How does BirchBox position themselves for sustainable growth and profit?
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
STRATEGIC GOAL

Profitability for Owners & Investors

Sustainable Growth

Loyal Customer Base
RECOMMENDATION

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

Convenience Boxes
Simplify Supply Chain
Leverage Big Data
Birchbox is suffering from decreasing subscription and lower conversion to full products sales.

- **Products Mix**
  - 65% Men
  - 35% Women

- **Conversion to Full Products**
  - $170,000
  - Lower than expected
The discovery model is not aligned with the customer needs or sustainable conversion.
The competitive landscape clearly shows a gap for higher valued boxes.
Passive customers are most primed for subscription offerings that satisfy their needs and provide convenience.
CONSUMER BEHAVIOR

Full Products Purchasers Top 5 Incentives

- Special Promotions
- Free Returns
- Site Security
- Free Shipping
- Best Price

Online Purchasers

Subscribers vs Non-subscribers

Top Interests
Colour Cosmetics: 63% (growing at 8%)
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
ALTERNATIVES

- Strategic Partnership
- Acquire Competitors
- Convenience Model & Big Data
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

- Contribution Margin
- Sustainable

Cons

- Timeliness
- Product Selection
- Loss of Themes
ALTERNATIVE 2: ACQUIRE COMPETITORS

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

Example: Singapore based Preloot

<table>
<thead>
<tr>
<th>Pros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic Spread</td>
</tr>
<tr>
<td>New customers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Intensive</td>
</tr>
<tr>
<td>Integration</td>
</tr>
<tr>
<td>Time to benefits</td>
</tr>
</tbody>
</table>

Define | Analyze | Evaluate | Recommend | Implement | Risks & Mitigate
ALTERNATIVE 3: CONVENIENCE MODEL & BIG DATA

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

Example: Organic Cosmetics

Pros
- Consumer Behavior
- Simplified Supply Chain
- Positioned for Sustainability

Cons
- Change Management
- Operational Intensive
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.
## DECISION MATRIX

<table>
<thead>
<tr>
<th></th>
<th>Alternative 1: Strategic Partnership</th>
<th>Alternative 2: Acquire Competitors</th>
<th>Alternative 3: Convenience Model &amp; Big Data</th>
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<tbody>
<tr>
<td><strong>Customer Satisfaction</strong></td>
<td>Example: Unilever</td>
<td>Example: Preloot</td>
<td>Example: Organic Cosmetics</td>
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<tr>
<td><strong>Number of Subscribers</strong></td>
<td>![Green Circle]</td>
<td>![Red Circle]</td>
<td>![Green Circle]</td>
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<tr>
<td><strong>Financial Feasibility</strong></td>
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<td><strong>Attractive to investors for funding by 2018.</strong></td>
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<tr>
<td><strong>Sustainable Profitability</strong></td>
<td>![Red Circle]</td>
<td>![Green Circle]</td>
<td>![Green Circle]</td>
</tr>
<tr>
<td><strong>Growing EBITDA year over year</strong></td>
<td>![Red Circle]</td>
<td>![Green Circle]</td>
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</tr>
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</table>
**RECOMMENDATION**

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

- Convenience Boxes
- Simplify Supply Chain
- Leverage Big Data
Define
Analyze
Evaluate
Recommend
Implement
Risks & Mitigate

FUTURE FORWARD

For You. About You

• Subscribers rise to 1.7MM by 2021

• Driven by convenience and choices

• EBITDA grow to $148 MM by 2021

• GM 25% to 39%
STRATEGIC IMPLEMENTATION

Define
Analyze
Evaluate
Recommend
Implement
Risks & Mitigate

- Women's
- Convenience
- Niche
- Men's

Convenience boxes

Supply chain
- Retrain
- Simplify

Data provider
- Long term stance

Big data
NEW BOXES: WOMEN’S SEGMENT

Sample box

Rework

- Convenience
- Niche
  - Colored cosmetics
  - Organic
NEW BOXES: WOMEN’S SEGMENT

Convenience
- Price: $40
- General

Colored cosmetic
- Price: $55
- Niche

Organic
- Price: $55
- Niche
BOXES: WHAT WILL THEY HAVE

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

Men segment
- Remains the same
TRANSITIONING YOUR CUSTOMERS

Present customers
- Sample box

Upgrade offer
- Emails
- 50% off for first 3 months
- Simple questionnaire

Select type
- Convenience or Niche
- Annual subscription allowed to switch
LETTING YOUR CUSTOMERS KNOWS

- Email
- Social Media advertisement
- Celeb endorsement: Julian Hughes
LISTENING TO YOUR CUSTOMERS

- Social media & website reviews
- Free return policy – annual subscribers
## SUPPLY CHAIN MANAGEMENT

