

# Birchbox | The Clone Wars

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WOW CONSULTING

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How can Birchbox become  
the leading subscription  
beauty box?

# What Are the Key Issues?

Analysis

Alternatives

Recommendation

Implementation

Financials

Risks

Low barriers of entry – *the clone wars*

High customization costs

Unsatisfactory customer conversion rate

# What Are Your Objectives?

Analysis

Alternatives

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Financials

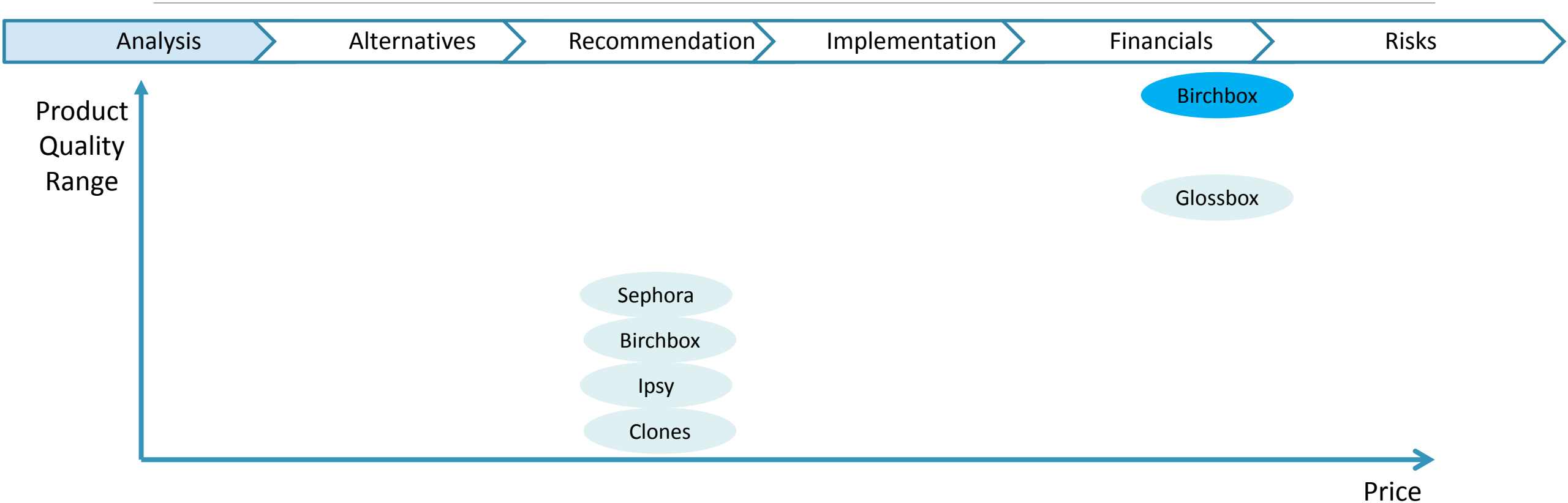
Risks

Increase the barriers of entry

Increase profit margin

Maintain customer relationships

# How Does Birchbox Fit with the Clones?



# What Is Recommended For You?

Analysis

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Introduce  
high-end  
products

Increase  
attraction  
with random  
full-size  
selection

# How Are You Currently Positioned?

Analysis

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Risks

## Strengths:

Ability to collect valuable marketing data

## Weaknesses:

Low conversion rate to online sales

Operations are expensive and not optimized

Birchbox

## Opportunities:

High potential in high-end products (less competition, more loyalty, greater perceived value)

## Threats:

Many competitors and more on the way (low barriers to entry)

Weaker brand power in comparison to brands, like Sephora

# What Are Your Customer Segments?

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	Women		Men	
<b>Income (\$)</b>	0-50,000	50,000 +	0-50,000	50,000 +
<b>Product use</b>	Functional	Passion driven	Functional	Exploratory
<b>Brand loyalty</b>	Low	High	Low	High
<b>Age</b>	0-20	20 +	0-25	25 +

