London Business School
publishing.london.edu

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CS-18-017
July 2018

Co-authored with EDHEC Business School

Dollar Shave Club: Disrupting the shaving industry

Introduction

In early July 2016 Charles Pierce, Group President for Global Grooming at Procter & Gamble (P&G), pondered the rise of Dollar Shave Club (DSC), a fast-growing upstart that had been challenging the dominant Gillette brand that P&G had acquired in 2007. Launched in 2012, and using a direct-to-consumer online subscription model, DSC had successfully disrupted the multi-billion-dollar US shaving industry, stealing market share and spawning copycat entrants.

Shaving and hair-removal products represented a US$4.13 billion market in the US in 2016, with razors and cartridges accounting for a combined US$2.95 billion in annual sales (US$13 billion globally). Although still by far the dominant player in the US market (Edgewell's #2 Schick brand stood at 15% in 2016) and employing some 30,000 people in North America alone, P&G's Gillette had lost market share for six straight years. According to Euromonitor, its share of the US men's razor business fell to 54% in 2016, down from 59% in 2015 and from more than 70% in 2010. In presentations to analysts, P&G executives had blamed several factors for the decline: a sluggish US economy, increasingly value-oriented consumers, the rise of low-cost competitors, and even beard-loving hipsters. Nevertheless, with prices being held steady, Gillette was still one of P&G's most profitable businesses, boasting operating margins estimated at around 30%.

Yet, like David challenging Goliath, DSC was on track to surpass 3.5 million members and generate more than US$200 million dollars in revenues by end of 2016 – employing only 190 people. All the company's products were sourced from contract manufacturers and warehousing and shipping was also being handled by a third-party provider. The company was not yet profitable, but with a fast-growing membership base and obvious opportunities for cross-selling, industry analysts were bullish about its long-term prospects.

Over the years, numerous competitors entered the market. And by providing cheap (or free) proprietary razors themselves, drastically lowered any switching costs. But instead of leading to a fall in prices, steady price rises were justified by constant incremental

This teaching note was prepared by Jamie Anderson of Antwerp Management School, Karin Kollenz-Quétard of EDHEC Business School and Nader Tavassoli of London Business School.