

# Birchbox

# Applying Foundation

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GOODMAN SCHOOL OF BUSINESS  
BROCK UNIVERSITY

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# Main issue – dry skin

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What is the future of Birchbox?

How can Birchbox support its operations in the competitive beauty product market?

Key success factors:

- Financial stability
- Increased subscribers
- Efficient logistics
- Competitive advantage

# Recommendation – moisturize first

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- **Logistics stability**

- Birchbox will remain online and not open new retail stores
- Birchbox will offer the option to when the consumer will like the shipment (beginning, middle, or end of the month)
- Reduce focus on the placement of the products within the box

- **Financial growth**

- Increase price
- Push LOC branded product differentiation amongst race

- **Competitive advantage**

- Develop a chat bot “Lola”

# Recommendation – foundation second

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- **Customization**

- Enhancing LOC brand
- Revamped personalization quiz
- Live chats with AI and live people

- **Competitors**

- Focus on LOC brand
- Added value items
- Colour cosmetics

# Situational Analysis

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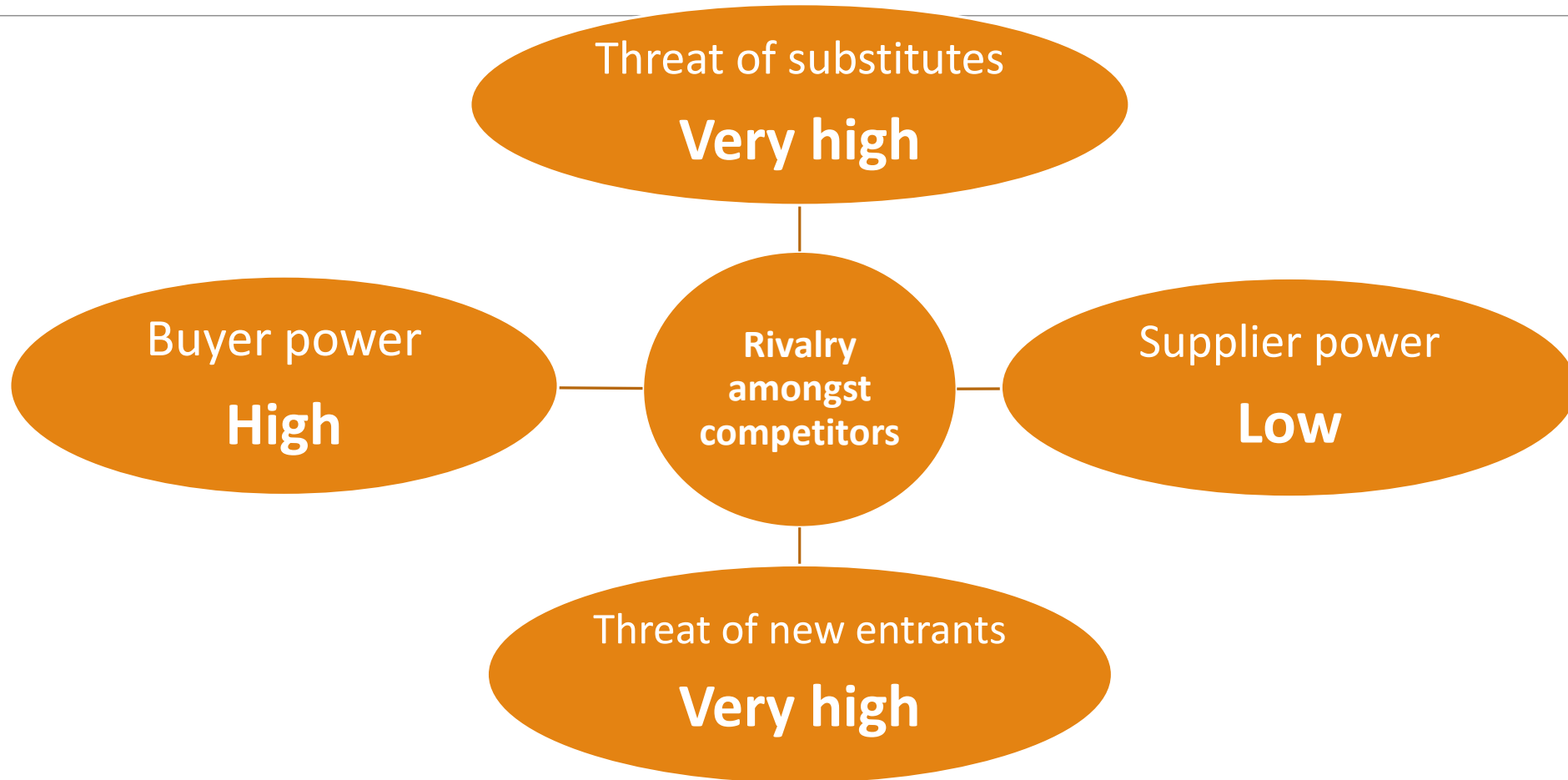
# Current analysis of Birchbox

