

# **BIRCHBOX: THE WAY FORWARD**

## **BOXED CONSULTANCY**

**Asper School of Business**

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# KEY ISSUE

How does BirchBox position themselves for sustainable growth and profit?

Define

Analyze

Evaluate

Recommend

Implement

Risks & Mitigate

# CRITICAL CHALLENGES

## Falling subscriptions

- 7% fall
- High Competition

## Funding Requirements

- Payback to vendors in 2018

## Unsustainable Business Model

- Non-scalable logistics
- Dependency on vendors samples

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# STRATEGIC GOAL

Profitability for  
Owners &  
Investors

Sustainable  
Growth

Loyal Customer  
Base

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# RECOMMENDATION

Reposition the business model to capture targeted customers and their big data

Convenience  
Boxes

Simplify  
Supply  
Chain

Leverage  
Big Data

Define

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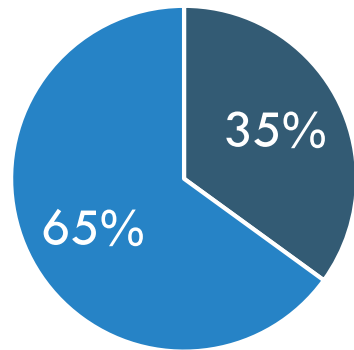
Recommend

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# BIRCHBOX OFFERINGS

Products Mix



■ Men ■ Women

## Conversion to Full Products

\$170,000  
Lower than expected

The Boxes



Re-orders

Birchbox is suffering from decreasing subscription and lower conversion to full products sales.

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# BIRCHBOX SUPPLY CHAIN

**Value Proposition to Vendors**  
Access to data via barter deals

Vendors

- Samples Only
- Free & Paid
- 800 brands

Assembly

- Customized
- 100 boxes
- No Automation
- Temporary workers

Shipping

- Shipping end of month
- OHL: one partner

Customer

- Access to sample sized
- Expected to convert to full products

**Value Proposition to Customers**  
Access to trial sized products

The discovery model is not aligned with the customer needs or sustainable conversion.

Define

Analyze

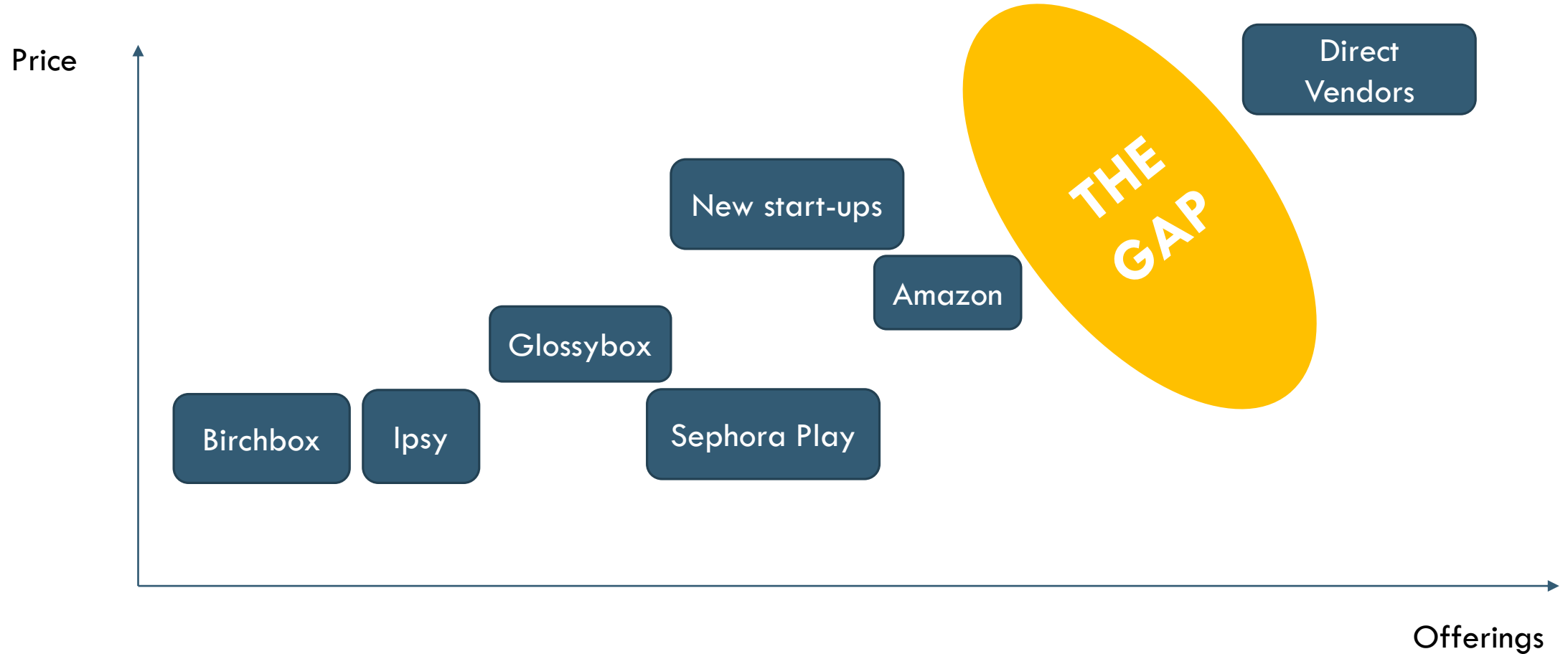
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# COMPETITOR LANDSCAPE



The competitive landscape clearly shows a gap for higher valued boxes.

