

# BIRCHBOX FUTURE STRATEGY

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# Agenda

- Problem and Recommendation
- Strategic Landscape
- Implementation Plan
- Risk and Alternatives
- Finance Projections
- Conclusion

# Birchbox is facing decreased subscription revenues and low margins

- Subscriptions are down 7%
- Increased competition from multiple competitors
  - Ipsy – highest market share and growth
  - Amazon – serious potential threat
- Low conversions to full-size purchases

# Status Quo analysis

## Current Situation

- Concurrent growth & profitability not occurring
- Subscription decline
- Lack of conversion
- Customization inaccuracy

## Challenges

- Revenue shift to larger volume orders
- Refocus target customer
- Incentivize private label
- Improve product selection through data

# Strategy options

Option	Negative Impact to Profitability	Growth or ROI gain	Risk	Competitive Advantage or Specific Benefit
Sell	None	Very high	High	Immediate return to investors
Retail Partnership	Mid/low	mid/low	Low	Lower risk and allows growth through discounted offerings
Men's focus	Mid	Mid	Mid	Captures market with limited current competition
Color Cosmetics focus	Mid	High	Mid	Captures fastest growing market
Private Label	None	Mid/High	Mid	Improves conversion to full size items and higher margin on self branded items
Subscription discount	Mid	Low	Low	Regains subscription count and provide more data
Purchase discount	Mid/Low	Mid	Mid	Drives sales of full size items

# Shift product focus to capture growing markets and improve customization

## **Color cosmetics**

- Color cosmetics is fastest growing product
- Multicultural segment has increased buying power

## **Men's care**

- Limited competition
- Higher margin and faster conversion

## **Love of Color (LOC) brand**

- Private label has higher margins
- Capitalize on existing rewards program

# Strategy Analysis

## Strengths

- Marketing via social media
- Men's subscription growth
- At breakeven

## Opportunities

- Expand category offerings
- Emphasize private **LOC** label
- Evaluate success with current categories

## Weakness

- Subscription base decline
- Lack of large purchases
- Low product selection accuracy

## Threats

- Low barriers to entry
- High competition
- Cost cutting prevents future growth

# Competitors

	Birchbox	Ipsy	Glossbox	Sephora	Preloot
Price	\$10	\$10	\$21	\$10	\$8.99
Categories	Skin care and haircare	Make-up	Skin care, make-up, perfume	Skincare, make-up, perfume	
Subscription	Yes	Yes	Yes	Yes	No
Initial funding					
Surprise vs. Selection	Surprise	Surprise			Selection
Subscriber count	1 million	1.5 million			
Revenue	\$125 million			\$4.5 billion	

# Benefits of strategy shift

- Expand category offerings  • Increased offerings in high growth areas
- Customers select items within categories  • Eliminates complaints of same product
- Customers rate products and sell data to partners  • Promotes feedback and additional revenue
- Include “surprise” **LOC** item and Loyalty points count double for **LOC**  • Creates interest and incentivizes **LOC** loyalty

# Benefits of strategy focus shift

- Offer higher number of high growth/high margin products
  - Color makeup
  - Deodorant
  - Bath and shower
  - Fragrances
- Customers choose can choose categories
- 2x rewards points on **Love of Color** products
- Gather additional data on **Men's** products
- Sell aggregate purchase preferences

# Year 1 Implementation of strategy shift

- Higher number of high growth products in all boxes.
  - Low Cost
  - Can be implemented within existing logistics structure.
- Allow customers to chose 3-5 categories per box
  - Provides flexibility to customers
  - Provides additional data
- 2x Rewards points on our private label products

# Year 1 Implementation of data

- Gather data on men.
- Sell data to established brand partners.
- Success Metric: Gain sales growth at least matching that of the industry.

# Year 2-4 Implementation

- Verify that the sales growth continues to match consumer trends.
  - Analyze new data annually.
- Utilize data on men to maintain position in all sectors.

# Risk mitigation and alternatives

- Algorithms fail
- Partners not interested in our reviews / customer data
- Loyalty points do not incentivise customers
- We do not capture market growth
  
- **If we are unsuccessful...**
  - Seek a partnership with a larger retail outlet
  - Explore selling the company

# Product line segmentation

Product Line	Growth Rate				
		2016	2017	2018	2019
Colour Cosmetics Market Size (Growth Rate of 7.5%)	7.50%	\$ 14,000,000	\$ 15,050,000	\$ 16,178,750	\$ 17,392,156
Bath and Shower	3.50%	\$ 8,000,000	\$ 8,280,000	\$ 8,569,800	\$ 8,869,743
Fragrances	3.50%	\$ 8,000,000	\$ 8,280,000	\$ 8,569,800	\$ 8,869,743
Deodrant	7.50%	\$ 4,000,000	\$ 4,300,000	\$ 4,622,500	\$ 4,969,188
Hair Care	2.00%	\$ 12,000,000	\$ 12,240,000	\$ 12,484,800	\$ 12,734,496
Skin Care	2%	\$ 15,000,000	\$ 15,300,000	\$ 15,606,000	\$ 15,918,120

# Expected growth

		2016	2017	2018	2019
Number of subscribers		600000	1140000	2166000	4115400
Sales from subscription (Also includes men's subscription)		\$ 88,800,000	\$ 168,720,000	\$ 320,568,000	\$ 609,079,200
Conversion sales from subscribed members		\$ 30,000,000	\$ 94,000,000	\$ 240,000,000	\$ 530,000,000
Sales from non subscribed members		\$ 5,000,000	\$ 9,500,000	\$ 18,050,000	\$ 34,295,000
<b>Total Sales</b>		\$ 123,800,000	\$ 272,220,000	\$ 578,618,000	\$ 1,173,374,200

# Birchbox needs to shift its strategic focus

- Refocus target consumer and shape buying behavior
- Targeted product offerings keep element of surprise and incentivize purchases
- Private label offers higher margin and allows higher growth