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‘Billion Dollar Brand Club’ Review: Clicking the ‘Disrupt’ Button

How startup companies with new ideas about marketing are upending many segments of the consumer-products industry.

Dollar Shave Club CEO Michael Dubin in a 2012 promotional video.

PHOTO: DOLLAR SHAVE CLUB

By Marc Levinson

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The video, lasting all of 93 seconds, was filmed in a warehouse near Los Angeles International Airport and posted online in 2012. Short on information and long on irreverence, it employed a toddler, a tennis racket, a forklift, and an actor in a bear costume to persuade viewers that they were spending far too much on razor blades. For a dollar a month, the video promised, DollarShaveClub.com would deliver razors to the customer's door. Never mind that the company owned no factory, had no research department, and possessed zero expertise in manufacturing razor blades. Thanks in part to the video's memorable tag line—"Shave time. Shave money."—Dollar Shave Club muscled its way into the tonsorial big leagues. By 2016, four years after the video's posting, razor giant Gillette had lost 13 percentage points of its market share.

In "Billion Dollar Brand Club," Lawrence Ingrassia explores how startup companies with new ideas about marketing are upending many segments of the consumer-products industry. The book is far more than a journalistic take on unorthodox online retailers like Dollar Shave Club. In describing these upstarts, Mr. Ingrassia, a former editor at this newspaper, offers an insightful description of how entrepreneurs armed with little more than an idea have undermined powerful incumbents in industries that once enjoyed tantalizing profit margins.

In Mr. Ingrassia's telling, three factors have contributed to this disruption. First, international supply chains have made it possible to buy almost anything on the open market. "In times past, the biggest bazaars had hundreds of physical stalls offering their wares," Mr. Ingrassia writes. "Today's global bazaar has hundreds of thousands of digital stalls that entrepreneurs can visit online." If you want to sell brassieres, as Heidi Zak and David Spector hoped to do when they quit their jobs in 2012 and put up $100,000 to start ThirdLove, it's not essential to know much about how brassieres are made, and owning a garment plant is unnecessary. The essential skills are marketing the product and raising capital. Everything else is optional.

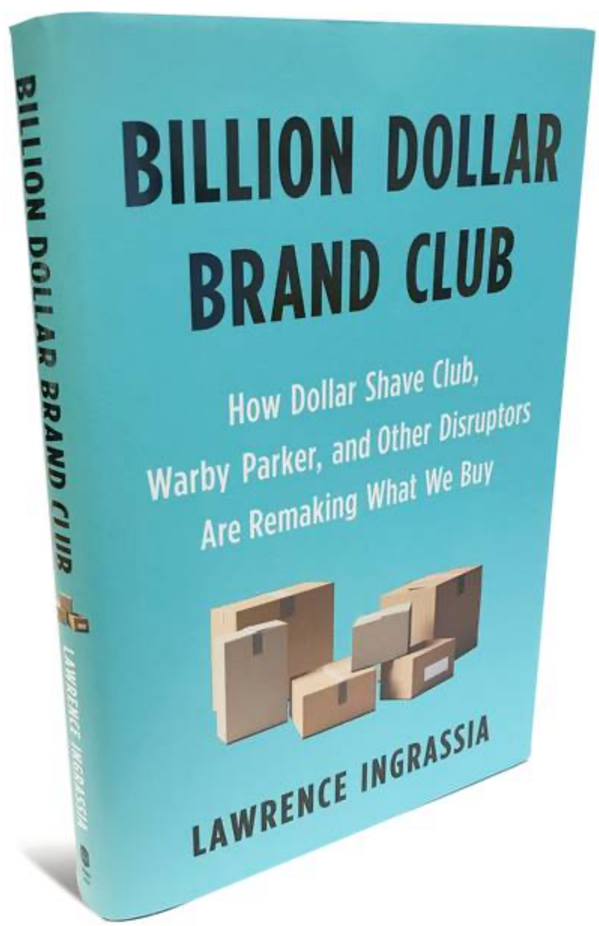

PHOTO: WSJ

Second, marketing is much cheaper than it used to be. Six-figure newspaper ad campaigns and slick television commercials are no longer the best ways to introduce a product. Now Instagram posts by "influencers" and brassy entertainments such as Dollar Shave Club's video, which has been watched on YouTube 26 million times, offer an inexpensive way to build "buzz" quickly. "In the new world of digital-first brands, an online demand experiment can be run for next to nothing," Mr. Ingrassia observes. "You create a simple website, explain the idea for your product . . . and ask visitors to provide their email addresses." Algorithm-wielding consultants stand ready to arrange ads on Facebook and Google that target very specific audiences, and testing messages to determine which draws more customers is painless.

BILLION DOLLAR BRAND CLUB

By Lawrence Ingrassia
Holt, 256 pages, $30

The third factor encouraging disruption is that, for many years, branded products yielded obscenely high profit margins. Once those margins are built into share prices, incumbents face a dilemma: They can't cut prices without alarming shareholders, embrace online sales without antagonizing retailers, or emphasize new sales strategies without upsetting staffers whose status and compensation are tied to the current order. These constraints make it hard for established players to respond to innovative challengers. When Gillette answered Dollar Shave Club by introducing "Our Shave Club" in 2014, Mr. Ingrassia points out, it required customers to sign up with a retailer rather than directly with Gillette—a move that kept retailers happy but made Our Shave Club a failure.

At the heart of each would-be disrupter's strategy is a warm and welcoming foundation myth, displayed on the website under "About Us." Four Wharton School grad students supposedly founded Warby Parker, which sells eyewear, after one of them lost his glasses on a backpacking trip (or, according to an alternative story, after a different founder left his glasses in an airplane seat pocket). Mattress website Tuft & Needle supposedly began when co-founder JT Marino, a programmer, suffered the hassles of mattress shopping and decided to create a better way. Raphael Michel, an engineer with an M.B.A., started tinkering with hearing aids "as an evening and weekend project, like a fun distraction," he tells Mr. Ingrassia, before raising capital to start Eargo, which sells hearing aids online. "People shouldn't feel that they need a hearing aid," the company's website insists. "They should feel that they want one."

Unorthodox as they are, these companies may pose less of a threat to the makers and sellers of consumer goods than Mr. Ingrassia suggests. Precisely because they are founded by entrepreneurs looking to make a killing rather than a livelihood, selling out is at the core of their business plans. Dollar Shave Club ended up in the hands of consumer-products giant Unilever, while Harry's, which also peddles razors to subscribers over the internet, has been pursued by Edgewell Personal Care, which owns the Schick and Wilkinson Sword brands. Tuft & Needle briefly flourished as an alternative to the mattress oligopoly before its lack of proprietary technology made it vulnerable to other disrupters, like Casper, that had access to the same products from the same manufacturers; it became part of that oligopoly when it merged with Serta Simmons, probably the world's largest mattress manufacturer, after only six years in business.

Indeed, as Mr. Ingrassia admits, the disruption he describes may be but a passing phase. Advertising rates on social-media platforms have skyrocketed, so bringing in new customers can be costly. Many shoppers still want to see the product, forcing online retailers to open brick-andmortar stores with fixed costs attached. Rising shipping costs pose a serious threat to online retailing. And at the end of the day, nimble incumbents with piles of cash and modest debt loads still have the edge over start-ups funded by impatient venture capitalists. Disrupting an industry is easy. Doing so profitably is a different matter.

Mr. Levinson's book "The Great A&P and the Struggle for Small Business in America" was recently published in a second edition.