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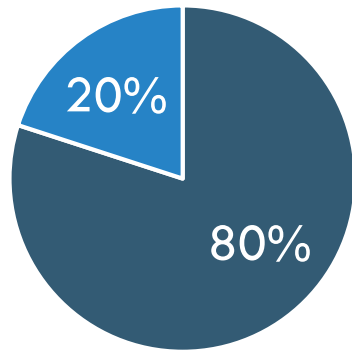
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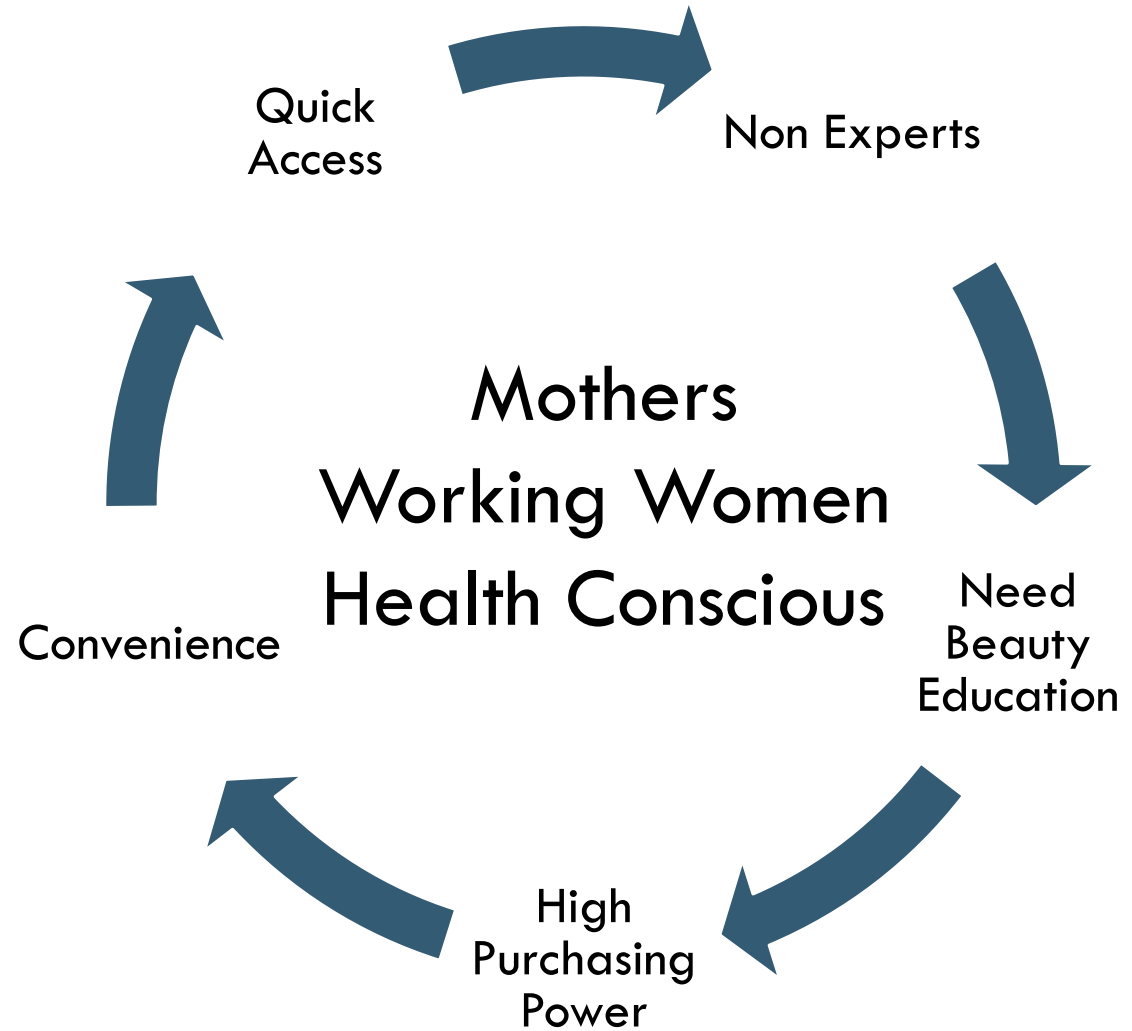