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- **Subscribers**
  - Decreasing subscribers
  - Currently at 750 000 down from a high of 1 million
  - Ipsy has most subscribers at 1.6 million

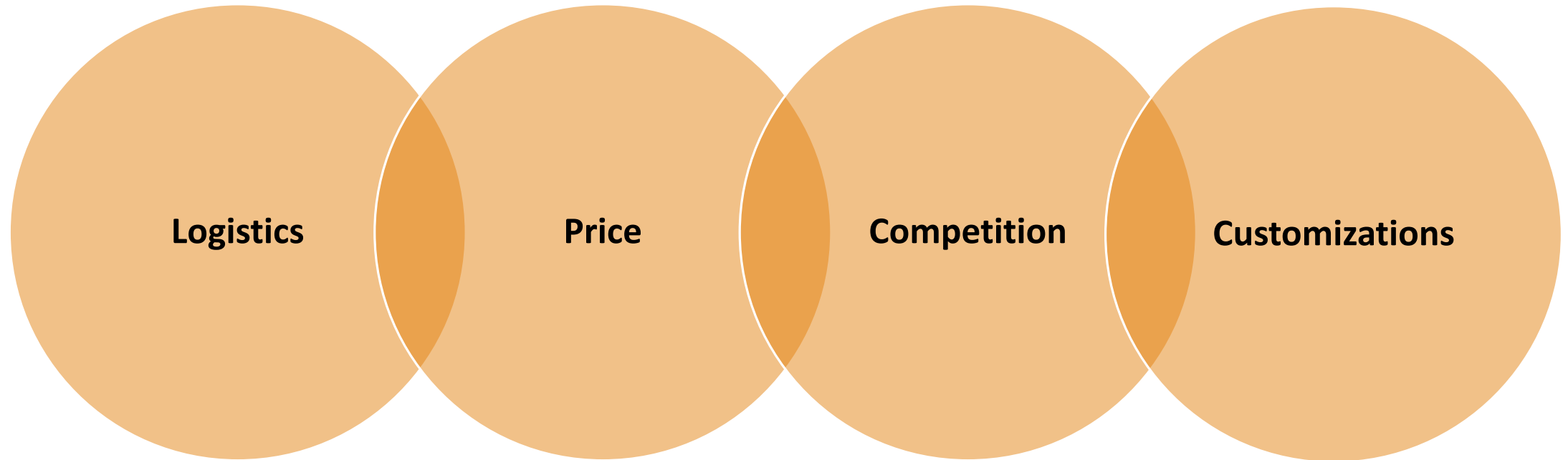
# Porters 5 Force's

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# Issues

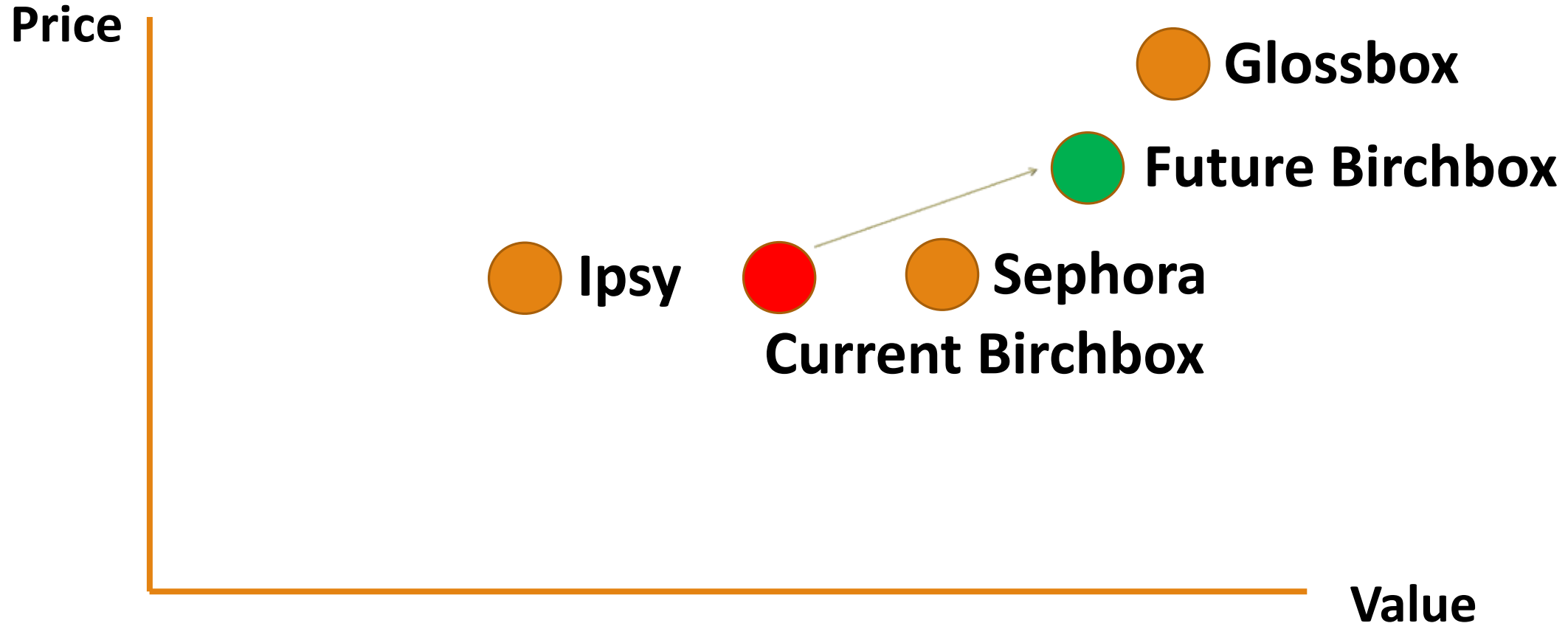
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# Price Value Curve

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# Increased Value

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	<b>Birchbox (old)</b>	<b>Birchbox (new)</b>
<b>Price</b>	\$10	\$15
<b>Ave. Box contains</b>	5 samples	6-8 samples, <b>minimum of 2 LOC</b>
<b>Brands</b>	Mid-range	Mid-range, <b>focusing on LOC</b>
<b>Good for</b>	Trying new skincare and hair products	<b>Colour cosmetics</b> , skincare and hair care. More variety that matches customer preferences.
<b>Downsides</b>	Less variety, Doesn't match customer preference	Increased price

# Alternatives

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# Alternative 1 : Start brick & mortar stores

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- Increases revenue shares of reorders
- Involves new aspects and unknowns
- It will cost approximately 1 million USD per store
- Capital heavy option, does not give competitive advantage

# Alternative 2: Sell Birchbox Inc

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- Solves due venture capital debt which is due in 2018
- Low entry barrier market
- Will not result in maximum price at this time

# Alternative 3 : Focusing on GAP and collaborating with online retailers

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- Increases revenue share from full sized products
- Provides a physical platform with a capital light financial impact
- With so many substitutes, sustainable growth can not be achieved
- Most of the popular retail chains either have their own existing body care line or carry medium-high range products

