

Birchbox Inc.

Building a Strong Foundation

Hayley Barna, Founder
Katia Beauchamp, Founder
New York
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Haskayne
Consulting

Derek Brandschwei, Eva Peng, Bharath Nuthanakaluva, Nicole Drozdiak

Why are we here?

How can Birchbox achieve sustainable growth and profit, while demonstrating financial prudence?

Executive Summary

Strategy	Micro Strategy	Details
Simplify operations	Decrease subscription-box customization	-Create product personas that align with customers: 3 female and 2 male personas -Online quiz/evaluation determines customer's persona -Boxes are customized monthly for each persona
	Increase packaging efficiency	-Product packaging is simplified for each persona -Decrease costs and increase speed
	Increase shipment frequency	-Package and Ship all of one persona box, then package and ship all of the next persona box, etc.
Marketing	Align influencers with Personas	-Push marketing of new personas and product matching
	Coupons for full-product purchases	-Persona-boxes come with coupon redeemable towards full-product purchase
Loyalty Program	Increase redemption rate	-Increase points to 20 points for \$1 (up from 10 points for \$1)
USA & Europe	Implement persona boxes	-Don't expand. Focus on reducing costs / increasing sales
Succession Plan	Create plan to move on	-Implement plan to reduce costs and increase sales -Discuss long-term goals -Evaluate opportunities to sell
Private label	Eliminate private label	-Reduce costs and risk, focus on supplier brands

Recommendation

- Simplify the subscription-box offering by reducing customizability
- Create product “personas” that match customer preferences with a pre-defined product mix

You asked we answered (1/2)

- ▶ Can Birchbox achieve sustained growth and profits?
 - Yes
- ▶ Is the \$10/month subscription fee sufficient to support more customization?
 - No. Instead, reduce customization to simplify the packaging process and reduce costs
- ▶ Can Birchbox show financial prudence at a time when competition is getting fiercer?
 - Yes. Reducing costs in packaging will improve cash flow

You asked we answered (2/2)

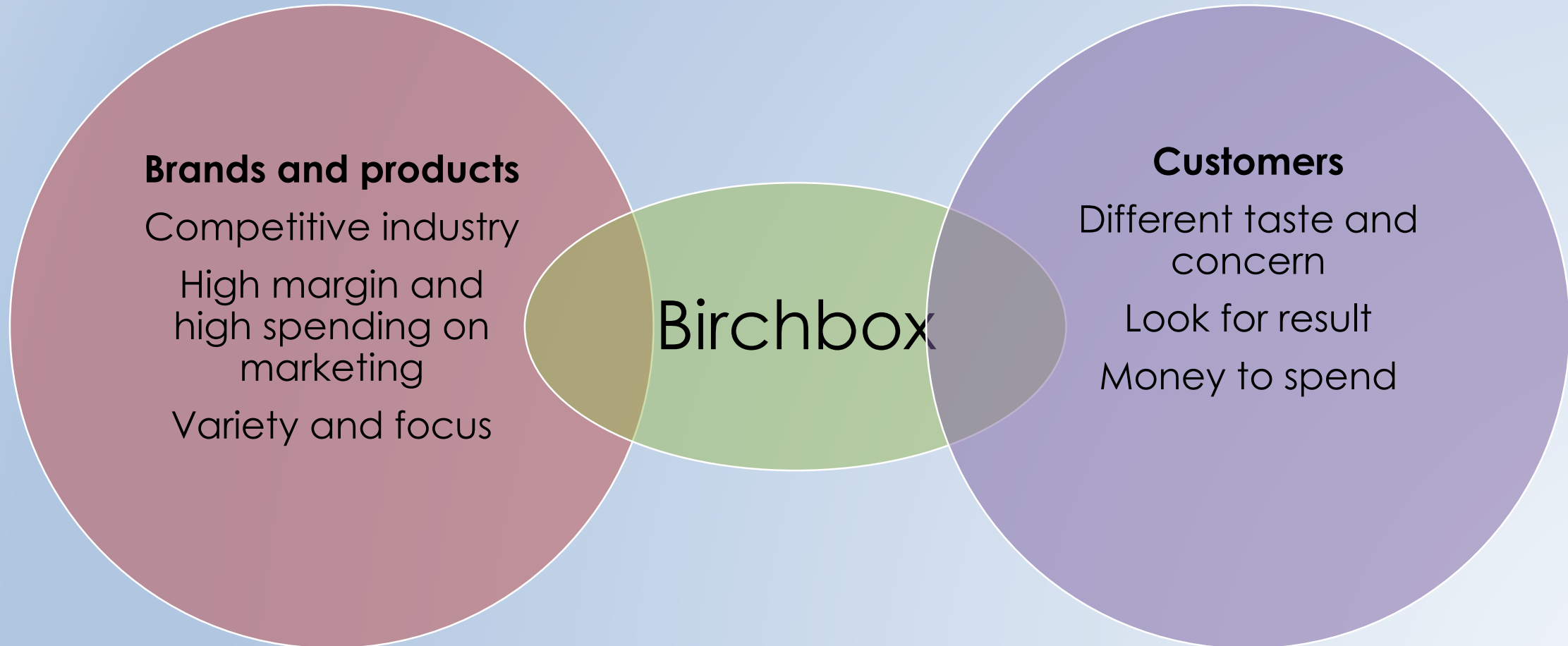
- Can Birchbox use the subscription model to turn the tables?
 - Yes. Utilizing personas that package common traits of different customers will improve product targeting.
- Can Birchbox tweak its product offering to increase orders?
 - The product offering is sufficient. Increase orders through improved targeted product offerings
- Should Birchbox offer more customization?
 - No – simplify your offerings