# THE CUSTOMER

Behavior



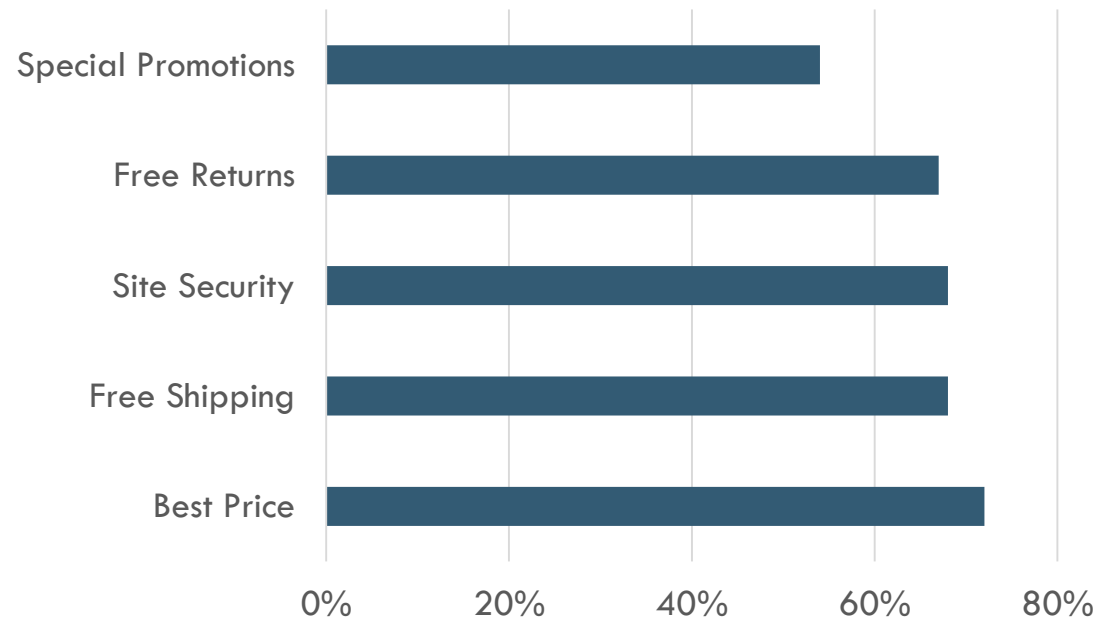
- Passive Shoppers
- Active Shoppers



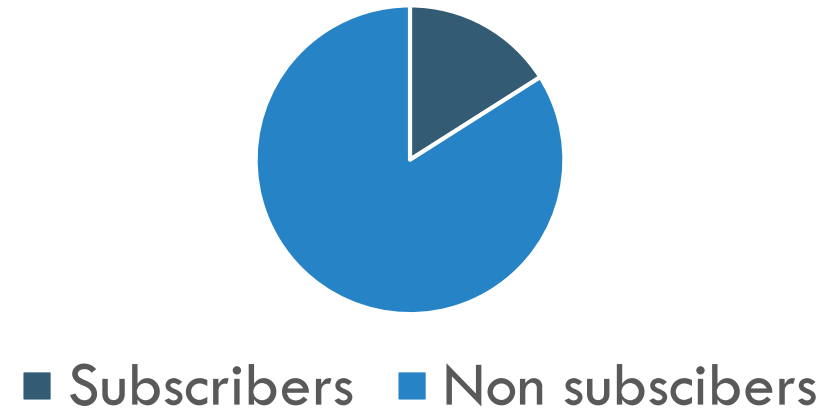
Passive customers are most primed for subscription offerings that satisfy their needs and provide convenience.

# CONSUMER BEHAVIOR

Full Products Purchasers Top 5 Incentives



Online Purchasers



## Top Interests

Colour Cosmetics: 63% (growing at 8%)

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# ANALYSIS SUMMARY

- Rich Content Marketing
- Consumer Behavior Analyzer
- Depth of Customer Loyalty Program

- Gap in the higher quality and convenience positioning in the market



- Complicated logistics and no economy of scale
- No automation and requirement of high customization
- Employee training
- Cost Intensive model
- Tough Competition (Cloning, Giant e-Commerce)
- Low entry barriers
- Newer Business Model
- Dependency on influencers
- Low power on vendors

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# ALTERNATIVES

Strategic Partnership

Acquire Competitors

Convenience Model & Big Data

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# ALTERNATIVE 1: STRATEGIC PARTNERSHIP

Pursue a strategic partnership with a multinational consumer goods company to provide a wide base of low-cost, high-impact goods.

Example: Unilever

Pros

Cons

Contribution Margin

Sustainable

Timeliness

Product Selection

Loss of Themes

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# ALTERNATIVE 2: ACQUIRE COMPETITORS

Acquire new entrants to the market to secure customer base and grow geographic spread.

Example: Singapore based Preloot

Pros

Cons

Geographic Spread

New customers

Capital Intensive

Integration

Time to benefits

Define

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# ALTERNATIVE 3: CONVENIENCE MODEL & BIG DATA

Reposition business model to capture targeted customers and their big data.

Example: Organic Cosmetics

Pros

Cons

Consumer Behavior

Simplified Supply Chain

Positioned for Sustainability

Change Management

Operational Intensive

Define

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# DECISION CRITERIA

Customer Satisfaction

Ensuring reorders of subscribers and feedback aligns with offering.

Sustainable Profitability

Growing EBITDA year over year.

Financial Feasibility

Attractive to investors for funding by 2018.

Define

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# DECISION MATRIX

	Alternative 1: Strategic Partnership <i>Example: Unilever</i>	Alternative 2: Acquire Competitors <i>Example: Preloot</i>	Alternative 3: Convenience Model & Big Data <i>Example: Organic Cosmetics</i>
<b>Customer Satisfaction</b> <i>Number of Subscribers</i>			
<b>Financial Feasibility</b> <i>Attractive to investors for funding by 2018.</i>			
<b>Sustainable Profitability</b> <i>Growing EBITDA year over year</i>			

