flip design.” Mattress salespeople also often seek to upsell customers based on product design elements—such as coil counts, wire gauge thickness, overall mattress thickness, and organic quilting—that did not necessarily increase comfort as claimed.

As a case in point, a few years earlier a new mattress feature, gel-infused memory foam, burst on the scene at the annual International Sleep Products Association Industry Conference. The hype was that gel beads felt cooler than foam, thus addressing a common consumer complaint about memory-foam mattresses. The Big 3 (Sealy, Serta, and Simmons) quickly responded with gel-infused memory-foam models, often priced hundreds of dollars more than comparable nongel mattresses. Mattress salespeople across the country responded enthusiastically by encouraging shoppers to place their hands on gel foam mattress models on display, which indeed feel cool to the touch.

But just because a gel bead display model feels cool when you touch it briefly or lie down on it for a 30-second test, that doesn't necessarily mean that such mattresses actually feel cool when you sleep on them for hours. Given the laws of thermodynamics, in an air-conditioned showroom gel foam mattresses feel cool because gel beads absorb the room's low temperature. But overnight, a gel bead bed absorbs the warmth of a sleeping body (which is a large heat engine). As an analogy, take any plastic, metal, or rubber container and put it in the refrigerator for a few hours. When you take it out, it will feel cold. But hold it in your hand for a while, and it will become warm. Gel bead mattresses work the same way.

Critics claim that the mattress industry's business model has historically been based on exploiting customer confusion. First, mattress manufacturers bombard consumers with a dizzying array of arcane "techno-speak" product features. Customers are understandably hard pressed to comprehend the tangible differences between a Sealy Tempur-Contour™ support system and a Simmons Pocketed Coil™ Platinum™ memory-foam bed. To further complicate matters, in each of their retail channels, manufacturers give nearly identical mattresses different names, making comparison shopping essentially impossible. This allows competing retail chains to claim an exclusive line of products, even if those products are exclusive in name only. For comparison, consider that many consumers find haggling for the best deal on a new car difficult enough. Imagine the challenge if each dealership had a different name for the same sedan (or nearly the same, as it's difficult to tell with mattresses).<sup>7</sup>

Industry observers advise that consumers be wary of a mattress salesman who gives a "lowest price guarantee" since it's impossible to find a similarly *named* product at competing chain stores, rendering this an empty promise. And advertisements promoting holiday sales are generally less than meets the eye because all mattresses at large retail chains are effectively on sale all the time, relative to inflated list prices.<sup>8</sup>

Even the professionals at *Consumer Reports* have been unable to conduct meaningful product comparisons in the mattress industry, and the magazine therefore doesn't offer advice about buying specific models. Instead, it reviews only mattress brands and mattress retail chains. "Shopping for a mattress," the magazine concluded, "can be a nightmare."<sup>9</sup> In response, *Consumer Reports* has published tips advising consumers on how to avoid deceptive mattress store tricks.<sup>10</sup>

## Seeds of Disruption

In 2013 four entrepreneurs—Philip Krim, Neil Parikh, T. Luke Sherwin, and Gabriel Flateman—worked in adjoining cubicles at a New York-based start-up business incubator. Krim was pursuing a local media business, while Parikh, Sherwin, and Flateman were working on a social commerce site. Both Krim and Parikh had experience with the sleep industry. Krim had started selling mattresses online while still a college student in Texas, and Parikh’s father was a doctor specializing in sleep disorders.

While Casper’s future cofounders struggled to gain traction with their respective start-ups, they began brainstorming opportunities to disrupt the mattress industry. The four recognized the growing consumer awareness and interest in health and fitness issues, including sleep. As Parikh recollected, “Fitbits were selling, healthy eating was in, and it was no longer cool to pull all-nighters.”<sup>11</sup> At the same time, Krim, Parikh, Sherwin, and Flateman admired how digital native companies like Warby Parker and Harry’s had built an emotional connection with customers by delivering a quality product, a superior customer experience, and an outstanding perceived value.

The four connected with Jeff Chapin, whose product design experience at IDEO included consulting for a top mattress manufacturer, and together they developed insights on the sources of customer dissatisfaction with the mattress industry.

Launching a company with five cofounders is an unusual arrangement in the start-up world, where even two cofounders often struggle with conflicting management philosophies. In Casper’s case, the founders’ roles were well defined (see Exhibit 7). Krim was named CEO, Parikh was named COO, Sherwin took on the creative and brand work as chief creative officer (CCO), and Flateman, as CTO, led the development of the e-commerce storefront and back-end production. Finally, Chapin became chief product officer (CPO) and designed and engineered the mattress itself. The launch team brought 100-hour-work-week intensity and focus to their endeavor, enabling Casper to rapidly build a distinctly designed product, a unique customer experience, and an emotional brand appeal that was lacking in competitive entries.

From the beginning, as the five young entrepreneurs assessed norms in the mattress industry, they concluded that the business was ripe for disruption, for four reasons:

1. **High cost structure:** As noted earlier, mattresses carried high profit margins at all stages of the value chain relative to other consumer durables. Entrenched business practices—complex product lines; three-step distribution; and high shipping, delivery, and setup costs—necessitated high wholesale and retail price levels. With growing industry concentration, the major players had seemingly doubled down on traditional business models and management behaviors.
2. **Low customer satisfaction:** As characterized by *Consumer Reports*, mattress shopping was often a nightmarish experience, resulting in significant customer dissatisfaction.
3. **Enabling technology:** Recently developed mattress compression machines had enabled all-foam mattresses to be shipped in a box directly to consumers, thereby



dramatically reducing wholesale, retail, and logistics costs (see Exhibit 8). As a result, new boxed-mattress entrants could cut the retail price of a comparable mattress sold through traditional retail outlets by half or more, while still retaining a considerable gross profit to cover marketing, customer support, and brand-building activities.

