

Beautifying complexity

Birchbox Inc.

Presenting to:

Hayley Barna and Katia Beauchamp

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Presented by:

Lea Steinbach
Kristina Sonnenschein
Nina Pawelczyk
Hauke Van Mark

What to tackle?

How can Birchbox adjust their business model in order to stay competitive and increase its profitability?

Problem Statement

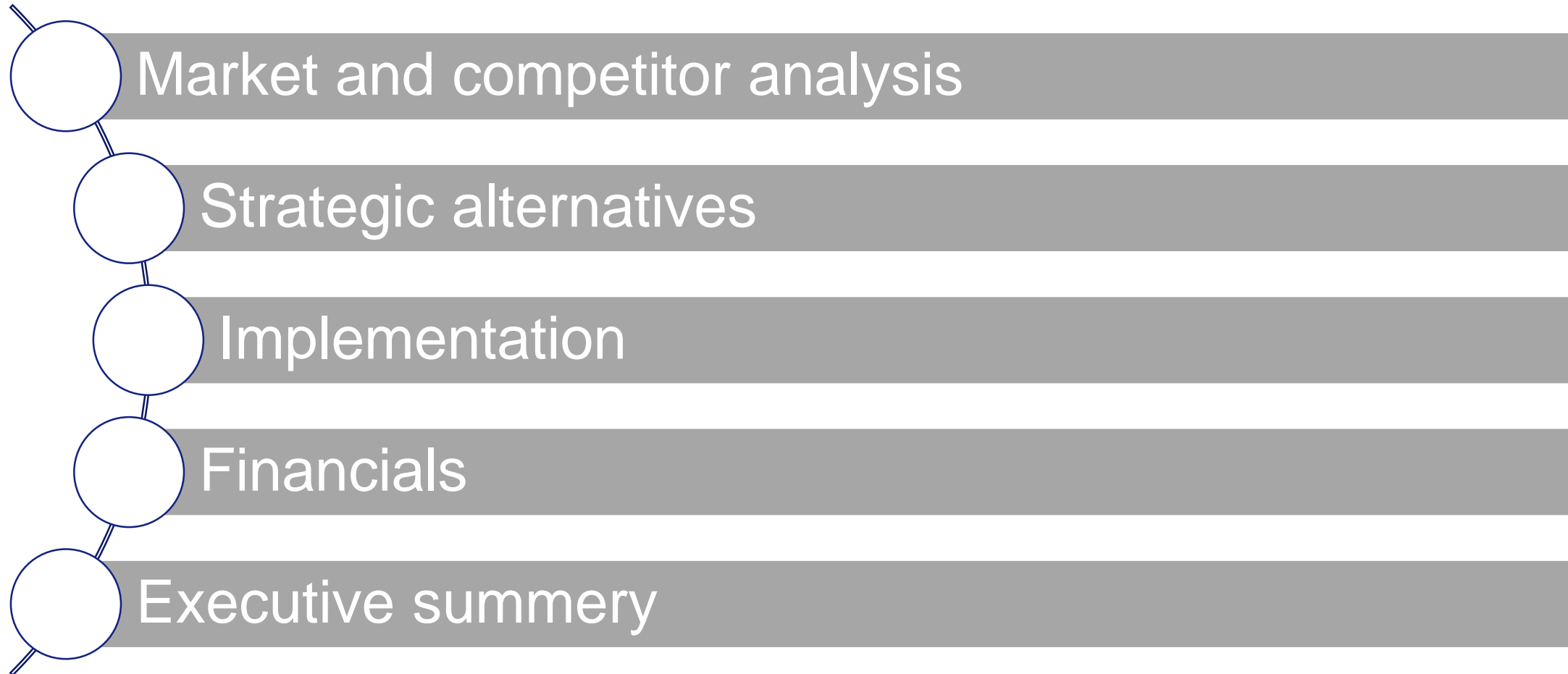
What to tackle?

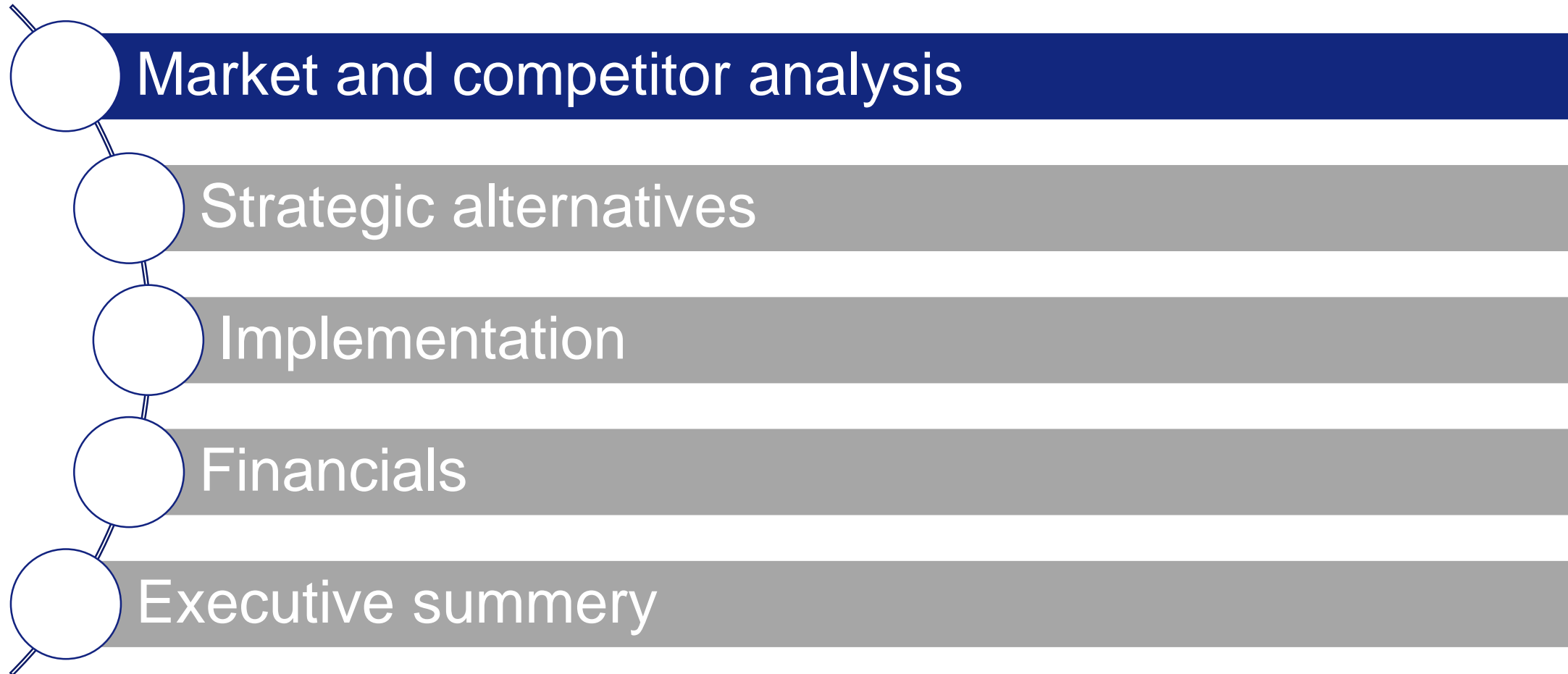
How can Birchbox adjust their business model in order to stay competitive and increase its profitability?