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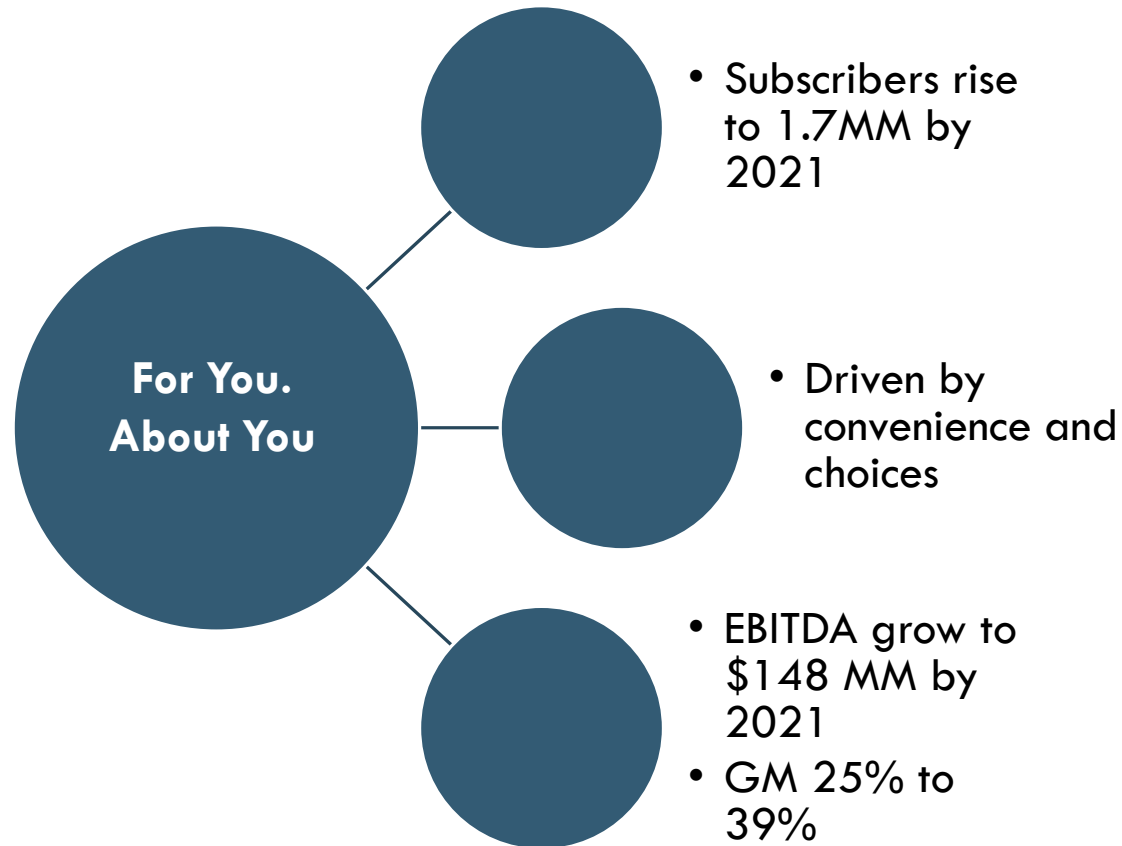
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# FUTURE FORWARD



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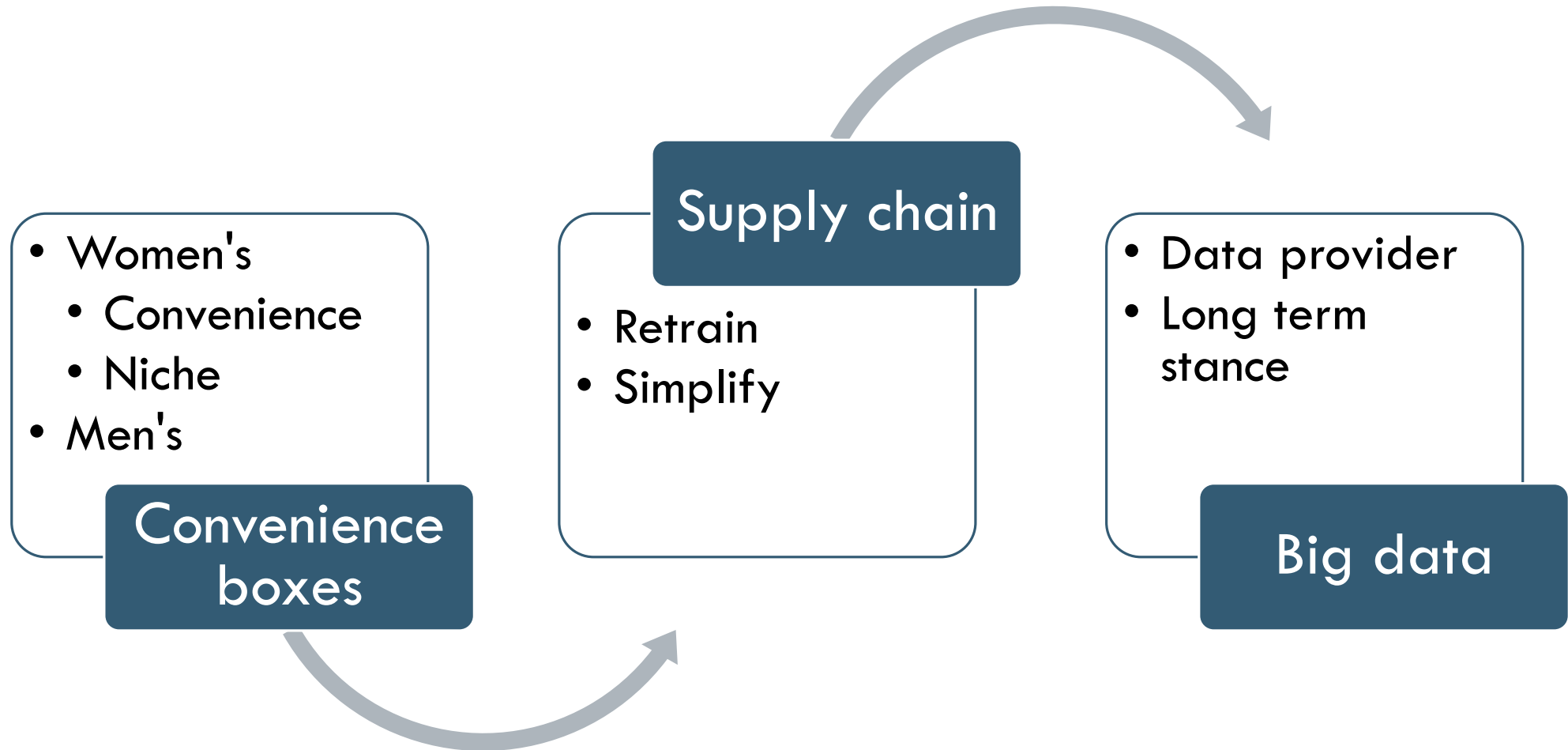
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# STRATEGIC IMPLEMENTATION