4. **Consumer acceptance:** Despite these factors, the success of a new online mattress venture would still require consumers to be willing to buy an expensive consumer durable item sight unseen, in an industry that had traditionally relied on in-store experiential comparison shopping. However, the founders were encouraged by the success of online pioneers in other hard- and softline categories, including eyeglasses (Warby Parker), shoes (Zappos), furniture (Wayfair), and clothing (Bonobos). Research conducted in 2014 by industry news source *Furniture Today* confirmed the potential for consumer acceptance of online mattress sales:<sup>12</sup>

- While ~73% of consumers surveyed preferred to shop for furniture in a store, over 80% had already purchased furniture or accessories online.
- Only 20% of consumers indicated that they would never buy a mattress online. (In comparison, 47% said that they would never purchase a sofa online.)

Therefore, although only about 5% of mattresses were purchased online, research in the mattress industry and results in other sectors suggested a sizeable addressable market for boxed-mattress competitors.

## Formulating a Launch Strategy

Convinced that they had identified an attractive opportunity, Casper's founders set out to disrupt the mattress industry. The business proposition was similar to Warby Parker's approach to eyewear, Dollar Shave Club's entry in the razor market and Bonobos's venture in clothing: design and engineer a simple, quality product; outsource manufacturing; cut out middlemen distributors; eliminate store operating costs<sup>13</sup> and off-putting sales practices; and invest the savings in lower prices, attentive customer service, and creative marketing.<sup>14</sup>

Ben Lerer, the venture capitalist behind Lerer Hippeau Ventures and Thrillist Media, warmed to the idea quickly. His firm led a \$1.85 million A-round investment in Casper in February 2014 and participated in a \$13.1 million second round in August that year. "It was a ludicrously obvious opportunity," Lerer said. "As soon as I found out these guys weren't murderers, I was committed."<sup>15</sup>

Casper wasn't the first boxed-mattress company. That honor goes to *bedinabox.com*, which had launched an online boxed-mattress business three years earlier. In addition, in 2011 Saatva began its operations by selling luxury innerspring mattresses strictly through its webstore<sup>16</sup>.

The Casper team sought to distinguish its start-up by creating a strong emotional bond with consumers in the broad sleep category and by aggressively generating brand awareness. As Krim noted, "From the beginning, we were committed to building a brand with strong

emotional appeal and not just another product-based solution. We wanted to be not just a little bit better, but 10 times better than competitors.”<sup>17</sup> In this regard, Casper sought to adopt an approach espoused by Dollar Shave Club’s founder Michael Dubin:<sup>18</sup>

$$\text{Winning Formula} = (\text{Price} \times \text{Convenience})^{\text{Brand}}$$

Every element of Casper’s business strategy was intended to consistently reinforce the company’s desired positioning as the most trusted sleep products company for comfort, convenience, and value. Additionally, Casper sought to develop a brand that was relatable and authentic—a company consumers could trust and delight in.

## **PRODUCT**

While its product alone would be unlikely to provide a sustainable basis of competitive advantage because there were simply too many other high-quality mattress brands, Casper recognized that it needed to start with a high-quality offering that would provide an exceptionally comfortable sleep experience for most consumers. The company spent nine months in product development, testing hundreds of foam formulations and mattress construction prototypes. After narrowing the field to two dozen beta models for qualitative user testing, Casper invited representative consumers to A/B test the most promising prototypes, using mattresses with different constructions on each side, so test sleepers could easily compare the competing designs. The resulting product consisted of breathable latex over a layer of memory foam atop two additional support layers, which provided a good balance of pressure-sensitive support, sink, and springiness. Additionally, the bed was designed to “sleep cool” and resist retaining heat, as many memory foams and gel bead beds did.

## **PRODUCT LINE COMPLEXITY**

As important as the design of the product itself was Casper’s decision to offer only one style of mattress (available in different sizes), in sharp contrast to the industry norm, which presents consumers with dozens of mattress designs in showrooms. This was an important and deliberate choice. As Krim explained:

We wanted to simplify the mattress buying process, which had long created confusion and anxiety by overwhelming consumers with excessive choice. We spent a lot of time perfecting the design of Casper’s mattress to deliver an exceptionally comfortable sleep experience for most consumers, not unlike what a customer could expect from a five-star hotel, where one carefully selected mattress serves most guests extremely well.

Casper adhered to its policy of simplicity as it extended its product range to sheets and pillows, both offered in a single design.

## **BUILDING CUSTOMER AWARENESS AND ACCEPTANCE**

From its inception, Casper faced the dual challenge of gaining the trust of consumers (willing to buy a big ticket item sight unseen) and distinguishing itself from the growing number of boxed-mattress competitors (which had reached over 60 players by mid-2016). To accomplish

this, Casper celebrated its distinctive product packaging with a stroke of “social media genius.”<sup>19</sup>

The breakthrough was Casper’s recognition that the process of unboxing its mattresses could be a source of keen interest to prospective customers: There is indeed something intriguing and compellingly surreal about watching a tightly compressed bundle of foam slowly unfurl into a fully formed king-sized mattress. Accordingly, Casper encouraged early buyers to share their personal setup experiences on YouTube. The company offered a referral program that gave friends and family \$50 off a new Casper mattress; the referrer received a \$50 Amazon gift card for up to five referrals. Scores of Casper early adopters responded by incorporating a referral code in online videos of the experience of unboxing their mattress and their initial perceptions of the product’s comfort. Some of these customer testimonials garnered hundreds of thousands of page views.<sup>20</sup>

Enlisting customers to promote its products through social media served Casper exceedingly well. First and foremost, as a more credible format than traditional paid advertising, it provided a powerful testimonial about how easy it was to set up Casper mattresses and how comfortable they were. Moreover, the viral buzz generated by Casper’s growing YouTube presence created an extraordinary amount of earned media coverage. Within months of Casper’s launch, its business model and customer experience were being reported in mostly glowing terms by dozens of broadcast outlets and widely read news publications.