Customers look for different benefits from the subscription boxes



# What Environment Are You In?

Analysis

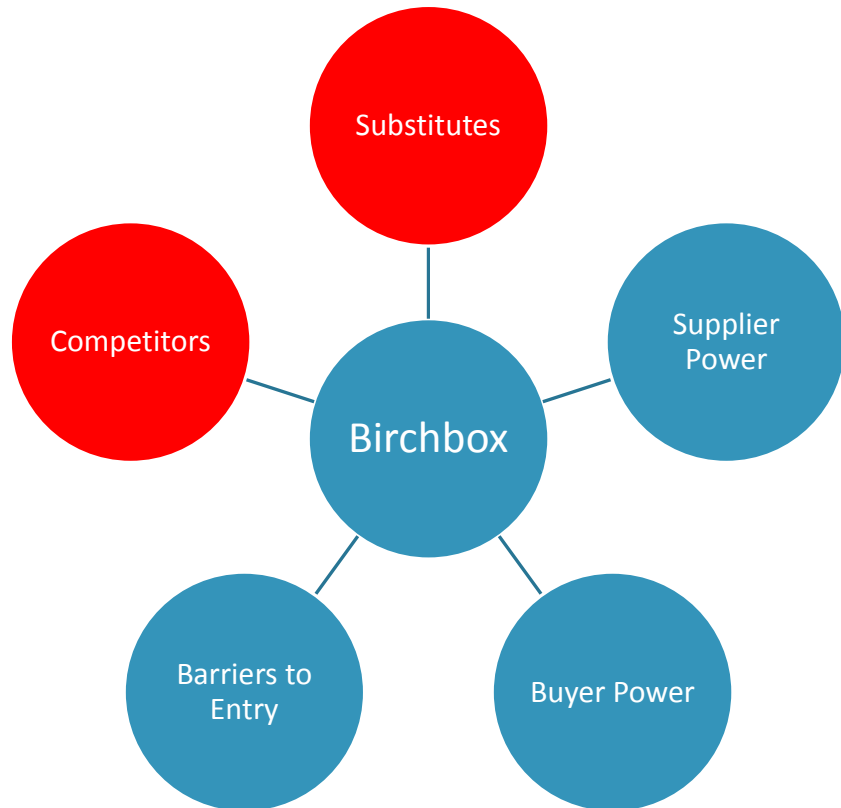
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## Substitutes

- Beauty Stores
- Drugstores
- Department stores
- Door-to-door sales
- eCommerce

## Competitors

- Sephora Play
- Glossbox
- Ipsy
- Preloot
- Fit.Fab.Fun

It is a very crowded market

# What Environment Are You In?

Analysis

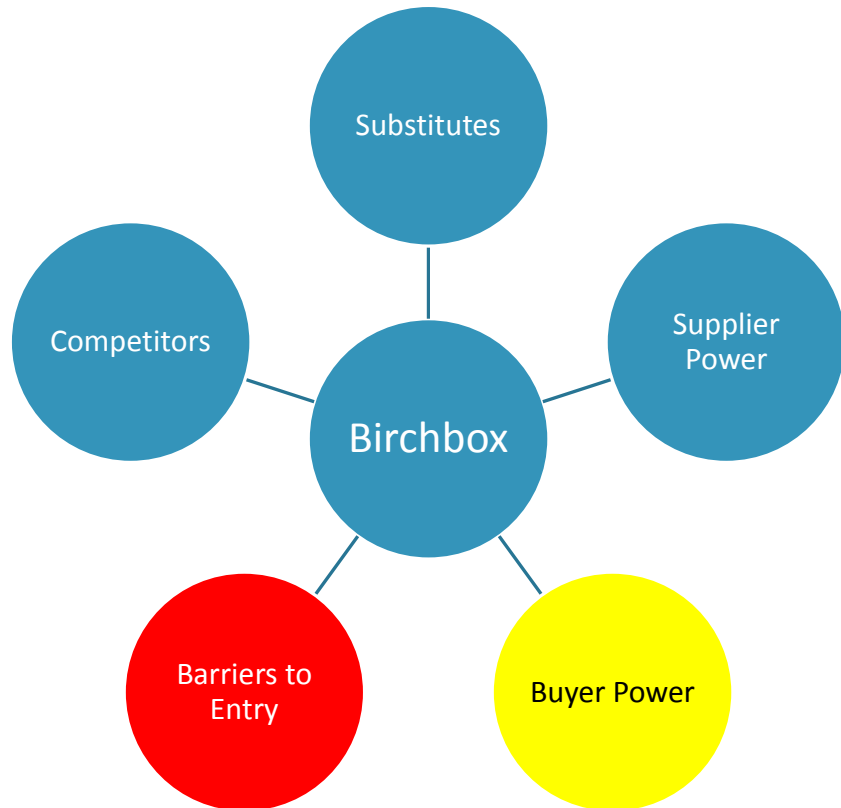
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## Barriers to Entry