Define

Analyze

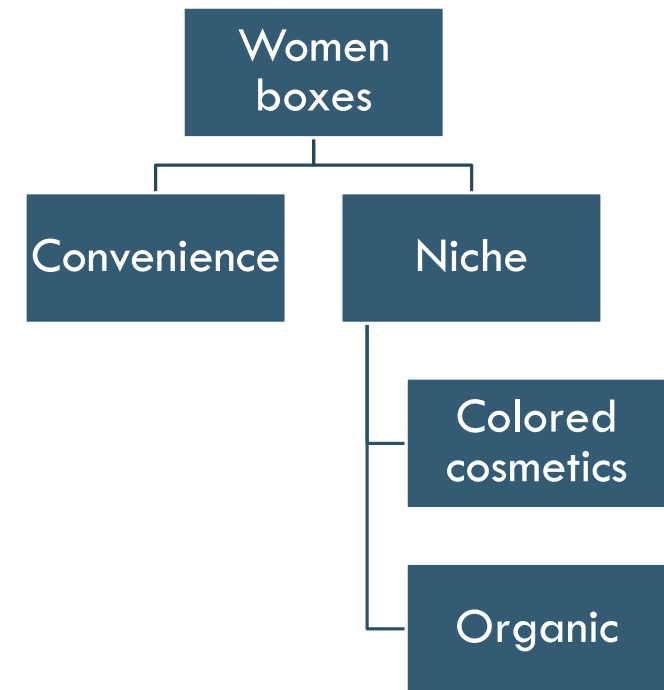
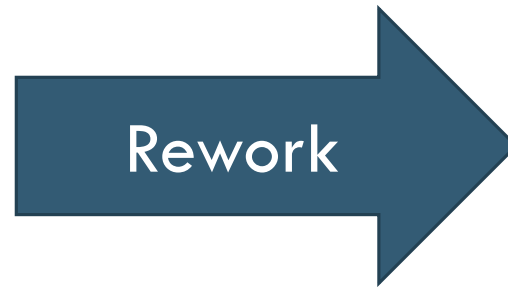
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# NEW BOXES : WOMEN'S SEGMENT



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# NEW BOXES : WOMEN'S SEGMENT

## Convenience

- Price: \$40
- General

## Colored cosmetic

- Price: \$ 55
- Niche

## Organic

- Price: \$ 55
- Niche

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# BOXES: WHAT WILL THEY HAVE