To further promote consumer acceptance of buying a mattress online, Casper created a 100-night free return policy, which soon became an industry standard. Casper’s innovative and aggressive marketing gave the company a considerable head start in building consumer awareness, making Casper’s brand name synonymous with the boxed-mattress category.

## **BRANDING**

In an industry plagued by a dreadful reputation, Casper put considerable effort into creating an approachable, likeable, trustworthy brand with a cheeky voice. As Lindsay Kaplan, Casper’s vice president of communications, noted, “We invested thousands of hours in taking the product seriously, but not our own company.” Every consumer touchpoint and branding element reinforced Casper’s desired brand persona.

- **Web design:** Casper designed its webstore to be visually elegant, easy to navigate, informative, and efficient. Customers who were prepared to make an immediate purchase could place an order in only two or three clicks. Casper’s product descriptions and user benefits were written in clear, understandable terms, free of the confusing jargon typically used by industry incumbents.
- **Customer support:** Casper built a strong customer support team, coached to provide helpful information and to avoid pushy sales tactics. Visitors to Casper’s website were invited to chat with or call a company representative, and every order was followed up with a contact from the Casper team to thank buyers for their purchase, answer any open questions, and often reward customers with a surprise gift. By mid-May 2016, 25% of Casper’s 160 employees were devoted to customer experience activities, reflecting the importance of this function to Casper’s brand development.



- **Product packaging:** From the beginning, Casper wanted its delivery box to stand out as a visible emblem of the brand. While many competitors shipped their mattresses in drab brown boxes, Casper's cheerful white and blue design motif made its shipping boxes distinctive and appealing. After all, many Casper mattresses were delivered to customers' houses, where they were visible to passersby. In some cities, Casper made some deliveries by bicycle, and its brightly colored boxes served as moving billboards (see Exhibit 9).
- **Pricing:** Consistent with its commitment to product line simplification, Casper explicitly chose to pursue only the premium end of the bedding market. In 2016 its queen-sized mattresses were priced at \$850, considerably below comparable memory-foam mattresses from incumbent market leaders, but 40% to 100% higher than all-foam mattresses from Tuft & Needle, IKEA, and other low-end players. Rather than chase all customers, Casper chose to avoid the price-sensitive end of the market where dissatisfaction rates tended to be high. Instead, Casper wanted to confidently stand behind its 100-night free return policy—and, of course, to enjoy higher margins. As Chapin noted, "If somebody is going to go to Ikea to look at mattresses, they're probably not considering [ours]." <sup>21</sup>
- **Social media:** In addition to encouraging its customers to upload video testimonials on YouTube, Casper actively exploited customer interactions on Facebook, Twitter, Snapchat, Pinterest, and Instagram. In 2016 it boasted over 430,000 fans on Facebook, where Casper maintained an active dialogue with followers to promote its sleep products, share testimonials, and respond openly to customer feedback. Casper's Twitter feed (with 79,000 followers) also helped the company communicate its brand voice in a humorous and sassy manner. For example, in one post, Casper tweeted: "Overslept... again? Tweet us and we'll tweet you a late note," followed by the image of a mock letter stating: "Dear Joe's boss, a dinosaur ate Joe's breakfast, so he had to run to the grocery store to get more eggs. Please excuse his tardiness. Breakfast is the most important meal of the day, after all. Sincerely, Casper" (see Exhibit 10).
- **Advertising:** As the company grew, Casper also built awareness through a broad array of mass advertising channels. Casper's offline campaign started with subway, taxi, and billboard ads, often featuring humorous illustrations of a variety of creatures for whom Casper claimed to provide "the perfect mattress." In its subway campaign, Casper used an "ad block," taking over the entire display space in a subway car to reinforce the company's message (see Exhibit 11 for selected subway ads). Radio and television ads followed in spot markets, emphasizing the key elements of Casper's brand message: great comfort from one perfect mattress that allowed customers to sleep, dream, and live better; free shipping; and a 100-night trial program.

Casper also used guerilla-marketing tactics to generate widespread consumer and press interest at a relatively low cost. Notable examples included Casper's bedmobile and napmobile (see Exhibit 12). In 2014 a Casper cargo van cruised New York City streets, offering customers a 15-minute nap to test the company's mattress. The following year, Casper took its napmobile on a national tour, sending a trailer with

four sleeping pods to multiple cities across the United States, where customers could sign up for a midday nap and product trial. These unusual marketing tactics garnered widespread press coverage and an enthusiastic customer response.

- **Content marketing:** Casper also used content marketing to indirectly promote its brand appeal. The company sponsored an online blog, Van Winkle's, devoted to "exploring how sleep affects and informs our lives, both at night and during the day."<sup>22</sup> While the blog avoided any overt promotion of Casper, its serious, high-quality content lent legitimacy to the Casper brand.
- **Product Line Extensions:** From its inception, Casper positioned itself as a sleep products company not limited to mattresses. Surprisingly, the bedding industry had historically been balkanized, with manufacturers and retailers specializing in either mattresses or pillows and sheets, rather than offering one-stop shopping. In late 2015 Casper added bedsheets and pillows to its product lineup, following the same formula that had worked for their mattress business: a single well-designed product, priced at the premium end of the market, backed by a 100-night full refund trial program.

## Future Challenges

Casper established an early lead in the emerging boxed-mattress market, but a number of challenges remained. Looking to the future, Krim and his team faced a number of issues that would affect the growth and profitability of the enterprise.

### COMPETITIVE INTENSITY

By mid-2016, there were over 60 companies selling mattresses online in the US market, most touting the superiority of their product and offering 100-night trial programs and free shipping. Price points for competing online models of queen-size all-foam mattresses ranged from as low as \$250 to well over \$1,000, and some players offered multiple products suited to different customer preferences.