- Partnership with brands
- Subscribers

## Buyer Power

- Leverage data
- Introduce new products to customers
- Gain customer feedback on a large scale

Buyers have some power, but anyone can enter the space

# What Environment Are You In?

Analysis

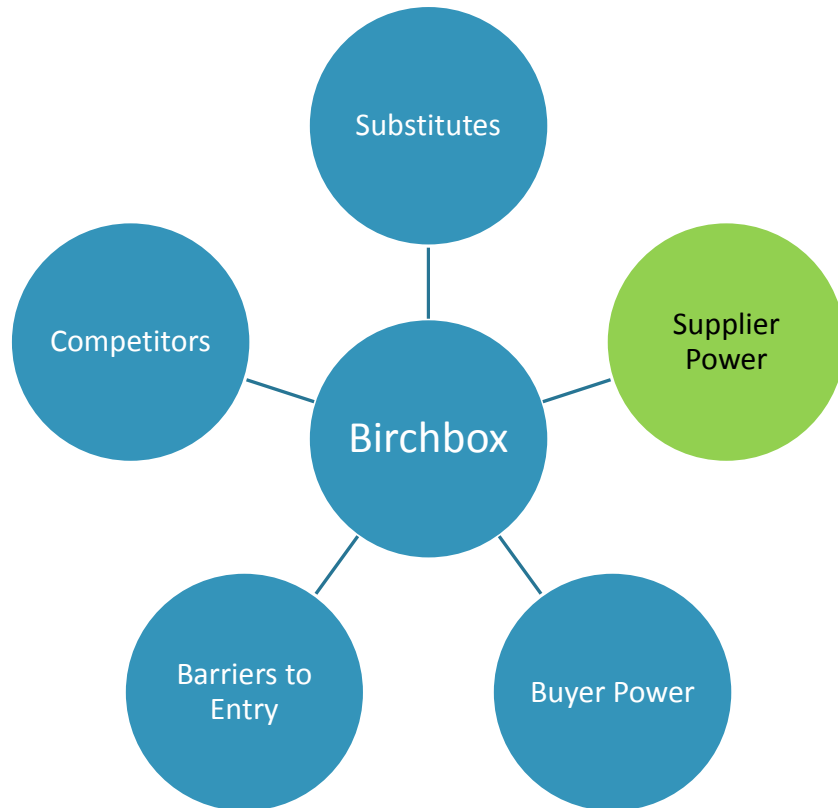
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## Supplier Power

- Many independent brands
- New competition in women's cosmetics and men's skincare
- High-end brands are very restrictive about who can carry their products

Depending on the product range, supplier power varies greatly

# What Are Your Options?

Analysis

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Risks

Sustainability of business model

Barriers to entry

Additional products sourced

Growth capacity

# What Exactly Are We Recommending?

Analysis

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Risks

Introduction of **high-end** production with the *surprise* element from **random** selection will make subscription more **viable** on its own

# How Can You Keep Your Customers?

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Introduce **randomness** factor based on successful freemium model