Time to take your order

Eva will review the details

Birch box connects brands



How do you make money

Reorder accounts for the largest profit source

Birchbox

Subscription just cover the operating and shipping cost

Online subscription

Reorder from product samples

In-store purchase

The most important measure is to increase reorder ratio from samples

Focus on service

Options ahead of you immediately

1

- Simplify the product offering box

2

- Increase the customization

3

- Sell your business, Amazon?

Criteria to use since you are a young company with limited resources

Growth
potential

Logistics
feasibility

Timeline


Customer
feedback

You need realistic measurement for evaluation

Options analysis

Options and criteria	Growth potential and profit projection	Logistics feasibility	Timeline feedback	Customers feedback
Simplify the product offering boxes	✓	✓	✓	✓
Increase customization	✓	✗	✗	✓
Sell to Amazon or other companies	✗	✓	✗	✗

Result

Options and criteria	Growth potential and profit projection	Logistics feasibility	Timeline feedback	Customers feedback
Simplify the product offering boxes	 ✓	✓	✓	✓
Increase customization	✓	✗	✗	✓
Sell to Amazon or other companies	✗	✓	✗	✗

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Customers and persona

Jessica

- High quality driven
- Seasonal concern

Christina

- Professional
- Research
- Like variety

Emma

- Active
- Travel and sports

Man persona

Joe

- Active, likes to go to bar, hiking, hockey games

Christian

- Play video games, go to exhibitions or museums

Simplify the product offering box, however add variety and excitement

- ▶ Customers are always looking for new products, follow the trends, having the seasonal concerns
- ▶ Establish more brands, more products, however keep only three personal box every month
- ▶ Add beauty supplement line: eat and drink while looking younger and better
- ▶ Use the customer life style survey, shopping data, analysis to provide the best ingredient for the persona box
- ▶ Using data to boost the reorder ratio: hit the trend, hit the Wishlist and your customer secret desire

Logistics simplification and cost saving

- ➔ Shipping is staged through out the months: no peak time in the ware house, spread from beginning, middle to the end of the months
- ➔ Shipping arrive on time
- ➔ Big saving to expect from operation
- ➔ Stable success can help to expand in the future: Canada, Asia – huge potential market, women aspire to use western high end make up

Combating with the clones

- ▶ Never carry drug store product : cheap to purchase in store and suite for targeting market
- ▶ Focus on:
 - Service: shipping on time
 - Variety : expand to more brands and products
 - In store: have store sale promotion, giving annual free make over and skin care consultation session.