Meanwhile, a cottage industry providing supposedly unbiased online mattress reviews had emerged. While there were some sources of legitimate product evaluations (such as *Consumer Reports*), it was difficult for consumers to discern which sites were pay-to-play operations that offered a commission for posting positive reviews. Performing an Internet search for "best online mattress" yielded a confusing array of websites ostensibly giving top comfort marks to Amerisleep, BedInABox, Casper, Hyphen, Leesa, Purple, Tuft & Needle, and other boxed-mattress players. In short, with low barriers to entry, this sector emerged as an intensely competitive space that would increasingly challenge Casper to establish perceived product superiority and brand salience while avoiding margin-eroding price promotions.

Boxed-mattress players would also have to carefully monitor product returns, a potentially high-cost vulnerability. With such a glut of highly rated boxed mattresses on the market, consumers might be increasingly tempted to act on any buyer's remorse, exploiting generous return policies.

While there was little doubt that the boxed-mattress segment would continue to grow or that there would be a shakeout among current players over time, it was less clear which companies would survive and prosper in the years ahead.

As an infrequently purchased, deferrable consumer durable, mattresses were often not on the top of most consumers' minds. Customer acquisition costs therefore tended to be higher for Casper than for companies that sold consumables and/or operated subscription business models (e.g., Dollar Shave Club or Birchbox). On the other hand, mattresses carried huge unit profits, giving Casper room to maneuver. While the company had invested heavily to jump-start brand awareness, Casper would need to manage the costs of customer acquisition going forward, particularly as it expanded its geographic footprint.

### **GLOBAL EXPANSION**

Casper's international expansion was proceeding at an unusually rapid pace. For example, it took Warby Parker nearly two years to begin shipping to Canada, and after six years, the company had still not expanded beyond US protectorates. In contrast, Casper began shipping to Canada within six months of its launch, and expanded into Germany, Austria, Switzerland, and the United Kingdom in the summer of 2016, less than three years after the company's founding. In this regard, Casper was following the rapid expansion trajectory established by Amazon at the dawn of the e-commerce era (see Exhibit 13).

There are trade-offs to consider in balancing the advantages of gaining early footholds in global growth markets against the risks of possibly overextending management focus and capital reserves. Casper was aggressive in tapping venture capital resources to underwrite rapid expansion in product line and geographic coverage.

In contrast, Saatva, one of the pioneers in the online mattress space, with a 2016 revenue run rate of \$180 million, had chosen a business model of promoting slow, steady growth with limited need for capital. The company minimized working capital requirements by building mattresses only to order, charging for product delivery and disposal, and limiting marketing expenditures predominantly to SEO activities and selected print ad runs.<sup>23</sup>

### **RETAIL PRESENCE**

In addition to its roving napmobile, in 2016 Casper operated two retail showrooms, one in the NoHo neighborhood of New York City and the second in Venice, California. At both locations, customers were able to try out Casper's bedding products and get information from store personnel. All customer orders were still processed exclusively online, and the stores neither stocked inventory nor consummated sales.

Similar to other successful start-ups that began exclusively online before moving to an omnichannel business model (e.g., Warby Parker and Bonobos), Casper was considering extending its physical retail presence to other cities. As role models, in 2106 Warby Parker operated 32 retail facilities in the United States and Bonobos had 23 "guideshops." As with all its opportunities, Casper would need to allocate its resources to activities with the greatest growth potential and return on investment.

## **ORDERLY GROWTH**

Finally, Casper had to address a nice problem to have: the challenge of successfully managing explosive growth in an orderly manner. The company, which had begun with five cofounders, had grown to over 160 employees within a couple of years, with immense future growth opportunities on the horizon. When asked what keeps a mattress company CEO up at night, Krim responded: “managing a rapidly growing organization.”