Tap into natural human attraction to **surprises**

A limited number of subscription boxes will contain **full-size** luxury product

# How Can You Get Customers On Board?

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Risks

Subscribing to the loyalty program will increase **lottery odds**

Customers can **redeem points** to further increase odds

Sharing on social media **#BirchboxWinner** will earn bonus points

# How Do You Orchestrate This?

Analysis

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Risks

Hire a team of  
**developers**

Exploit your **unique  
database** to create  
the optimal  
randomness model

Continuously  
improve the  
**algorithm** for new  
products



# What Else Do You Need?

Analysis

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Risks

**High-end partnership to increase perceived value of the subscription boxes**

Tom Ford, Yves Saint-Laurent, Chanel, Cle de Peau, Dior

# Who Should You Target?

Analysis

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Risks

	Women	Men
<b>Income (\$)</b>	50,000 +	50,000 +
<b>Product use</b>	Passion driven	Exploratory
<b>Brand loyalty</b>	High	High
<b>Age</b>	20 +	25 +

The new business model will help you focus on these customers with higher conversion rate

# How Does Your Product Range Change?

Analysis

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Risks

## Mid-Range

- \$10
- Mid-range and drugstore deluxe samples
- 1 in 300 chance of winning

New

## High-End

- \$25
- Mid-range and high-end deluxe samples
- 1 in 100 chance of winning

# How Will You Promote Your New Model?

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Influencers

- Glam Life Guru
- Nikki Tutorials
- Lisa Eldridge
- Gigi Gorgeous
- Jeffery Star

Advertisement

- Google Ad words
- Social media (Facebook and YouTube)
- Magazines

# Who Are You Hiring?

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- Partnership manager for high-end products
- 1 Freemium model algorithm specialist
- 1 Data Analyst
- 4 Engineers
- 1 Lead engineer

Gradually increase  
production workforce to  
meet growing demand

# How Will You Implement The Plan?



	2017	2018	2019	2020	2021
Marketing					
Influencers	█	█	█	█	█
Advertisements	█	█	█	█	█
IT					
Algorithm improvement	█	█			
HR	█	█			
Operation optimization					█
High-end brand partnership	█	█	█	█	█