How to solve?

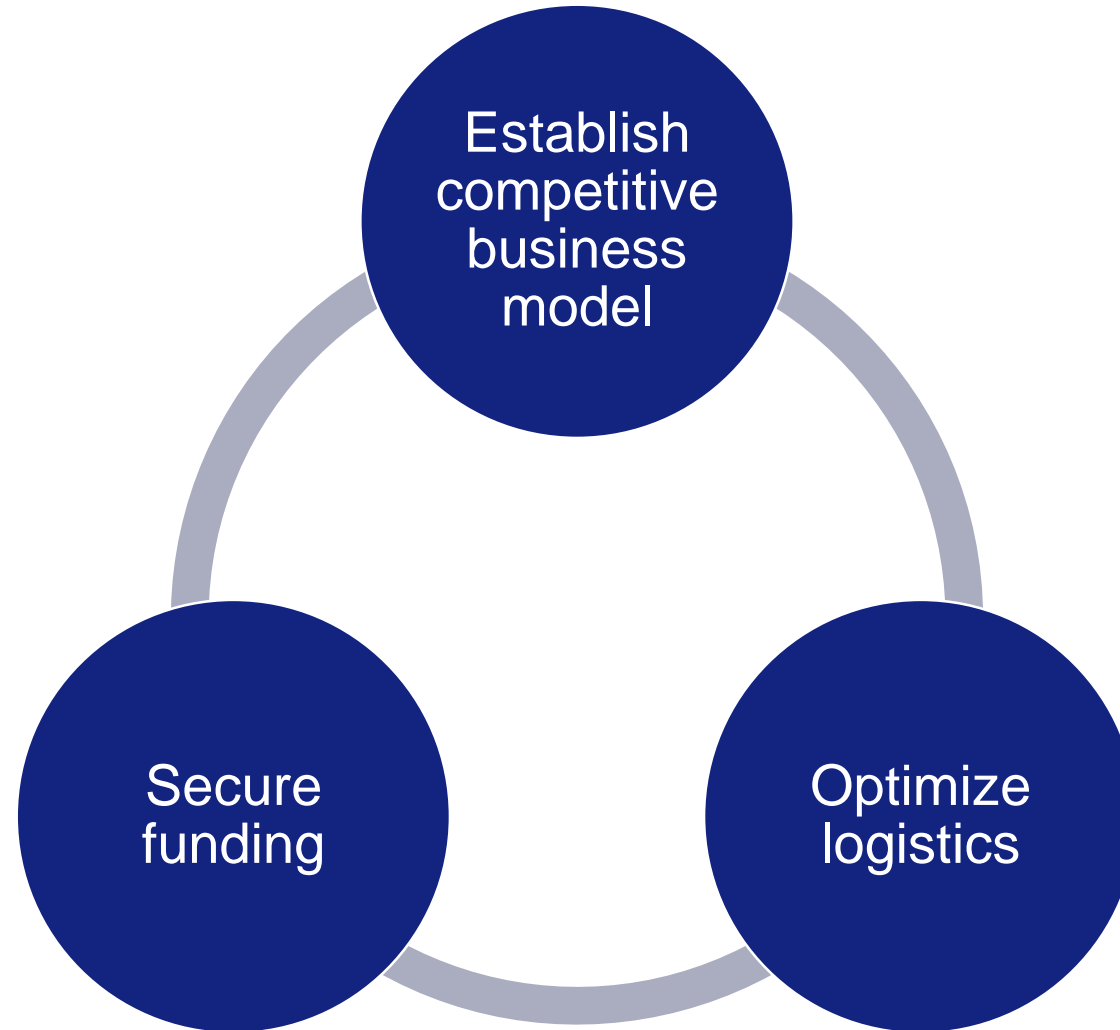
Shift stronger towards full-sized products as well as focus stronger on men, allowing Birchbox to:

- Increase profitability
- Decrease logistic costs
- Increase automatization



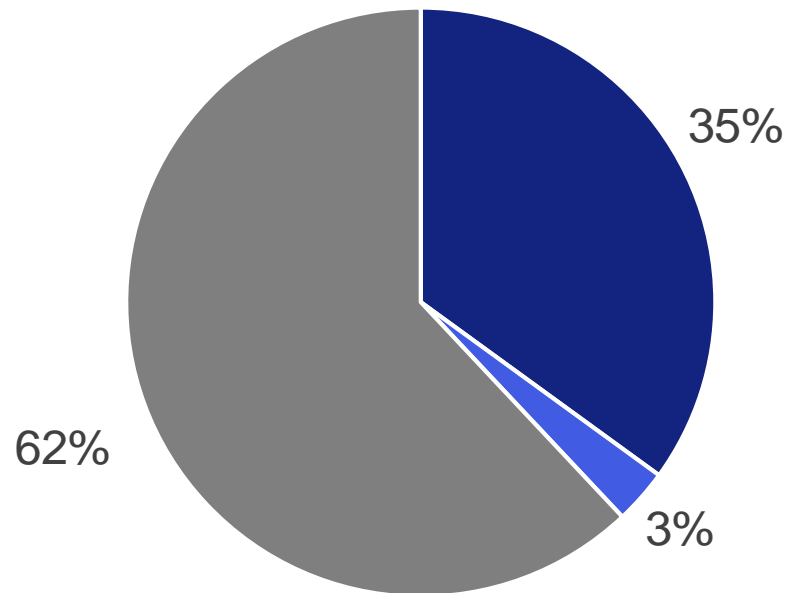


Key Issues



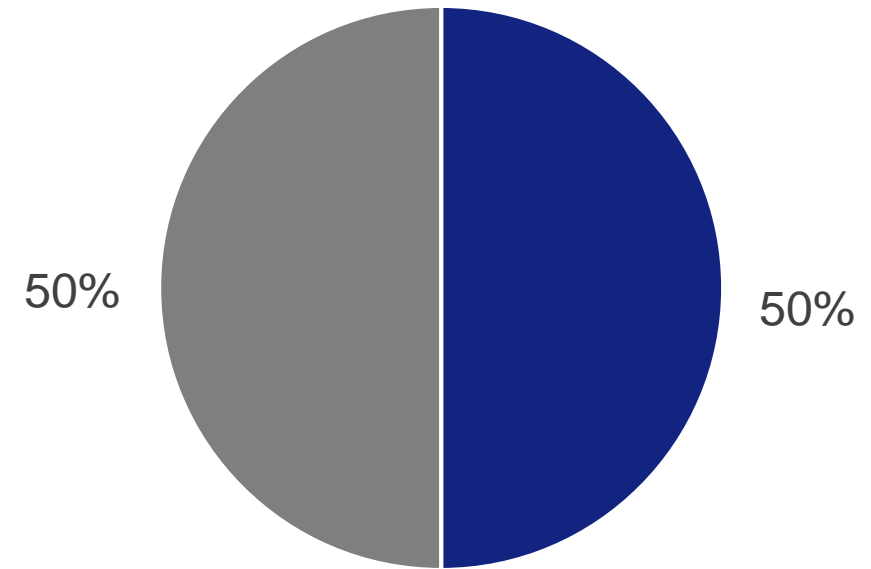
35% of revenues are made through subscribers who buy full-sized products which is more profitable for Birchbox than sample boxes

Revenues of USD 125m in 2016




- Full-sized products from subscribers
- Full-sized products from non-subscribers
- Sample boxes

One million subscribers in 2016

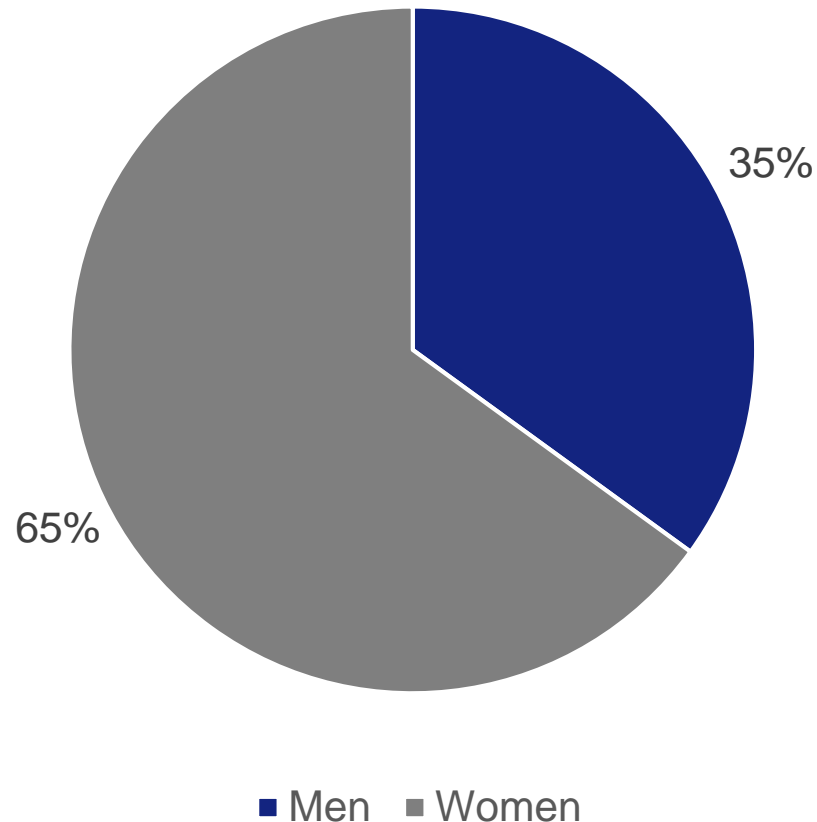


- Full-sized products
- Sample boxes

 Loss of 7% in April

Men's boxes are more attractive whereas they contribute less than women's boxes of total revenues