## Questions for Discussion

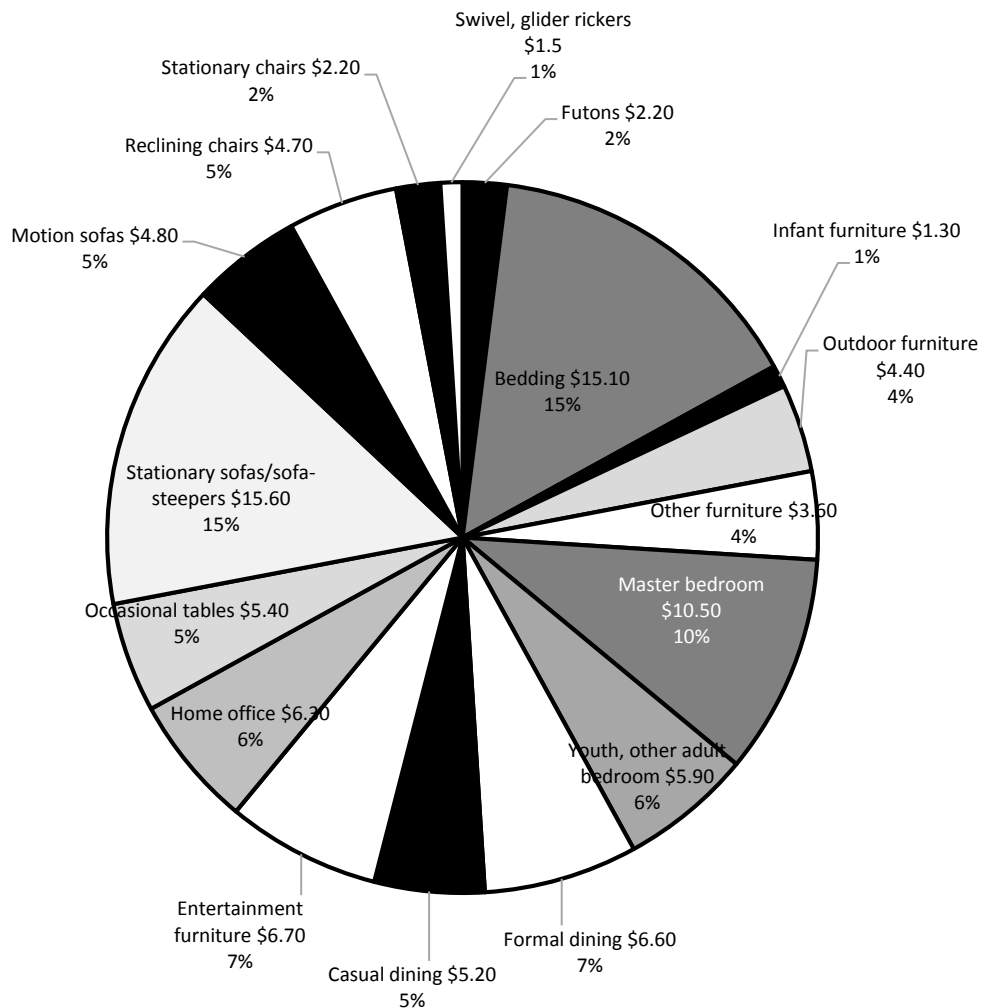
1. What characteristics of the mattress business rendered the industry vulnerable to disruption?
2. There are reportedly more than 60 competitors now operating in the boxed-mattress category. What are the distinguishing elements of Casper's strategy?
3. Is Casper's early lead in this space defensible? Can they continue to outperform competition from Leesa, Tuft & Needle, Purple, and others?
4. Casper has been expanding its business scope and reach by adding other sleep products (sheets and pillows) to its line, venturing into physical retailing (pop-up stores and possibly permanent brick-and-mortar facilities), and going global (in Canada, Germany, and the United Kingdom). One could argue that they are either outmaneuvering competition or overextending their capabilities, too fast/too soon. Which of the business extensions would you judge to be highest priority? Would you pursue all three aggressively?
5. What are the key risks Casper faces, and what might you do to mitigate them?



## Exhibits

### Exhibit 1

#### Home Furnishing Sales by Category, 2014

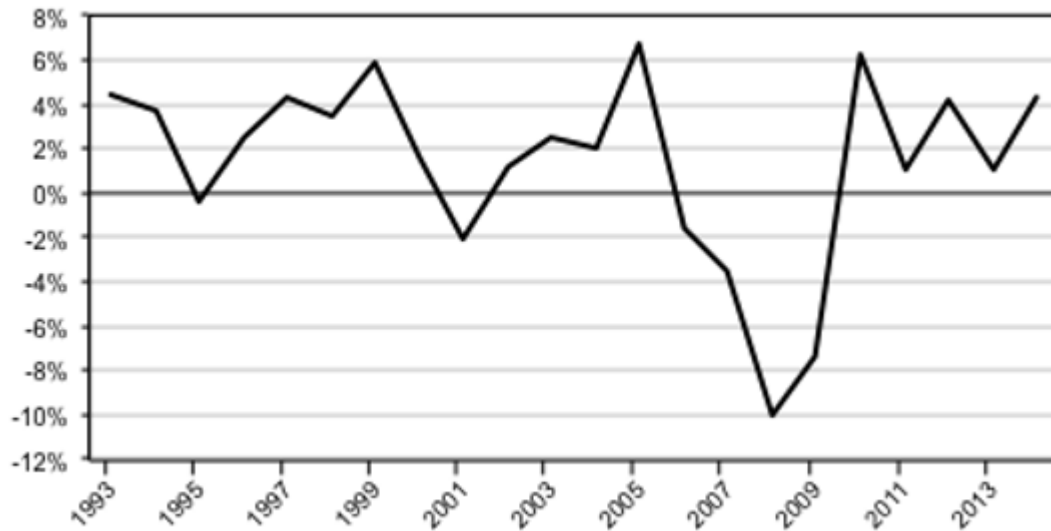


*Note:* Dollar amounts in billions.

*Source:* Furniture Today market research.