# Financial Projections (in million of dollars)

Analysis

Alternatives

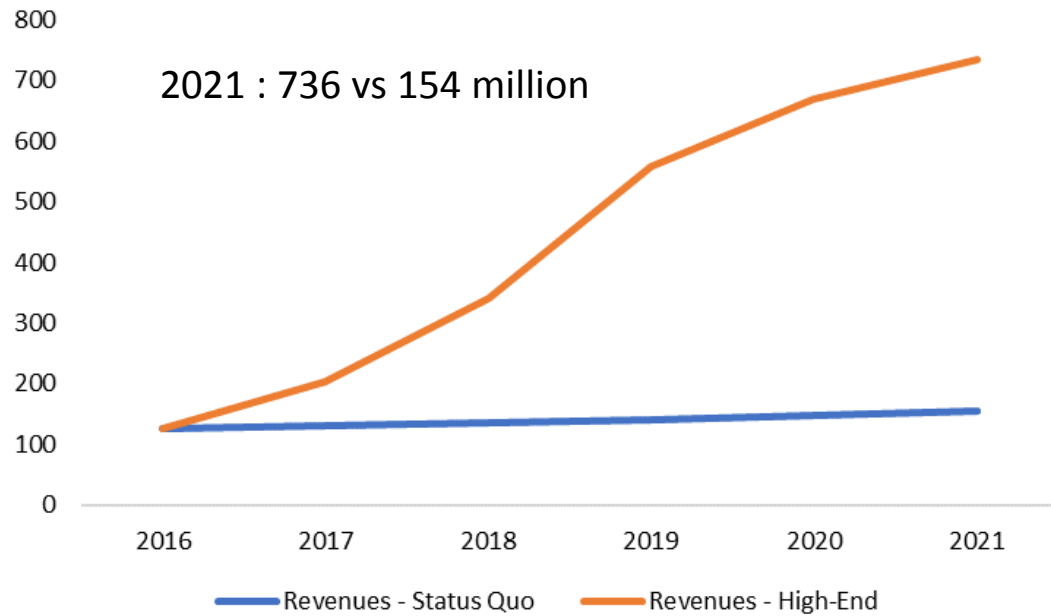
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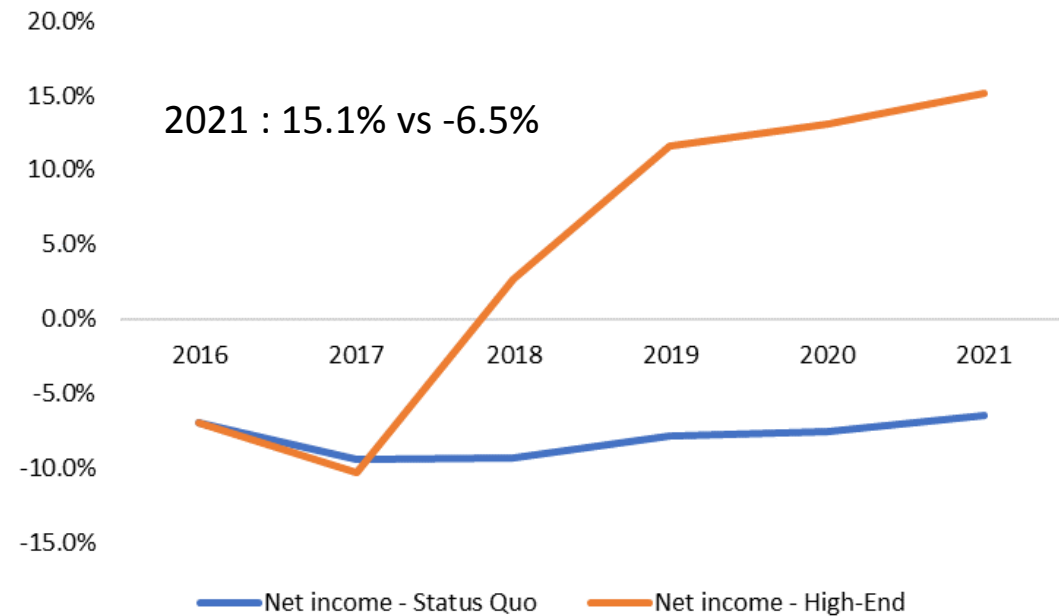
Financials