## Women segment

- 3 full size products
- 2 samples
- Card describing the contents

## Men segment

- Remains the same

Define

Analyze

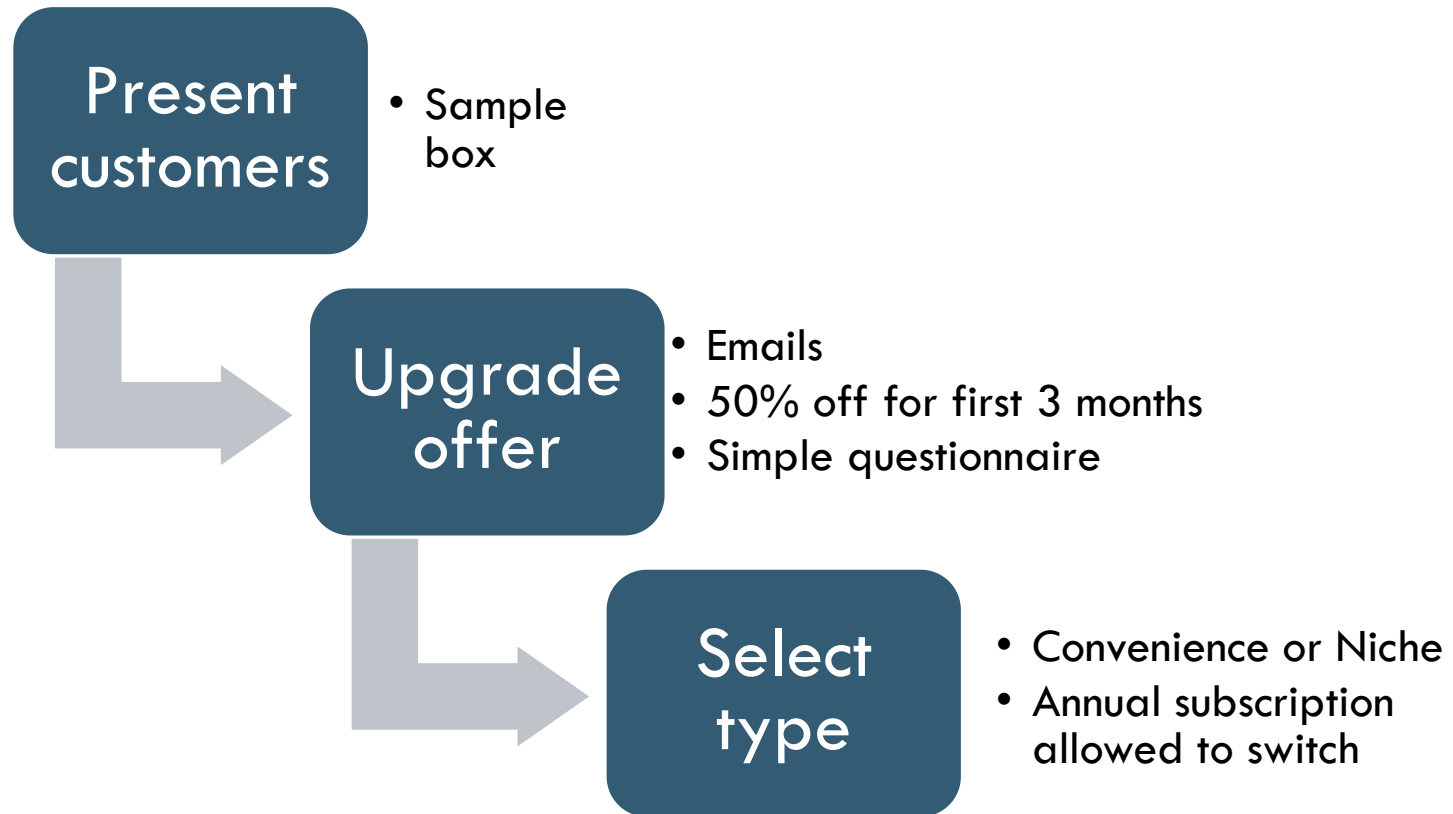
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# TRANSITIONING YOUR CUSTOMERS



Define

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# LETTING YOUR CUSTOMERS KNOWS

Email

Social Media advertisement

Celeb endorsement: Julian Hughes

Define

Analyze

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# LISTENING TO YOUR CUSTOMERS

Social media & website reviews

Free return policy – annual subscribers

Define

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# SUPPLY CHAIN MANAGEMENT

Box type	Varieties	Shipment date
Convivence	10	7 <sup>th</sup> of every month
Colored cosmetics	30	14 <sup>th</sup> of every month
Organic	10	21 <sup>st</sup> of every month
Men's	5	28 <sup>th</sup> of every month