## Exhibit 2

### Mattress Unit Sales, Y-O-Y % Change

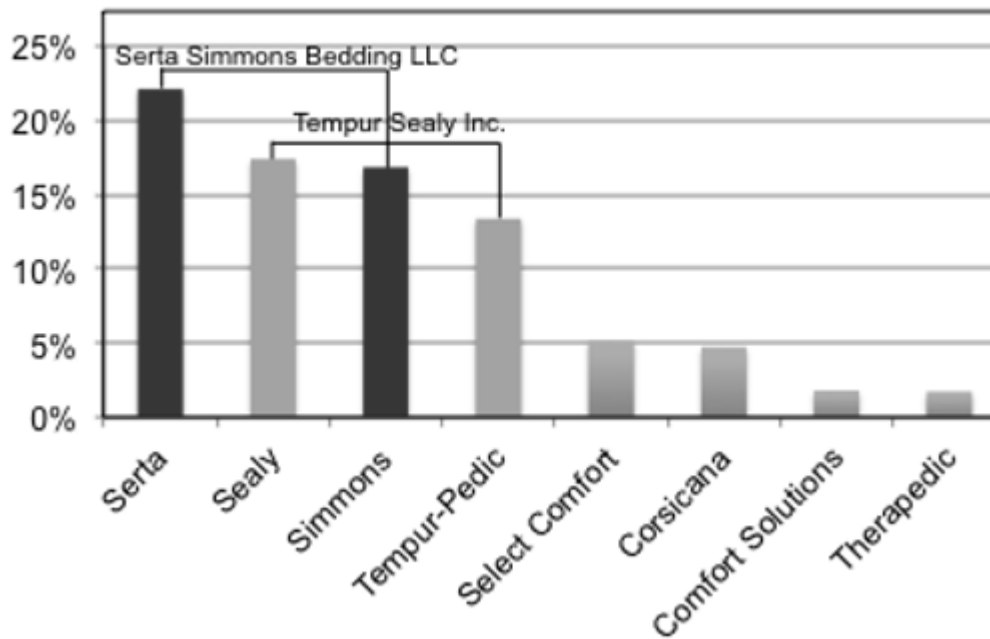


Note: 20-year CAGR, 1995-2014: 0.7%

Source: International Sleep Products Association

### Exhibit 3

#### Bedding Market Share by Manufacturer, 2014



Source: International Sleep Products Association

## Exhibit 4

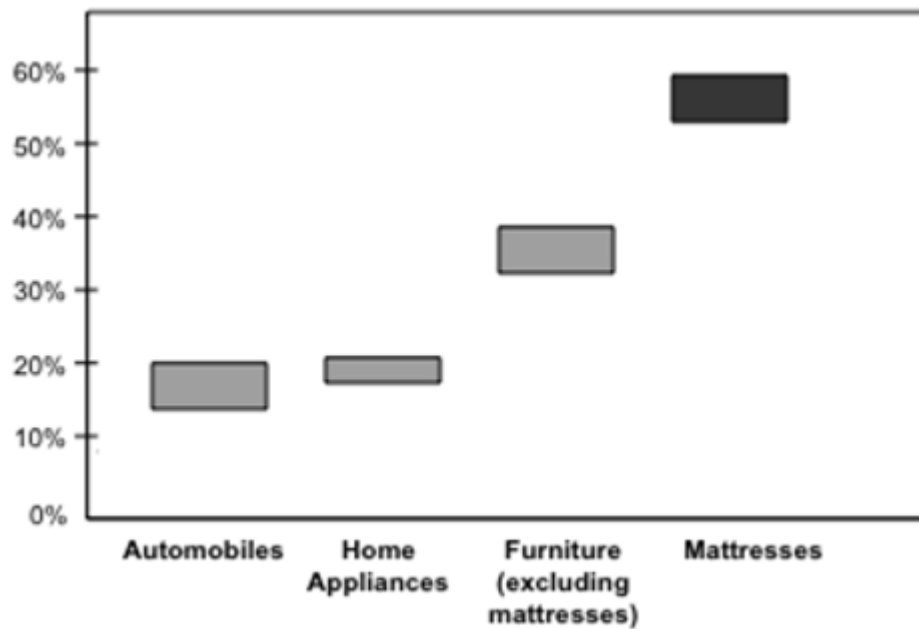
### Mattress Market Share by Sales Channel, 2014



Source: *Furniture Today* market research.

## Exhibit 5

### Typical Gross Margins for Durable Goods Manufacturers, 2015



Sources: Financial statements; Automobiles: GM and Ford; Home Appliances: Whirlpool and Electrolux; Furniture: Herman Miller, Steelcase and HNI; Mattresses: Tempur Sealy and Select Comfort.



## Exhibit 6

### US Mattress Wholesale Shipments and Prices, 2014

Mattress type	Unit Sales (thousands)	Average Unit Price	Wholesale Value (millions)
Innerspring	17,804	\$246	\$4,317
Foam	3,142	\$596	\$1,874

Source: ISPA Annual Sales Survey.

## Exhibit 7

### Casper Cofounder Launch Team

Executive	Role
Philip Krim	Chief Executive Officer
Neil Parikh	Chief Operating Officer
Jeff Chapin	Chief Product Officer
Luke Sherwin	Chief Creative Officer
Gabe Flateman	Chief Technology Officer