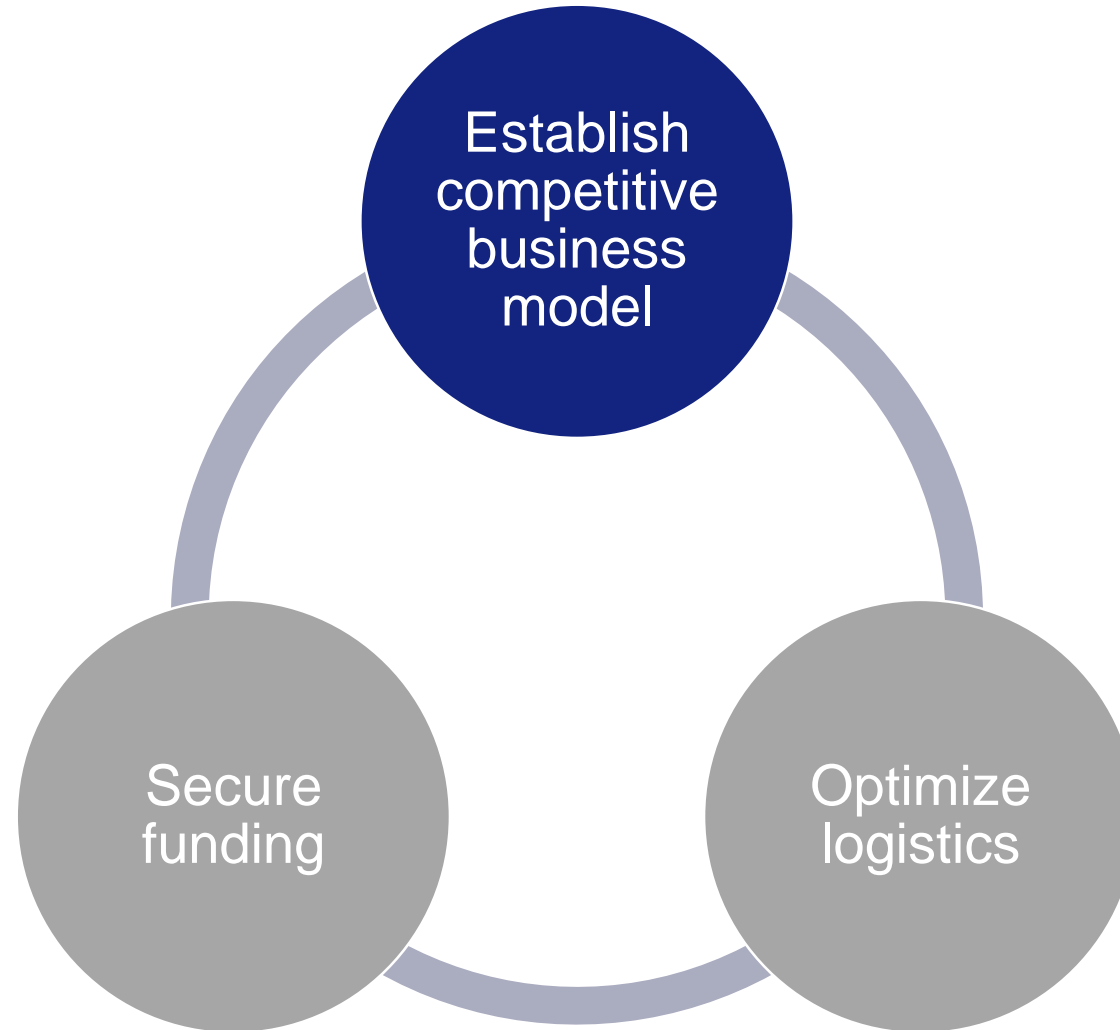
Revenues divided by gender



Advantage of men's boxes

- Higher price than women's boxes:
 - Price of women's box: USD 20
 - Price of men's box: USD 10
- Men spent 10% more than women
- Men converted faster than women
- High growth of 15 times until 2016

Key Issues



Need to target the right customer through the right channel in order to be competitive

Women

Active

- 20% of market
- Information sensitive
- Don't mind driving to stores and time to explore products

Passive

- 80% of market
- Less focussed on brand ingredients etc.
- Want convenience

Men

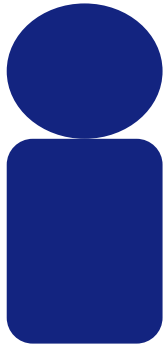
Active

- <5% of the market
- Information sensitive
- Curious about new products

Passive

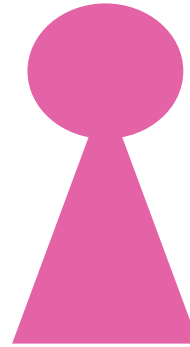
- >95% of market
- Less price sensitive
- Want convenience
- Habits of staying with products for a longer time

Main focus is currently on target group of women who need specific beauty products relating to their needs



Peter

?



Sarah

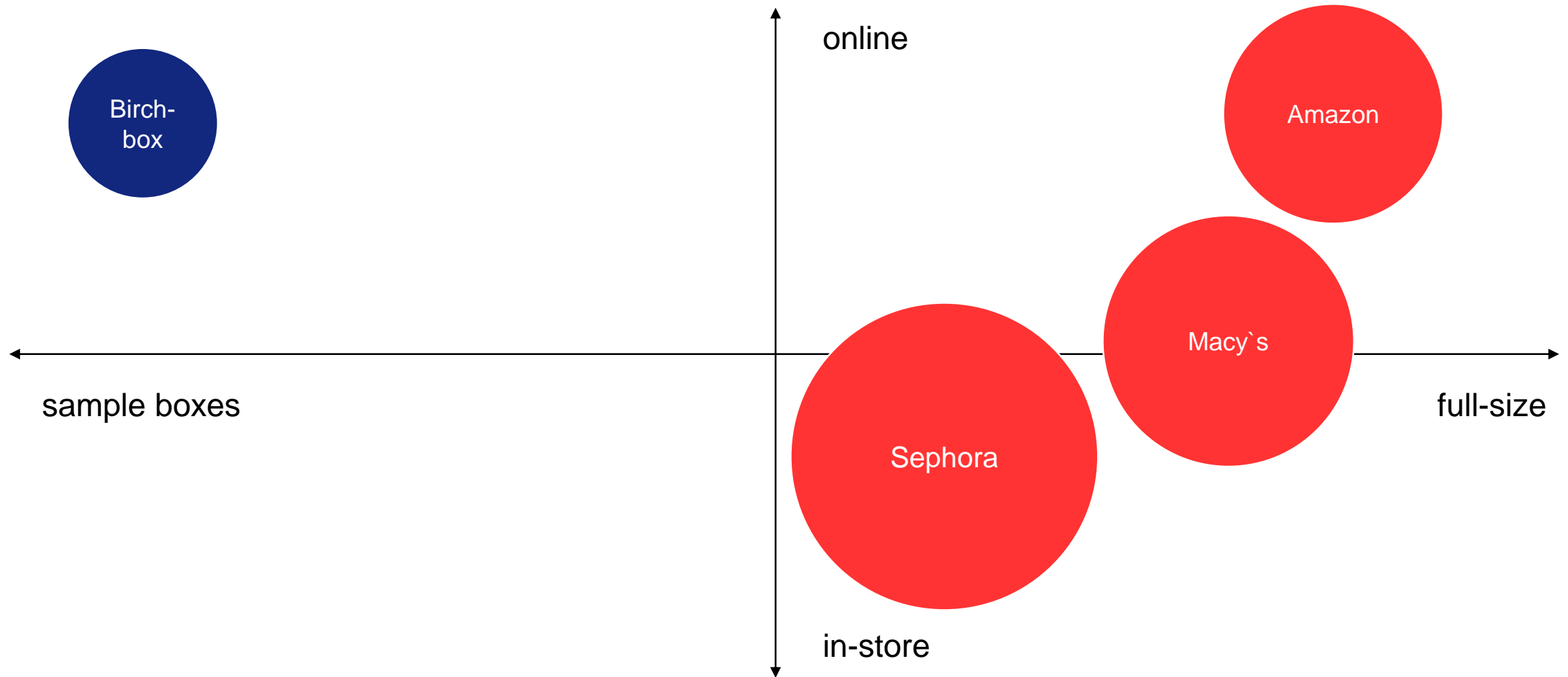
- 31 years
- \$ 80,000 income
- Passive customer
- Currently only box subscription