Risks

### Revenue



### Net income (%)



# Sources of Revenue

Analysis

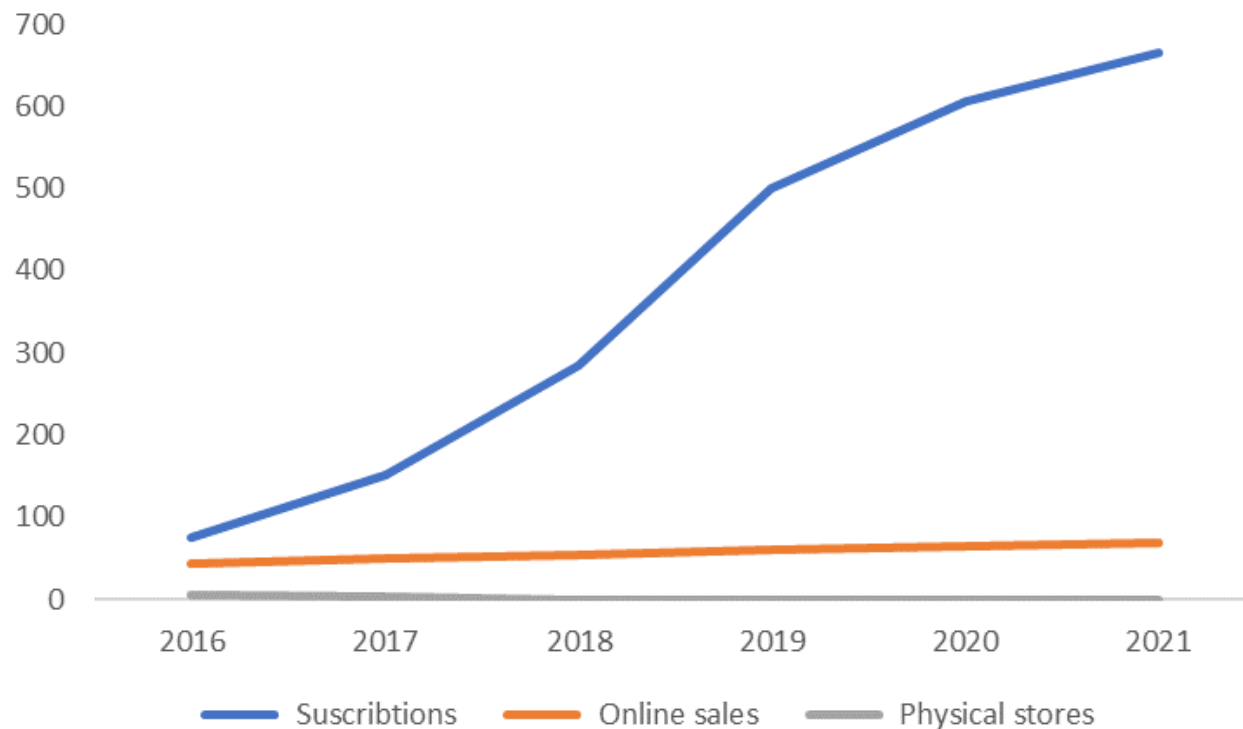
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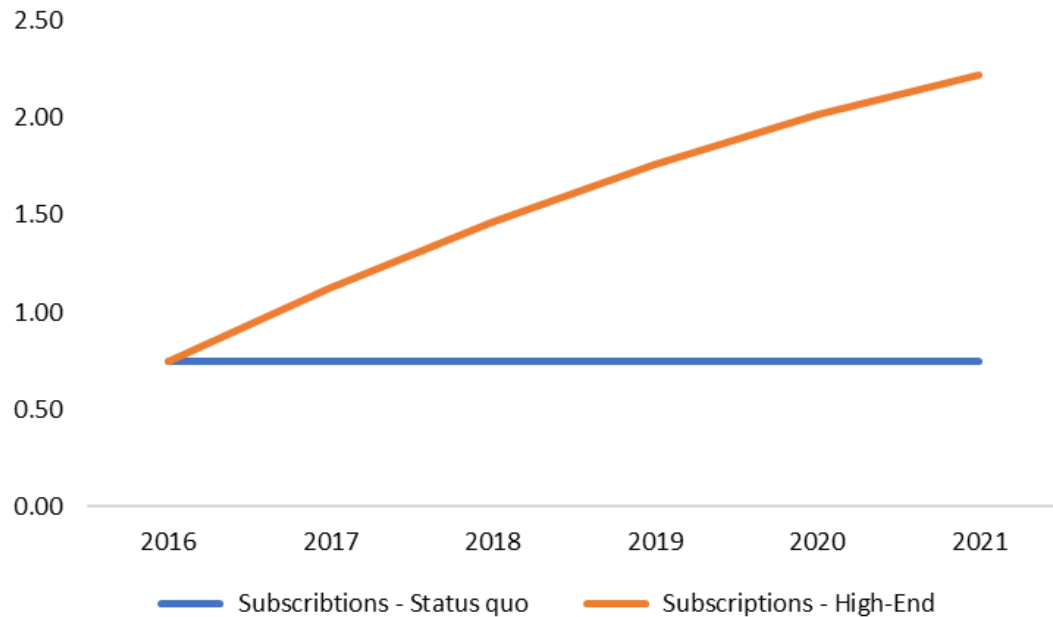
- Subscriptions : 60% last year, 90% projected in 2021
- Online sales : 35% last year, 10% projected in 2021
- Stores sales : 5% last year, 0% projected in 2021