## Exhibit 8

### Beds-In-A-Box



Source: Company files

## Exhibit 9

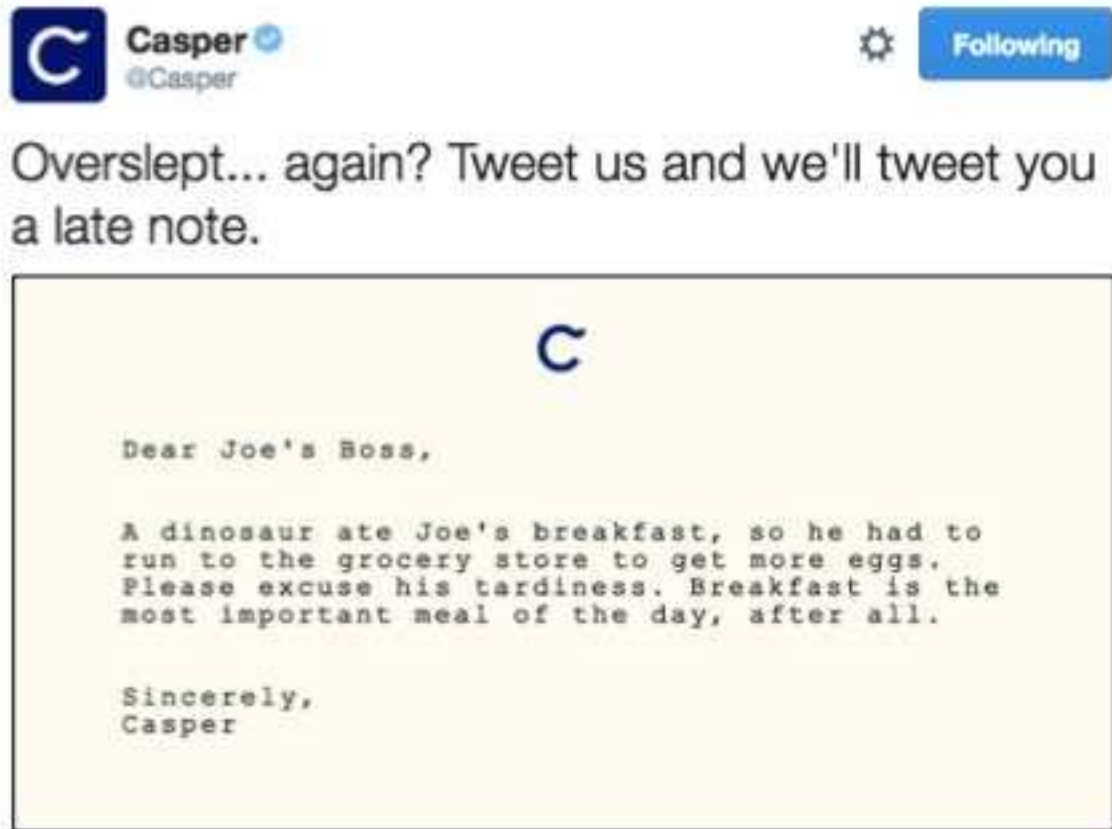
### Casper Product Packaging



Source: Company files

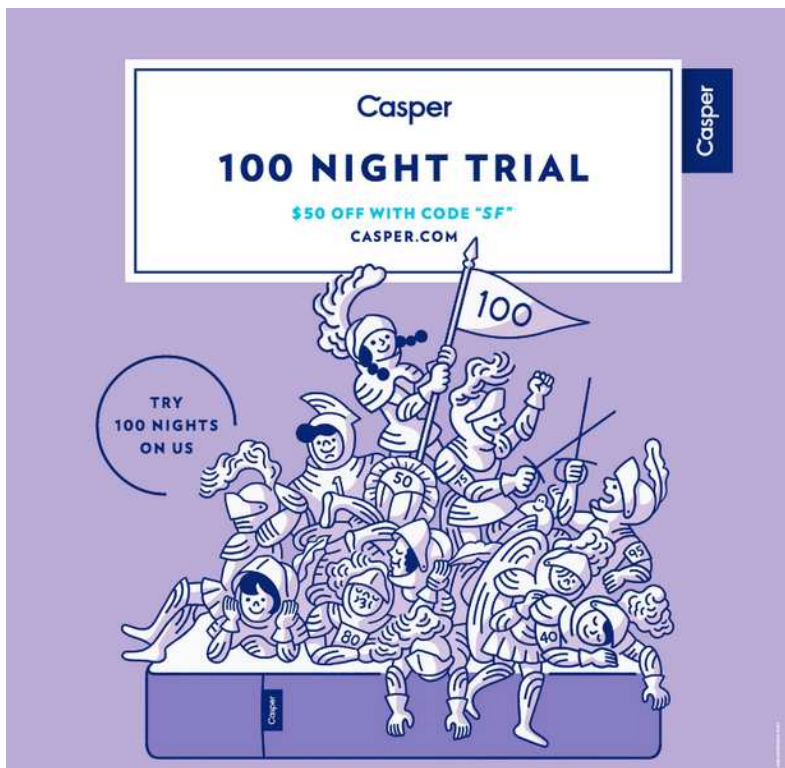
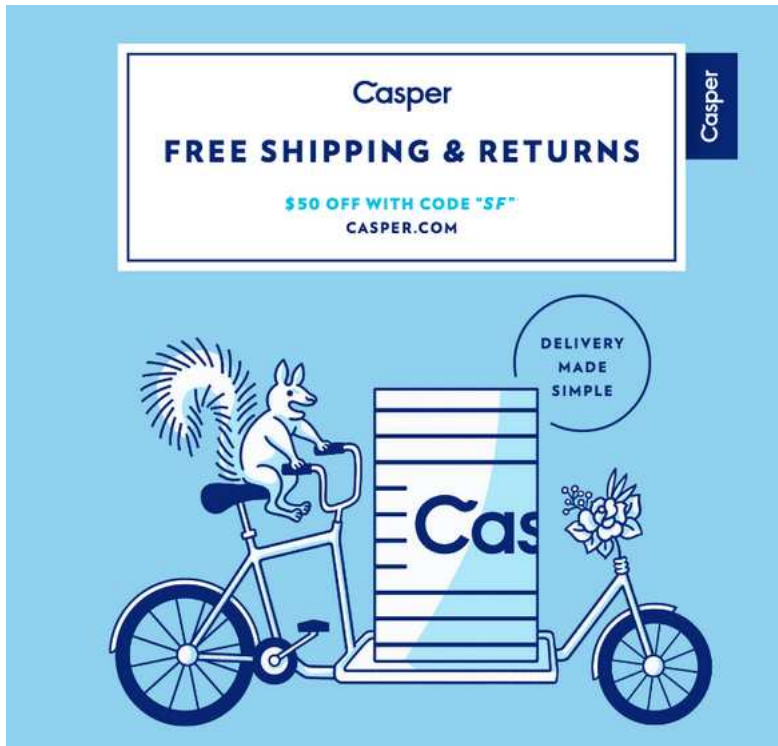
## Exhibit 10

### Representative Casper Tweet



## Exhibit 11

### Casper Subway Ads



Source: Company files



## Exhibit 12

### Guerilla-Marketing Tactics



Source: Company files



## Exhibit 13

### Amazon's Product and Global Expansion

Product Categories	US	UK	Germany	France	Japan	China
Physical Media	'95	'98	'98	'00	'00	'04
Electronics	'99	'01	'01	'05	'03	'04
Toys	'99	'01	'04	'07	'04	'04
Baby	'99	'07	'07	'07	'07	'06
Tools & Hardware	'99	'04	'04			
Home & Garden	'00	'04	'04	'07	'03	
Apparel & Accessories	'02	'08	'08		'07	
Sports & Outdoors	'03	'07	'06		'05	'06
Jewelry & Watches	'03	'07	'07	'07	'07	'06
Health & Personal Care	'03	'08	'07		'06	'06
Beauty	'04	'08	'08		'08	'06
Shoes	'05	'07	'07		'07	
Dry Goods	'06					
Auto Parts & Accessories	'06		'08			'09
Digital Media	'07	'08	'09			
Office Supplies	'08	'09	'09	'09		
Fabric	'08					
Motorcycle & ATV Parts & Accessories	'08					

Source: Amazon.com.