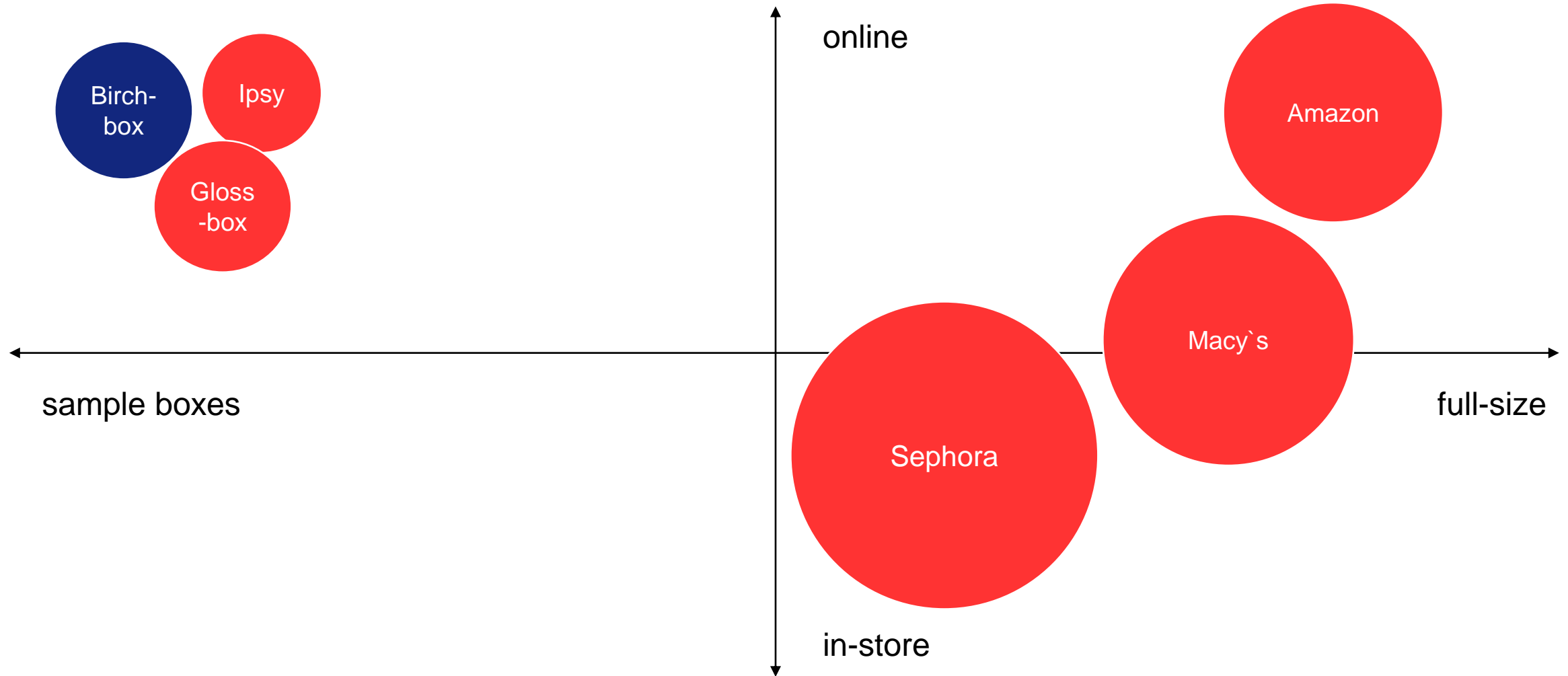
Lisa

- 31 years
- \$ 80,000 income
- Passive customer
- No longer subscriber

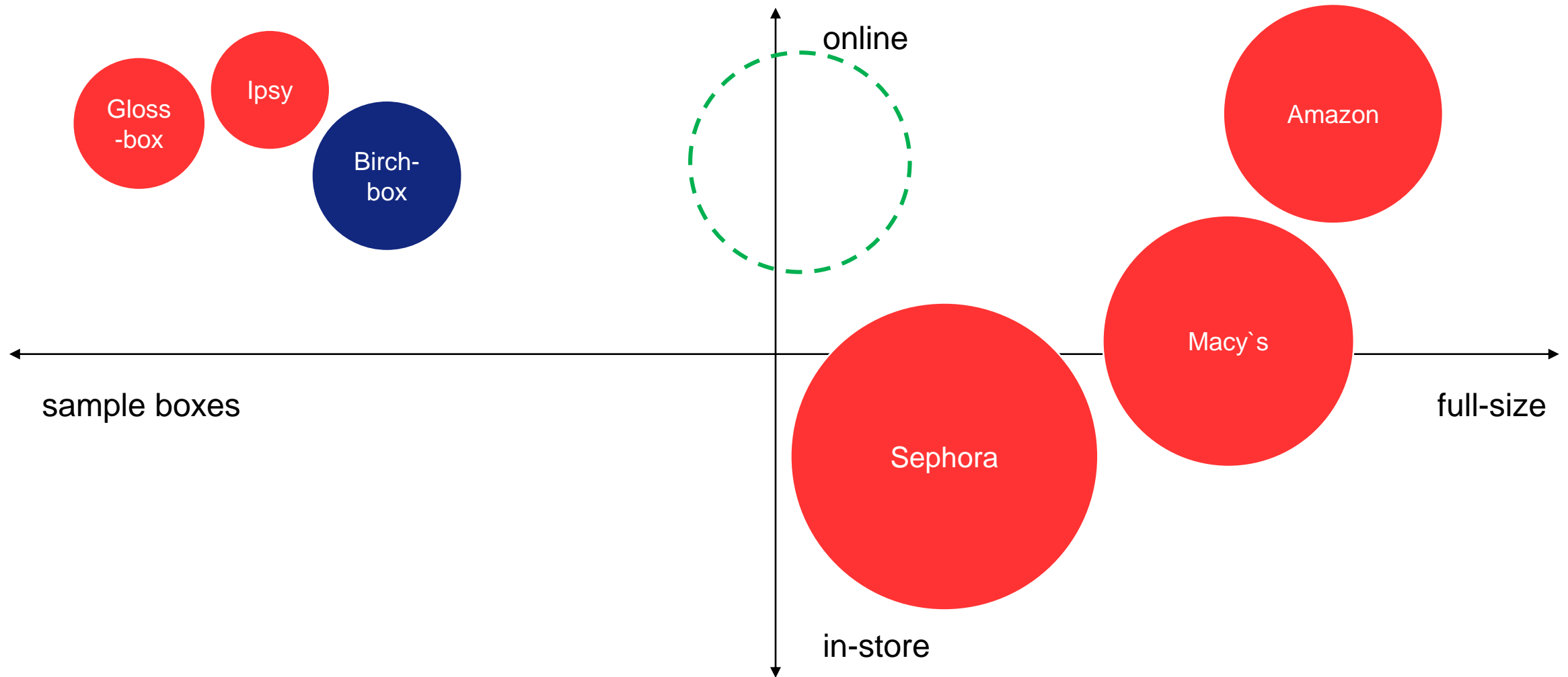
Birchbox had competitive advantage by entering the market in 2010 without having competition in this specific market