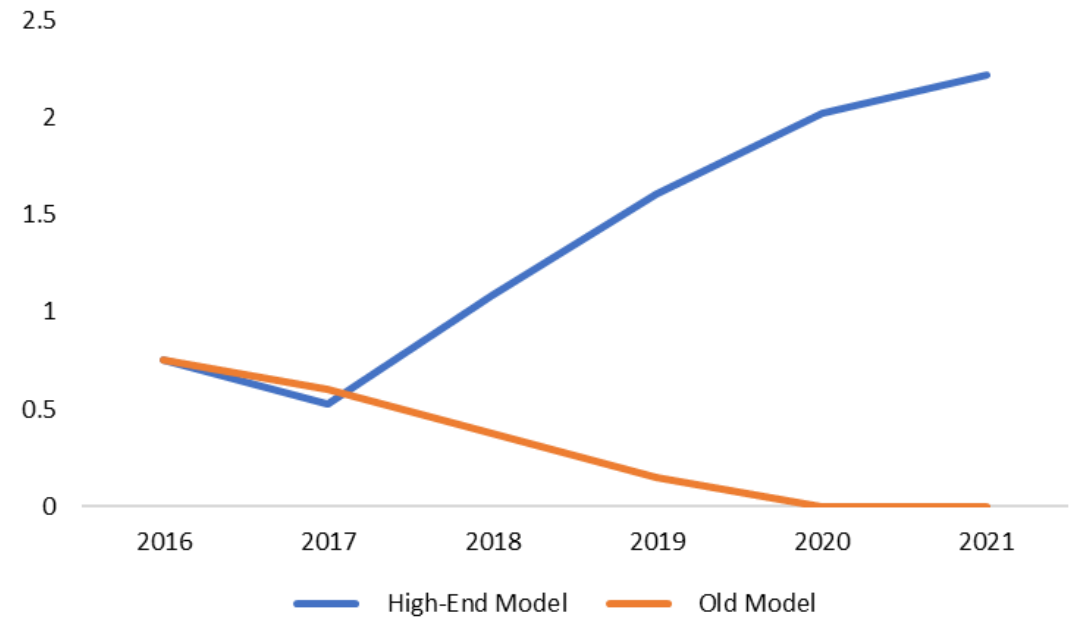
# Subscribers (in million)



Number of subscribers



Transition from old to new model



# Budget (in thousand of dollars)



	2017	2018	2019	2020	2021		2017	2018	2019	2020	2021
<b>Marketing</b>						<b>New Partners</b>					
Adwords	12,000	12,000	10,000	8,000	8,000	Director - High-End Brands	80	82	83	85	87
Social media	8,000	6,000	5,000	4,000	4,000	Representatives (2)	100	102	104	106	108
Influencers	27,000	27,000	24,000	21,000	21,000	Travel & other expenses	150	153	156	159	162
	<u>47,000</u>	<u>45,000</u>	<u>39,000</u>	<u>33,000</u>	<u>33,000</u>		<u>330</u>	<u>337</u>	<u>343</u>	<u>350</u>	<u>357</u>
<b>Machine Learning</b>						<b>Total costs</b>	<b>48,050</b>	<b>46,056</b>	<b>40,077</b>	<b>34,098</b>	<b>34,120</b>
Lead engineer	200	204	208	212	216	As a % of total sales	38%	23%	12%	6%	5%
Engineers (4)	300	306	312	318	325						
Data analyst (2)	200	204	208	212	216						
Equipment	20	5	5	5	5	<b>Financing - Investment</b>					
	<u>720</u>	<u>719</u>	<u>733</u>	<u>748</u>	<u>763</u>	Automation					100,000
						Cash Flow		50,000			

# What Should You Watch Out For?



Risks	Contingency	Mitigation	Likelihood	Impact
Unable to secure high-end brands	Reach out to more brands than necessary	Lower the subscription box price Keep the random draw	Medium	High
Customers unsatisfied with product offerings	Continuously pull customers feedback	Satisfaction guarantee or money back	Low	Medium
More clones with the new business model	Unique random algorithm	Secure exclusive agreements with brands	High	Medium
Current markets not sufficient to sustain growth	Expand gradually into new markets	Acquire similar clones in other markets	Medium	Low

# What Are Your Takeaways?

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- ✓ Increase the barriers of entry
- ✓ Increase profit margin
- ✓ Maintain customer relationships

Introduction of **high-end** production with the *surprise* element from **random** selection will make subscription more **viable** on its own



# Assumptions

Pro Forma Income Statement - Status Quo (in thousands)