# Alternative 4 : Developing Love of Color, Introducing “Lola” and Price increase

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- Work with internal product development team, increasing product offering to 50 products of LOC
- Monthly subscription increased to 15 \$
- Developing a chatbot to gain further customer insights and includes a personalised touch with influential marketing
- Competitive advantage and targeting niche of colored women and men
- Offering more products, pushing own in-house brand products
- Reduces marketshare for near future

# Financials

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# Assumptions

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- Currently box costs \$10 to get to customer
- Profit margin of 0%
- Box will cost \$11 to get to customer with product increase
- Will reach 3-5% profit margin by 2020
- Initial cost to alter logistics but lower ongoing costs

# Revenue Projections

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	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2019	2020	2021	2022
Subscriptions	650,000	663,000	676,260	689,785	702,000	758,160	758,160	758,160	758,160
Average Price	176	176	176	176	176	176	176	176	176
Sub Revenue	28,518,750	29,089,125	29,670,908	30,264,326	30,800,250	133,057,080	133,057,080	133,057,080	133,057,080
Ecommerce Rev	6,250,000	6,500,000	6,760,000	7,030,400	7,311,616	8,042,778	8,847,055	9,731,761	10,704,937
Revenue	34,768,750	35,589,125	36,430,908	37,294,726	38,111,866	141,099,858	141,904,135	142,788,841	143,762,017