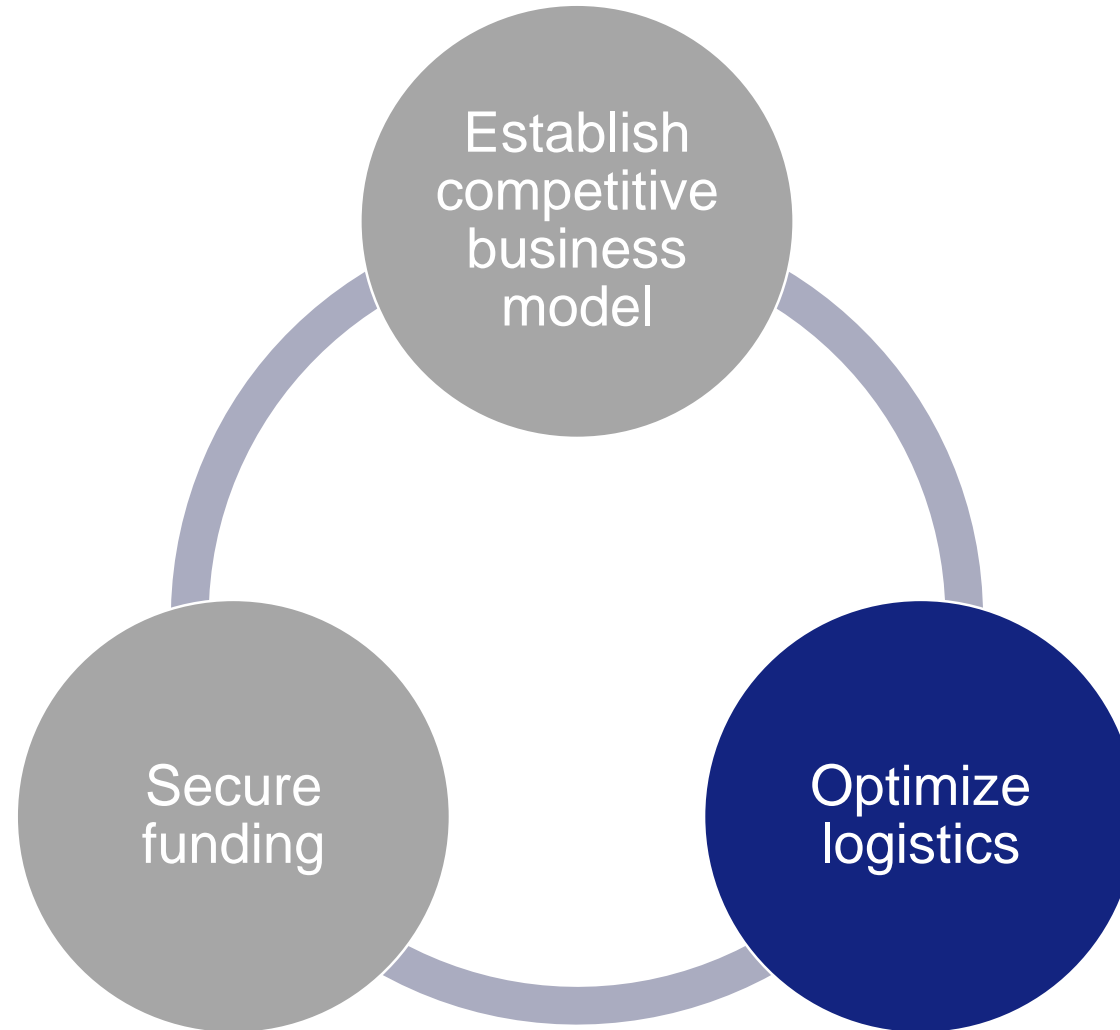
Since 2010 more competitors entered the market as clones which led to a 7% fall in subscriptions



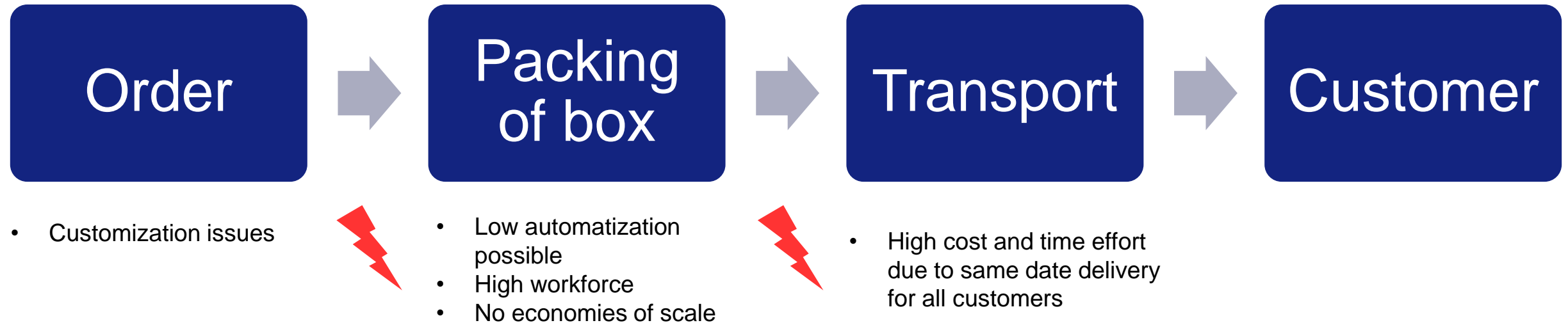
U.S. beauty market is high competitive and complex but it also offers room for positioning in less competitive landscape