	2016	2017	2018	2019	2020	2021
<b>Revenues</b>	<b>125</b>	<b>130</b>	<b>135</b>	<b>141</b>	<b>147</b>	<b>154</b>
Suscriptions	75	75	75	75	75	75
COGS	30%	30%	30%	30%	30%	30%
	53	53	53	53	53	53
Online sales	44	48	52	56	60	64
COGS	35%	35%	35%	35%	35%	35%
	28	31	34	36	39	42
Physical stores	6	7	8	10	12	15
COGS	35%	35%	35%	35%	35%	35%
	4	5	5	7	8	10
	<b>85</b>	<b>88</b>	<b>92</b>	<b>95</b>	<b>99</b>	<b>104</b>
<b>Costs</b>						
Labor	40	41	42	42	43	44
Warehouses	5	5	5	5	5	6
Stores	2	2	3	3	4	4
Offices	1	1	1	1	1	1
Shipping	24	25	25	26	27	28
IT	1	1	1	1	1	1
Marketing	20	26	27	28	29	31
SG&A	1	1	1	1	1	1
	<b>94</b>	<b>102</b>	<b>105</b>	<b>108</b>	<b>112</b>	<b>115</b>
EBIT	-9	-13	-14	-13	-13	-11
Interest expense	2	2	2	1	1	1
EBT	-11	-15	-16	-14	-14	-12
Taxes (20%)	-2	-3	-3	-3	-3	-2
<b>Net income</b>	<b>-9</b>	<b>-12</b>	<b>-13</b>	<b>-11</b>	<b>-11</b>	<b>-10</b>
<b>Net income (%)</b>	<b>-6.9%</b>	<b>-9.4%</b>	<b>-9.3%</b>	<b>-7.8%</b>	<b>-7.5%</b>	<b>-6.5%</b>

Pro Forma Income Statement - High-End (in thousands)

	2016	2017	2018	2019	2020	2021
<b>Revenues</b>	<b>125</b>	<b>204</b>	<b>340</b>	<b>560</b>	<b>670</b>	<b>736</b>
Suscriptions	75	151	285	500	605	666
COGS	30%	34%	36%	39%	40%	40%
	53	99	183	305	363	400
Online sales	44	50	55	60	65	70
COGS	35%	35%	35%	35%	35%	35%
	28	33	36	39	42	46
Physical stores	6	3	0	0	0	0
COGS	35%	35%	35%	35%	35%	35%
	4	2	0	0	0	0
	<b>85</b>	<b>134</b>	<b>218</b>	<b>344</b>	<b>406</b>	<b>445</b>
<b>Costs</b>						
Labor	40	60	78	94	108	100
Warehouses	5	7	9	12	15	20
Stores	2	1	0	0	0	0
Offices	1	1	2	2	2	2
Shipping	24	40	68	112	134	147
IT	1	1	1	1	1	1
Marketing	20	47	45	39	33	33
SG&A	1	1	2	2	2	2
	<b>94</b>	<b>158</b>	<b>205</b>	<b>262</b>	<b>295</b>	<b>305</b>
EBIT	-9	-24	13	82	111	140
Interest expense	2	2	2	1	1	1
EBT	-11	-26	11	81	110	139
Taxes (20%)	-2	-5	2	16	22	28
<b>Net income</b>	<b>-9</b>	<b>-21</b>	<b>9</b>	<b>65</b>	<b>88</b>	<b>111</b>
<b>Net income (%)</b>	<b>-6.9%</b>	<b>-10.3%</b>	<b>2.6%</b>	<b>11.6%</b>	<b>13.1%</b>	<b>15.1%</b>

# Assumptions

## Number of subscribers (in million)

	2016	2017	2018	2019	2020	2021
Subscriptions - Status quo	0.75	0.75	0.75	0.75	0.75	0.75
Subscriptions - High-End	0.75	1.13	1.46	1.76	2.02	2.22
High-End Model	0.75	0.53	1.09	1.61	2.02	2.22
Old Model	0.75	0.60	0.38	0.15	0.00	0.00