<table>
<thead>
<tr>
<th>Box type</th>
<th>Varieties</th>
<th>Shipment date</th>
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<tr>
<td>Convivence</td>
<td>10</td>
<td>7(^{th}) of every month</td>
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<tr>
<td>Colored cosmetics</td>
<td>30</td>
<td>14(^{th}) of every month</td>
</tr>
<tr>
<td>Organic</td>
<td>10</td>
<td>21(^{st}) of every month</td>
</tr>
<tr>
<td>Men’s</td>
<td>5</td>
<td>28(^{th}) of every month</td>
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</table>

Fewer varieties and staggered roll out
BIG DATA: LONG TERM PLAY

Install Tableau
Integrate CRM
Create

Define ➔ Analyze ➔ Evaluate ➔ Recommend ➔ Implement ➔ Risks & Mitigate

Learn ➔ Store ➔ Sell for B2B
### IMPLEMENTATION SCHEDULE

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>Costs</th>
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<tr>
<td>Quarter</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
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<tr>
<td>Create New Boxes</td>
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<td></td>
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<td>$500,000</td>
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<td>IT Enhancements</td>
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<td>Work with OHL to Distribute</td>
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<td>Big Data Churn</td>
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<td>$200,000</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$1,350,000</strong></td>
</tr>
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</table>

Total Project Costs are $1.3MM over 5 years
**CURRENT REVENUE PER USER**

<table>
<thead>
<tr>
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<th>Description</th>
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</thead>
<tbody>
<tr>
<td>125</td>
<td>Total Revenue Per User</td>
</tr>
<tr>
<td>81</td>
<td>Subscription</td>
</tr>
<tr>
<td>44</td>
<td>Full Sized Purchases</td>
</tr>
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</table>

On average users remain subscribed for 8 months (65% of the year)
# WHAT’S IN THE BOX

## Women

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Markup</th>
<th>Retail</th>
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<tbody>
<tr>
<td>High</td>
<td>$15.63</td>
<td>$30</td>
<td>$30</td>
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<tr>
<td>Medium</td>
<td>$6.25</td>
<td>$20</td>
<td>$20</td>
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<tr>
<td>Low</td>
<td>$3.13</td>
<td>$10</td>
<td>$10</td>
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<tr>
<td>Sample</td>
<td>Free</td>
<td>Free</td>
<td>Free</td>
</tr>
<tr>
<td>Ave.</td>
<td>$25</td>
<td>60%</td>
<td>$40.00</td>
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## Niche

<table>
<thead>
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<th></th>
<th>Cost</th>
<th>Markup</th>
<th>Retail</th>
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<tr>
<td>High</td>
<td>$14.71</td>
<td>30%</td>
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<tr>
<td>High</td>
<td>$14.71</td>
<td>65%</td>
<td>$30</td>
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<tr>
<td>Low</td>
<td>$2.94</td>
<td>55%</td>
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<td>Sample</td>
<td>Free</td>
<td>Free</td>
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<tr>
<td>Ave.</td>
<td>$32.35</td>
<td>70%</td>
<td>$55.00</td>
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## Men

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<th>Retail</th>
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<tr>
<td>Medium</td>
<td>$6.25</td>
<td>50%</td>
<td>$20</td>
</tr>
<tr>
<td>Low</td>
<td>$3.13</td>
<td>40%</td>
<td>$10</td>
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<tr>
<td>Low</td>
<td>$3.13</td>
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<td>$10</td>
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<tr>
<td>Sample</td>
<td>Free</td>
<td>Free</td>
<td>Free</td>
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<tr>
<td>Ave.</td>
<td>$12.50</td>
<td>60%</td>
<td>$20.00</td>
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</table>

Average Annual Revenue Per User is $280, Gross margin is $108
# Financial Projections

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

In Neutral Scenario, EBITDA will Reach $114MM by 2021.
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
## KPIS AND CONTROLS

<table>
<thead>
<tr>
<th>Concern</th>
<th>KPI</th>
<th>2019</th>
<th>2021</th>
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<tbody>
<tr>
<td>Customer Sat.</td>
<td># of Subscribers</td>
<td>412,000</td>
<td>1MM</td>
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<tr>
<td>Sustainable Profits</td>
<td>EBITDA</td>
<td>8MM</td>
<td>76MM</td>
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<tr>
<td>Financial Feasibility</td>
<td>Fixed and Other Costs</td>
<td>&lt;$36MM</td>
<td>&lt;$40MM</td>
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</tbody>
</table>

**Define**

**Analyze**

**Evaluate**

**Recommend**

**Implement**

**Risks & Mitigate**
CONCLUSION

How does BirchBox position themselves for sustainable growth and profit?

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

- Convenience boxes
- Supply Chain
- Big Data