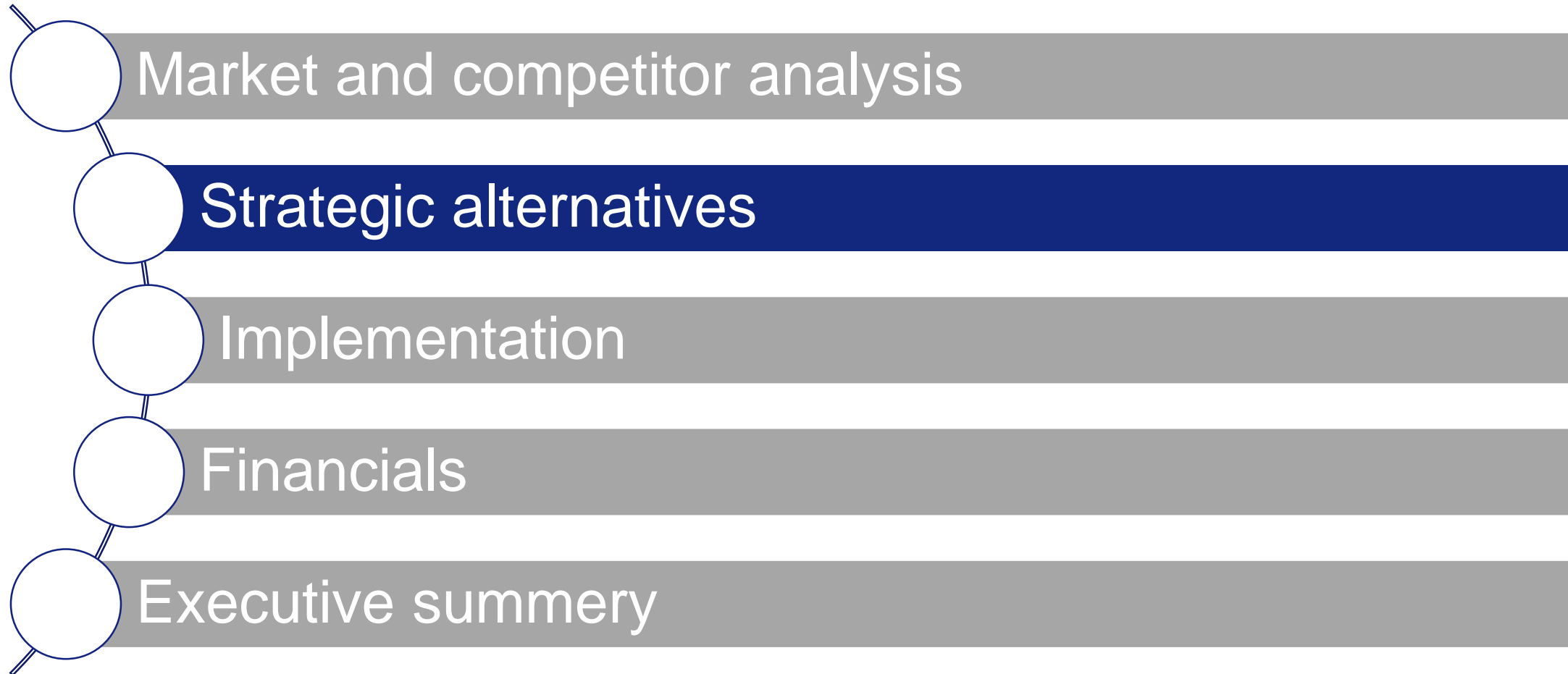


Key Issues

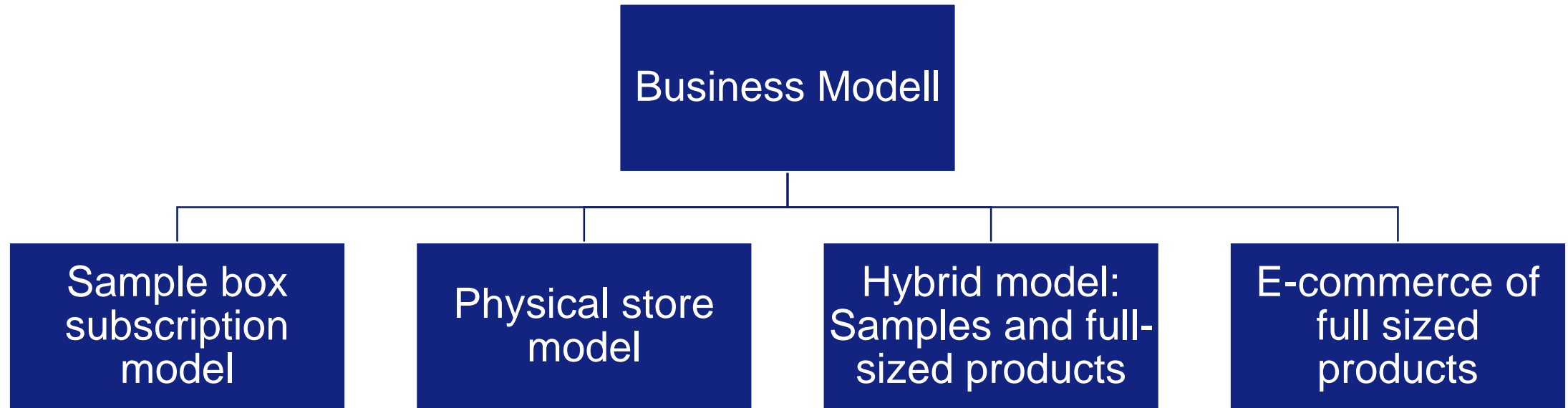


High complexity within product portfolio leads to high costs and time effort in logistics





What business model should Birchbox establish in order to win back market in competitive landscape?



Clear business model needs to be decided on in order to differentiate from competition and generate profits

- 1 Sample box subscription model
- 2 Physical store model
- 3 Hybrid model: Samples and full-sized products
- 4 E-commerce of full sized products

Sample box subscription model involves high personalization and need for loyalty

1

Sample box subscription model

- Focus on sampling boxes
- Increase personalization of boxes
- Increase product offering to broaden customer surprise

Rationale: Leverage on current customer preferences of surprise and customization

Physical store model focusses on main distribution channel for cosmetic products

2

Physical store model

- Strongly increase number of physical stores
- Sell mainly full-sized products in stores
- Direct contact to customer

Rationale: Most cosmetic products are still sold in store and logistic costs could be decreased

Hybrid model focusses on winning customers through subscription of samples and upgrading them to full-sized products

3

Hybrid model: Samples and full-sized products

- Sell boxes with increased incentives to buy full sized products
- Case ordering process from sample to full size
- Move away from strong sample box competition
- Decrease logistic costs through increase of full size products

Rationale: Leverage on subscriber and profit on higher margin in full size business

Focus on growing e-commerce beauty business by selling mainly full-sized products in own online shop

4

E-commerce of full-size products

- Stop selling sample boxes
- Sell mainly full size products via online shop
- Decrease logistics efforts of sample boxes

Rationale: Increased profit through higher sales of full size products and reduced packaging costs

Clear business model needs to differentiate from competition, reduce logistic effort and generate profits