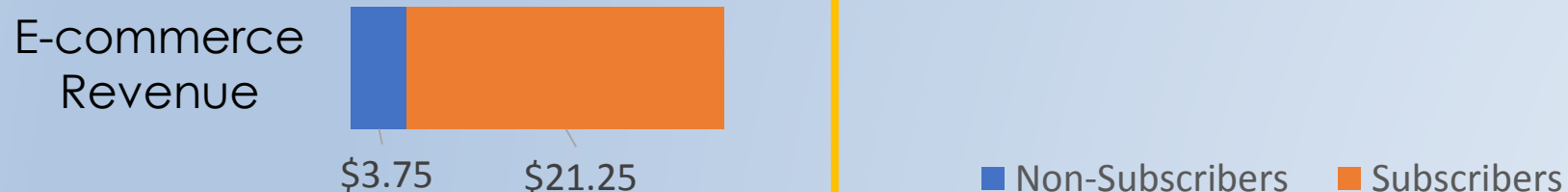
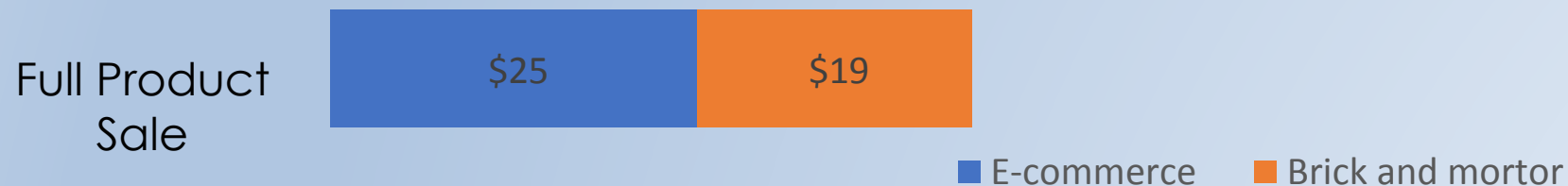
Counting your loyalty points for your next purchase

Invite Bharath to walk you through the financial data

Assumptions

- ➔ All currency is in USD
- ➔ Current margins
 - Box samples: 25% in net loss
 - Full products: 40%
 - Post recommendation box samples: net neutral (0%)
- ➔ Men and women products have similar profit margins
- ➔ Consolidated revenue growth at 4%
- ➔ Discount rate applied for NPV – 10%

Profit making part of revenue in \$MM



Change in Loyalty program

➔ Current program

- Spending: 10 points (pts) = \$1 in discount
- Earning: 10 pts/10\$ purchase; 50 pts/first 5 reviews for a product
- Overall discount possible > 50%

➔ Recommended program

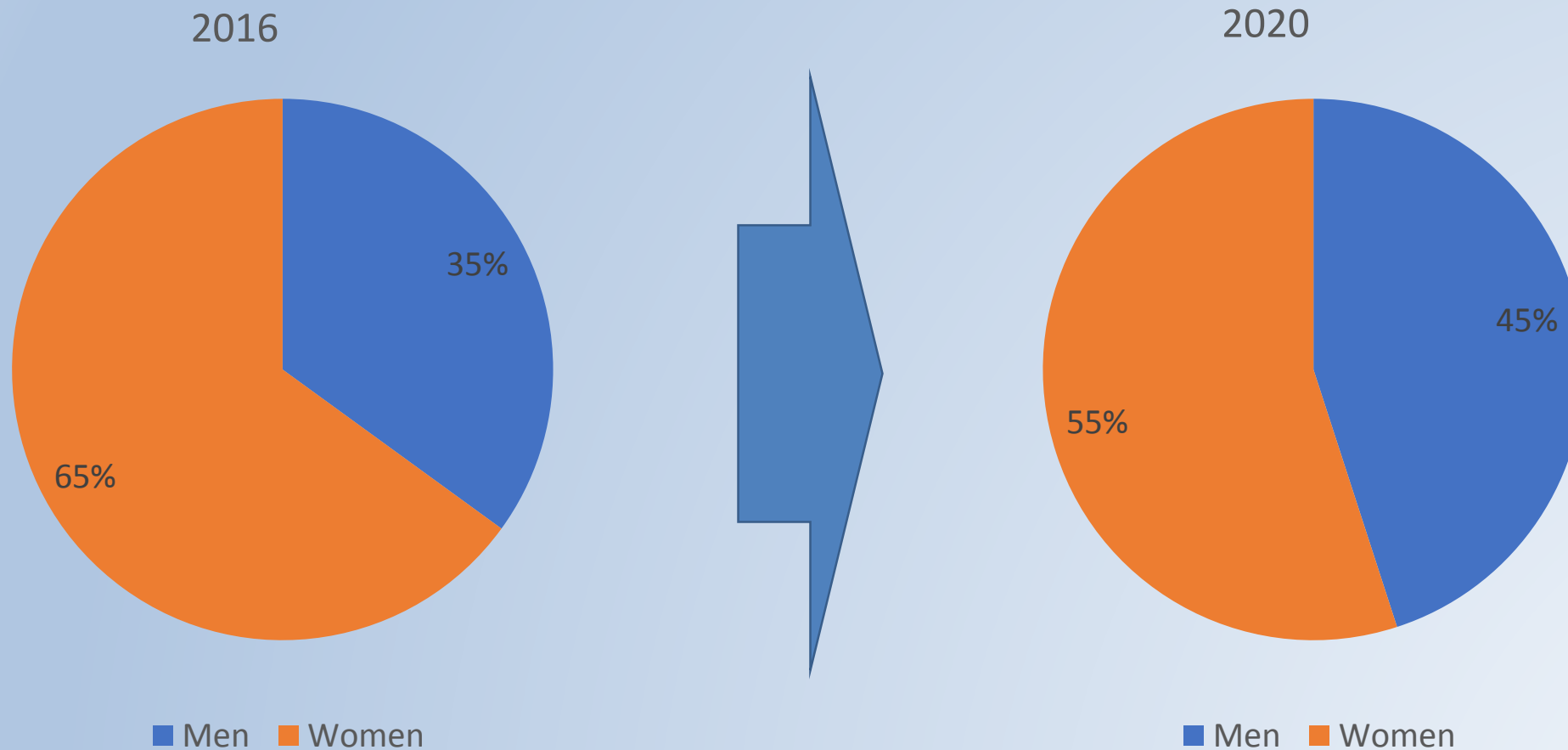
- Earning stays the same
- Spending: 20 pts for \$1 in discount
- Coupon for discount for full product purchase – vary discount % by your margins