Fewer varieties and staggered roll out

Define

Analyze

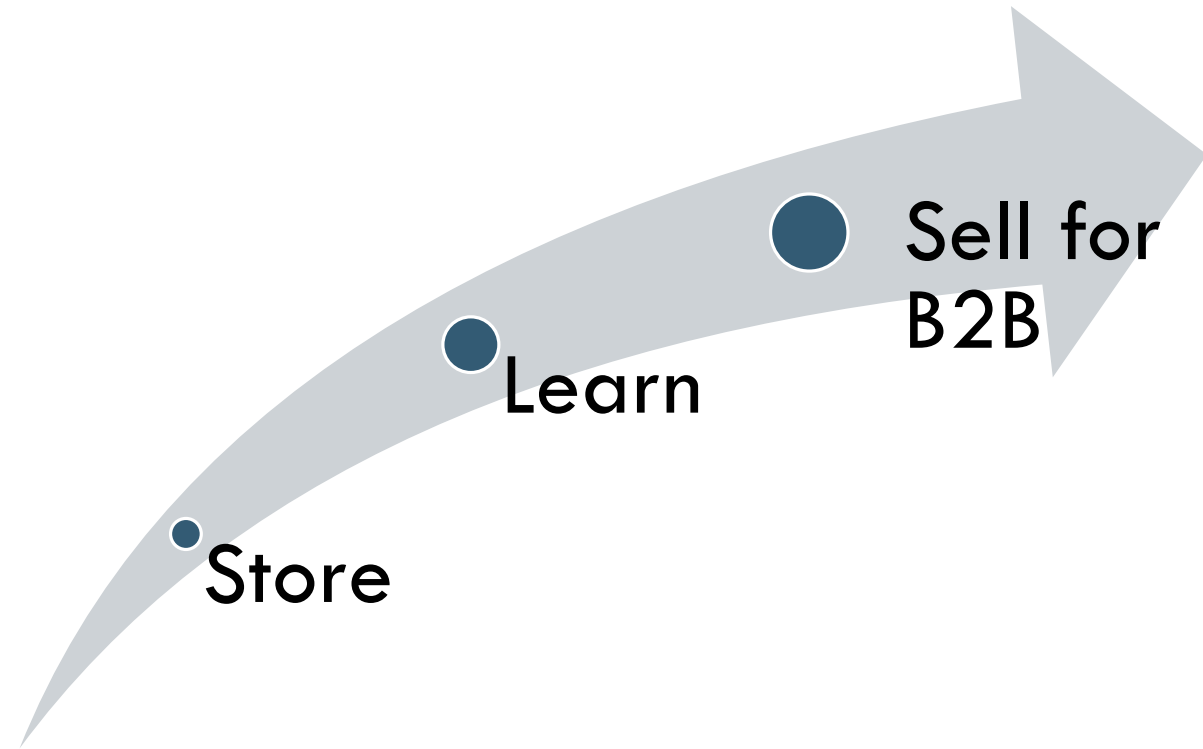
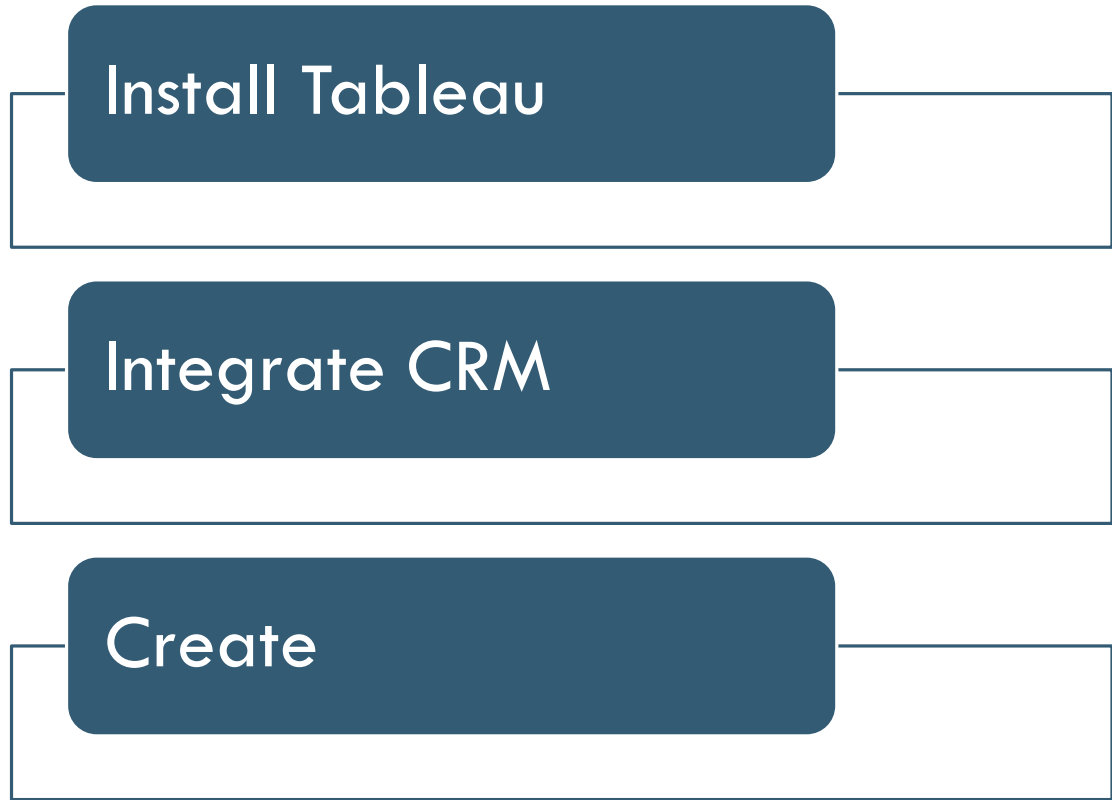
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# BIG DATA: LONG TERM PLAY



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# IMPLEMENTATION SCHEDULE

Year	2017		2018				2019				2020				2021				Costs
Quarter	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Create New Boxes	■	■	■																\$ 500,000
IT Enhancements		■	■	■															\$ 300,000
Launch New Boxes				■	■	■													\$ 200,000
Train Shippers	■	■	■																\$ 100,000
Work with OHL to Distribute				■	■	■	■												\$ 50,000
Big Data Churn								■	■	■	■	■	■	■	■	■	■	■	\$ 200,000
<b>Total</b>																			<b>\$ 1,350,000</b>

Total Project Costs are \$1.3MM over 5 years

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# CURRENT REVENUE PER USER

125	Total Revenue Per User
81	Subscription
44	Full Sized Purchases

On average users remain subscribed for 8 months (65% of the year)

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# WHAT'S IN THE BOX

45%

20%

35%

45%				20%				35%						
Women		Cost	Markup	Retail	Niche		Cost	Markup	Retail	Men		Cost	Markup	Retail
High		\$ 15.63		\$ 30	High		\$ 14.71		\$ 30	Medium		\$ 6.25	50%	\$ 20
Medium		\$ 6.25		\$ 20	High		\$ 14.71	65%	\$ 30	Low		\$ 3.13	40%	\$ 10
Low		\$ 3.13		\$ 10	Low		\$ 2.94	55%	\$ 10	Low		\$ 3.13	40%	\$ 10
Sample		Free		Free	Sample		Free		Free	Sample		Free		Free
		\$ 25.00	60%	\$ 40.00			\$ 32.35	70%	\$ 55.00			\$ 12.50	60%	\$ 20.00