## Endnotes

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- <sup>1</sup> Carol J. Loomis, “The Wit and Wisdom of Warren Buffett,” *Fortune*, November 19, 2012, <http://fortune.com/2012/11/19/the-wit-and-wisdom-of-warren-buffett/>.
- <sup>2</sup> Farhad Manjoo, “How Companies Like Dollar Shave Club Are Reshaping the Retail Landscape,” *New York Times*, July 27, 2016, [http://www.nytimes.com/2016/07/28/technology/these-stores-didnt-develop-websites-they-started-there.html?\\_r=0](http://www.nytimes.com/2016/07/28/technology/these-stores-didnt-develop-websites-they-started-there.html?_r=0).
- <sup>3</sup> Alexandra Wexler, “‘Africa’s IKEA’ Steinhoff to Buy Sleepy’s Owner Mattress Firm for \$2.4 Billion,” *Wall Street Journal*, August 7, 2016.
- <sup>4</sup> “Bed & Mattress Stores in the US: Market Research Report,” IBIS World, March 2015, <http://www.ibisworld.com/industry/bed-mattress-stores.html>.
- <sup>5</sup> “Innerspring Mattress Reviews, Ratings and Comparisons,” Sleep Like The Dead, June 22, 2016, <http://www.sleeplikethedead.com/mattress-reviews-coil.html>.
- <sup>6</sup> “Latex Mattress Reviews, Ratings and Comparisons,” Sleep Like The Dead, April 30, 2016, <http://www.sleeplikethedead.com/mattress-reviews-latex.html> - 7b.
- <sup>7</sup> Kyle Stock, “New Startups Aren’t Keeping Big Mattress Up at Night,” *Bloomberg*, March 12, 2015, <http://www.bloomberg.com/news/articles/2015-03-12/new-startups-aren-t-keeping-big-mattress-up-at-night>.
- <sup>8</sup> For example, at one regional mattress chain, the standard operating practice is to display three prices on each mattress on the showroom floor. The first price shown is the list price. The second is the supposed sale price, which *every day* is lower than the list price. The third price is a code, which informs the salesperson of the lowest price they are allowed to sell the mattress for—often half or less than the list price. See Seth Stevenson, “Going to the Mattresses,” *Slate*, November 23, 2000, [http://www.slate.com/articles/life/shopping/2000/11/going\\_to\\_the\\_mattresses.html](http://www.slate.com/articles/life/shopping/2000/11/going_to_the_mattresses.html).
- <sup>9</sup> David Segal, “The Strange Return Policies at Mattress Companies,” *New York Times*, October 9, 2010, <http://www.nytimes.com/2010/10/10/your-money/10haggler.html>.
- <sup>10</sup> “Avoid These Mattress Store Tricks: Don’t Be Misled into Paying More or Buying Stuff You Don’t Want,” *Consumer Reports*, May 8, 2014, <http://www.consumerreports.org/cro/news/2014/05/avoid-mattress-store-tricks/index.htm>.
- <sup>11</sup> This statement, and all other observations by Casper management, are from case writer interviews on May 20, 2016, unless otherwise noted.
- <sup>12</sup> “Nearly Half of Consumers Would Never Buy a Sofa Online,” *Furniture Today*, October 21, 2014, <http://www.furnituretoday.com/article/492801-nearly-half-consumers-would-never-buy-sofa-online>.
- <sup>13</sup> A few years after their respective launches, Warby Parker and Bonobos chose to open retail stores to complement their online sales channel.
- <sup>14</sup> In July 2016 Dollar Shave Club (DSC) accepted a \$1 billion acquisition offer from Unilever. The founder of DSC, Michael Dubin, had recognized the inconvenience many customers felt in having to go to a store and wait while clerks unlocked the merchandise before they could buy replacement razor cartridges at a significant price premium.
- <sup>15</sup> Stock, “New Startups.”
- <sup>16</sup> Saatva differs from boxed-mattress competitors in that it custom builds each bed to order and arranges for in-home delivery and setup.
- <sup>17</sup> Case writer interview with Philip Krim and Neil Parikh, May 20, 2016.
- <sup>18</sup> David Pakman, “Dollar Shave Club: How Michael Dubin Created a Massively Successful Company and Re-Defined CPG,” *Medium*, July 19, 2016, <https://medium.com/@pakman/dollar-shave-club-how->

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michael-dubin-created-a-massively-successful-company-and-re-defined-cpg-f2fa700af62b#.yyx1644mx.

<sup>19</sup> Erin Griffith, “Waking Up With Casper, an Internet Mattress Company,” *Fortune*, September 15, 2014, <http://fortune.com/2014/09/15/waking-up-with-casper-an-internet-mattress-company>.

<sup>20</sup> For example, see “Unboxing the Casper (non-HD),” vimeo video, 2:29, posted by Marty Bishop, January 24, 2015, <https://vimeo.com/117814562>.

<sup>21</sup> Kyle Stock, “Will a Web-Only Mattress Startup Keep Serta and Sealy Up at Night?,” *Bloomberg*, April 22, 2014, <http://www.bloomberg.com/news/articles/2014-04-22/will-a-web-only-mattress-startup-keep-serta-and-sealy-up-at-night>.

<sup>22</sup> “About Us,” Van Winkle’s, <https://vanwinkles.com/about>.

<sup>23</sup> Case writer interview with Saatva’s founder, Ron Rudzin, on May 5, 2016. In August 2016, Saatva began airing national TV spots.