This will incentivize the full product buyers more than the sample-only buyers

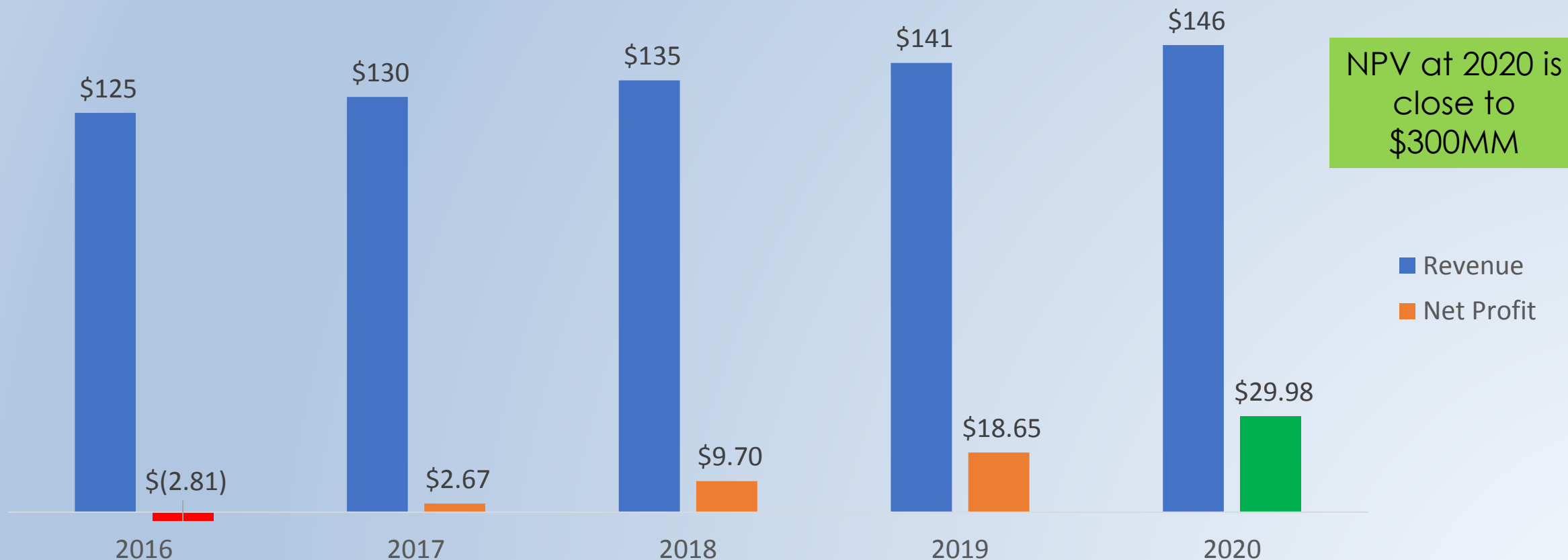
Eliminate private label for now

- ➔ Not your core business
- ➔ High product development costs
- ➔ Requires rigorous testing
- ➔ Very high legal and financial liability with cosmetics