Average Annual Revenue Per User is \$280, Gross margin is \$108

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# FINANCIAL PROJECTIONS

	2016	2017	2018	2019	2020	2021
<b>Legacy Users</b>	1,000,000.0	930,000.0	864,900.0			
<b>Legacy Revenue</b>	\$ 125,000,000	\$ 116,250,000	\$ 108,112,500			
<i>Legacy full Size Sales</i>	\$ 43,750,000	\$ 40,687,500	\$ 37,839,375			
<i>Legacy Subscriptions</i>	\$ 81,250,000	\$ 75,562,500	\$ 70,273,125			
<b>Legacy COGS</b>	\$ 93,750,000	\$ 87,187,500	\$ 81,084,375			
<b>Legacy Gross Margin</b>	\$ 31,250,000	\$ 29,062,500	\$ 27,028,125			
<b>Fixed Costs and Other</b>	\$ 31,250,000	\$ 32,812,500	\$ 34,453,125	\$ 36,175,781	\$ 37,984,570	\$ 39,883,799
<b>Project Costs</b>		\$ 675,000	\$ 540,000	\$ 135,000		
Optimistic Users		100,000	200,000	600,000	1,020,000	1,734,000
Neutral Users		75,000	150,000	412,500	660,000	1,056,000
Conservative		50,000	100,000	225,000	315,000	441,000
<b>Optimistic New User Revenue</b>		\$ 28,080,000	\$ 56,160,000	\$ 168,480,000	\$ 286,416,000	\$ 486,907,200
<b>Neutral New User Revenue</b>		\$ 21,060,000	\$ 42,120,000	\$ 115,830,000	\$ 185,328,000	\$ 296,524,800
<b>Conservative New User Revenue</b>		\$ 14,040,000	\$ 28,080,000	\$ 63,180,000	\$ 88,452,000	\$ 123,832,800
<b>Optimistic New USER GM</b>		\$ 10,845,441	\$ 21,690,882	\$ 65,072,647	\$ 110,623,500	\$ 188,059,950
<b>Neutral New USER GM</b>		\$ 8,134,081	\$ 16,268,162	\$ 44,737,445	\$ 71,579,912	\$ 114,527,859
<b>Pessimistic New USER GM</b>		\$ 5,422,721	\$ 10,845,441	\$ 24,402,243	\$ 34,163,140	\$ 47,828,396
<b>Optimistic EBITDA</b>	\$ -	\$ 6,555,441	\$ 14,130,882	\$ 28,896,866	\$ 72,638,930	\$ 148,176,151
<b>Neutral EBITDA</b>	\$ -	\$ 3,709,081	\$ 8,303,162	\$ 8,426,664	\$ 33,595,341	\$ 74,644,060
<b>Conservative EBITDA</b>	\$ -	\$ 997,721	\$ 2,880,441	-\$ 11,908,539	-\$ 3,821,431	\$ 7,944,597

In Neutral Scenario,  
EBITDA will Reach  
\$114MM by 2021

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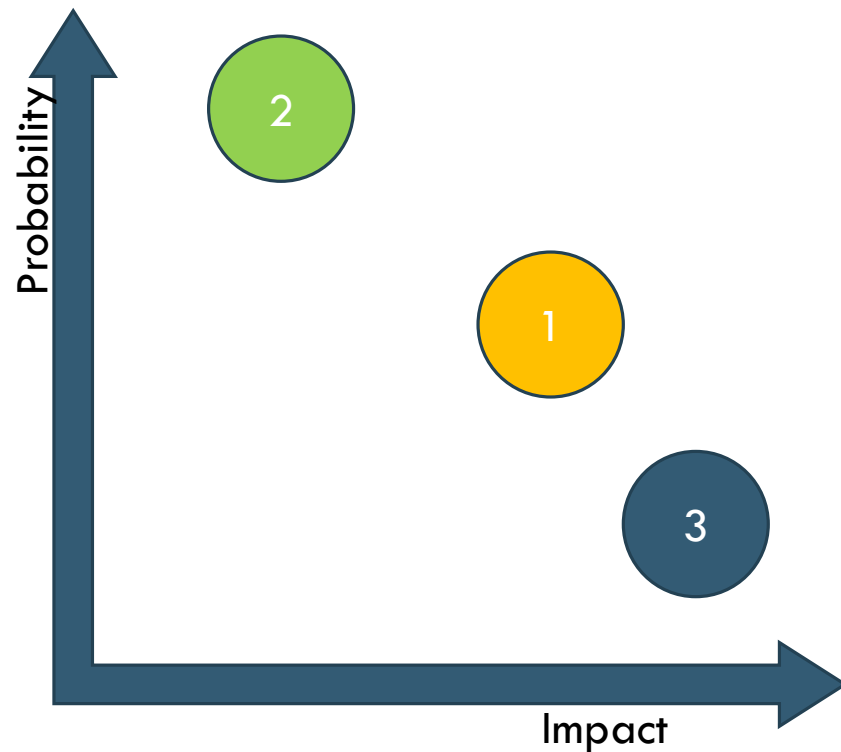
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# RISKS AND MITIGATIONS



## 1 Poor Customer Adoption

- Tie Referral program to Loyalty Program

## 2 Operational Changeover

- Points back equal to half a box

## 3 Cash Flow Issues

- Immediately Sell the Data

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# KPIS AND CONTROLS

Concern	KPI	2019	2021
Customer Sat.	# of Subscribers	412,000	1MM
Sustainable Profits	EBITDA	8MM	76MM
Financial Feasibility	Fixed and Other Costs	<\$36MM	<40MM

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# CONCLUSION

How does BirchBox position themselves for sustainable growth and profit?



Reposition the business model to capture targeted customers and their big data