**With PM of 3% IRR is 0.18**

**With PM of 5% IRR is 0.22**

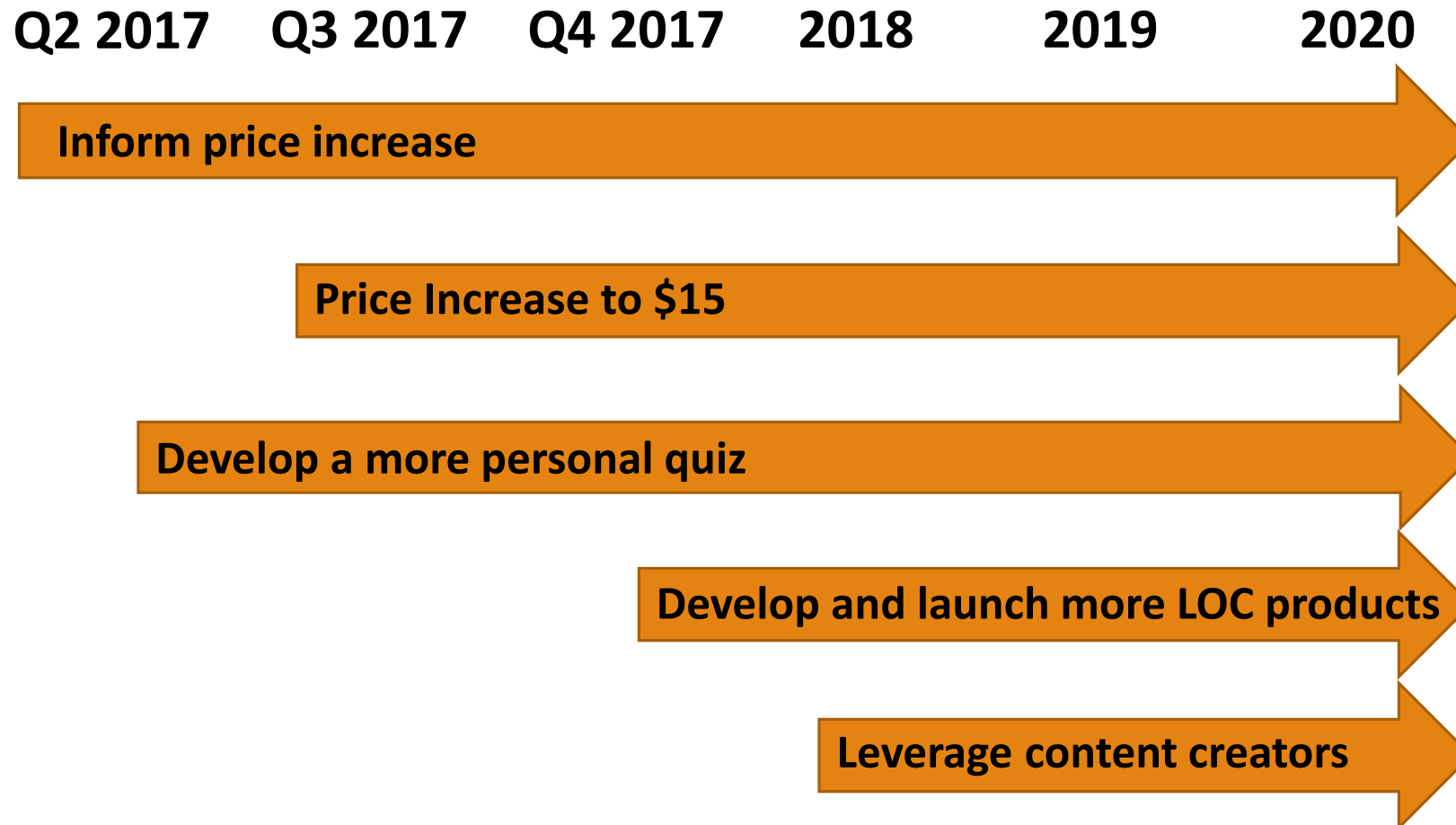
# Incremental Costs

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Incremental Costs	\$
Chat Bot	500,000
LOC Development	150,000
Simplified Package	50,000
Reduced Shipping Volume	50,000
Direct Marketing	50,000

# Time line

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# Implementation - Reducing Logistics Issues

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1. Allow for a beginning, middle or end of month shipment
2. LOC products are shipped alongside set samples
3. Change packaging to be more simple
4. Reduced handling of the products for average consumer

# Implementation – Increased Price

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1. Send out a direct email to all subscribers that prices will be increasing in Q4 2017
2. Email contains that added value the consumer will receive from the increased price
3. Send follow-up email in Q3 reminding the consumer of the added value that is coming from the Brichbox
4. Increase the price to \$15 per month

# Implementation – Customizations

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1. Analyze sales data to determine the which products sell most and focus LOC development on those first.
2. Spend an additional \$150 000 on LOC research and development to create 50 new products and colours that are multi-cultural.
3. Send direct email campaign to subscribers informing them of the new, exclusive, products under development to create hype.
4. Launch the products in the subscription boxes with cards and samples of new products.
  1. Include taglines like, “If you like this, you’re going to love our *LOC product*”

# Implementation – Competition

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1. Keep loyalty program the same
2. Offer discount of 5-15% if sample is purchased in full on Birchbox.com
3. Spend 500 000\$ on development of LOLA, your automated beauty specialist
4. Launch LOLA on Birchbox.com with full front page access in 2018
5. Offer incentives to influencers to use LOLA in vlogs
6. Collect, store, and mine big data to use data analytics to identify trends in the market



# Lola

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Hi Stacey what are you looking for today?

Sure! Tell me what shades you prefer the most

Your friend Brenda wrote a review and gave the Loreal brand four stars. I suggest that

Hi, I'm looking for lipsticks to go with formals

Well, Red or may be clear

# Risks and Mitagations

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**Probability**

 **Failure to stimulate demand**

 **Increased churn**

**Impact**



Risk – Failure to stimulate demand of inhouse brands

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**Chance that consumers might not be responsive to the LOC brand**

- Increase marketing within subscription boxes, cards and samples
- Explain the benefits of LOC, better value

# Increased customer churn from price increase

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With an increased price we are predicting 10 to 15% of customers to leave. It is possible that with the digital marketing campaign that more will leave.

- Already informing customers reasons to why prices are increasing
- Emphasise the new increased value
- Offer discounts to customers through customer retention
- Offer a bonus item to existing customers

**Medium-low probability as increased value exceeds increase in price**  
**Medium-high impact**

# Key Takeaways

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- Increase revenue by focusing on LOC brand
- Gain competitive advantage with Lola
- Financial stability with increased price
- Reduced logistics with simpler packaging and choice of delivery

Thank you

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# Exit Strategy

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In 2020 can evaluate the market to sell Birchbox to a competitor.

Projected revenue of 150 000 million in 2020,

Strong growth in the LOC brand

Continued increased growth in subscribers

**Projected value of Birchbox in 2020 850 million**