Revenue split by gender



Brighter future ahead



Financial Projections

In \$MM	Year	2016	2017	2018	2019	2020
	Revenue	\$ 125	\$ 130	\$ 135	\$ 141	\$ 146
Profits	Full Product	\$ 18	\$ 22	\$ 27	\$ 33	\$ 41
	Box Sample	-\$ 20	\$ -	\$ -	\$ -	\$ -
	Net Profit	-\$ 3	\$ 22	\$ 27	\$ 33	\$ 41

Implementation Costs

- ➔ Marketing campaign – 10% of revenues
- ➔ Data and marketing analyst - \$75K/yr
- ➔ Currently we recommend you to cut the costs in implementation in operations for logistics and packaging

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Alternatives



Increase customization



Sell company right away

Increase customization

- ➔ Already high; operating costs will shoot up
- ➔ Logistics concerns
- ➔ Low success rate and risk of quality in order fulfillment



Sell company right away (to Amazon)

- ➔ Timing not in your best interests
- ➔ Not currently demonstrating full value
- ➔ Appropriate buyers are more likely to approach you





Replenishing the order

Nicole to discuss the details of implementation

For future consideration...

► “Out of the box thinking”

- Create in-store spas and facilities to see some of the samples and products in action
- Bring in suppliers to engage with the community about the products at in-store locations

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Implementation Timeline

Short Term (1 year)

- Develop marketing campaign for personas
- Communicate changes to loyalty program
- Develop additional data analytics capability
- Stay with 3PL provider

Middle Term (2 years)

- Evaluate customer feedback continuously
- Expand to add different product offerings (active wear, health supplements, deodorant, colour cosmetics)

Long Term (3 years)

- Explore potential diversifying product offering
- Evaluate opportunity to sell if desired
- Explore more global opportunities (e.g. China and Asia markets)

Communications Plan

Task	Outcome	Responsible	Timeline
Meet with key established suppliers around strategic changes	Transparency will help maintain relationships	Hayley / Katia	1 month
Share proposed plans with operation staff	Allows time to prepare for changes	Hayley / Katia	1 month
Use marketing campaign to announce personas to customers	Shows changes and what can be expected	Mollie Chen / Marketing Team	2 months
Continue to meet with suppliers and share data around successful products and maintain relationships	Continuous communication allows for more successful relationships	Hayley / Katia Supplier Relationship Managers	1 – 3 years

Marketing Plan

Task	Outcome	Responsible	Timeline
Meet with key established suppliers around strategic changes	Transparency will help maintain relationships	Hayley / Katia	1 month
Develop website capabilities for survey and feedback channels	Increases information to guide decision making	Internal IT Team / Marketing Team	3 months
Use marketing campaign to announce personas to customers	Shares the new experience with Birchbox	Mollie Chen / Marketing Team	2 months
Monitor customer feedback through analytics data	Information on customer preferences will help dictate product offerings	Mollie Chen / Marketing Team	1 – 3 months

Marketing Activities

Develop interactive persona quiz on website

Create feedback platform through website

Use relationships with influencers to promote personas online

Spotlight videos of influencers on website and social media pages

Establish an online community for customers to engage with others of the same persona

Planning for the future

Task	Outcome	Responsible	Timeline
Implement the proposed strategy	Leads to increased sales	Hayley / Katia	1 year
Discuss long term personal goals and objectives	Understanding what you want for your personal futures	Hayley / Katia	1 year, continuous
Evaluate opportunities for sale (e.g. Amazon)	Find potential buyers if future long term objectives don't align	Hayley / Katia	3 years
Evaluate opportunities to promote employees and preventing employee turnover	Hyper-competitive market can lead to high talent turnover	Hayley / Katia	3 years

Risks and Mitigation Strategies

Risks	Mitigation Strategy	Likelihood (H/M/L)	Impact (H/M/L)
Customers will be unhappy with reduced customization	Capture their feedback to understand what products meet their needs	M	M
Losing the brand due to increased competition	Differentiate with product offering in pre-established boxes	M	L
Cybersecurity	Use in-house IT capabilities to find areas of exposure	M	M
Product liability	Liability will be carried by the manufacturer – not Birchbox	L	L
Product success different in individual regions	Explore different product boxes in each geographic region	L	L
Foreign exchange	Use financial instruments (ie Hedging)	L	L

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Your box has arrived!

Derek will bring everything together

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