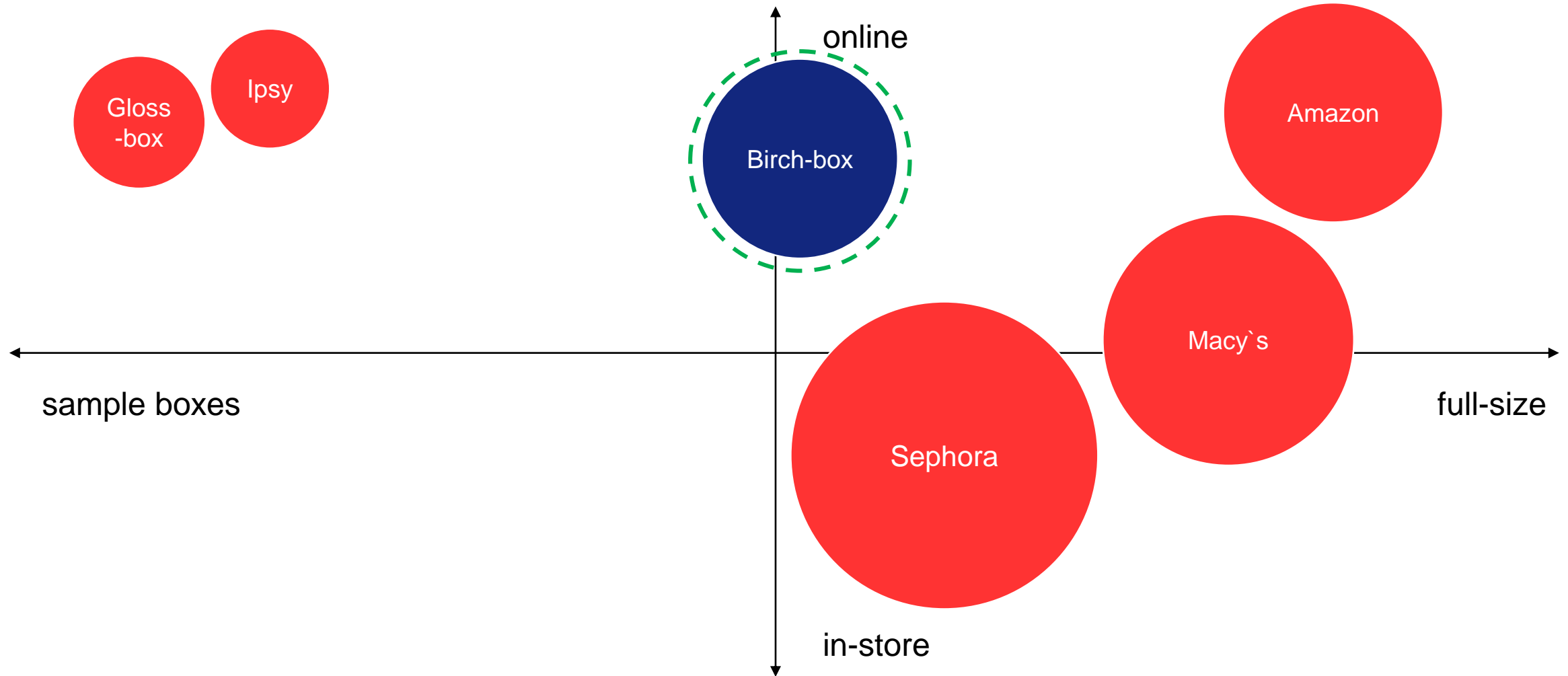
		Competitive situation	Logistics Effort	Profitability
		40%	30%	30%
1	Sample box subscription model	Bad	Bad	Medium
2	Physical store model	Medium	Medium	Bad
3	Hybrid model: Samples and full-sized products	Good	Medium	Medium
4	E-commerce of full sized products	Bad	Good	Medium

● Good
● Medium
● Bad

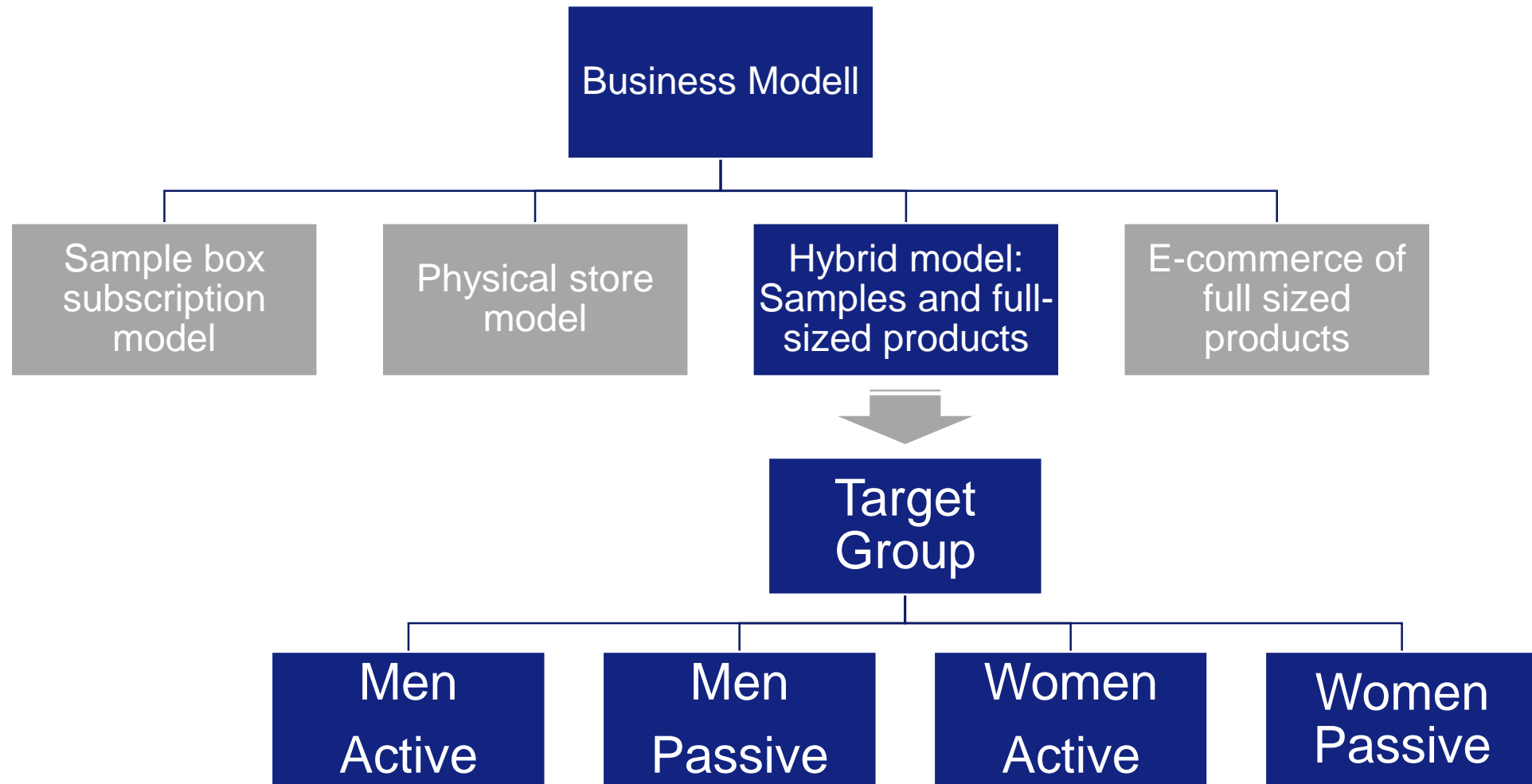
Upgrading customers from sample boxes to full-sized products offers the best opportunities regarding key criteria

		Competitive situation	Logistics Effort	Profitability
		40%	30%	30%
1	Sample box subscription model			
2	Physical store model			
3	Hybrid model: Samples and full-sized products			
4	E-commerce of full sized products			

U.S. beauty market is high competitive and complex but it also offers room for positioning in less competitive landscape



What target groups should the business model focus on?



To decide on who to target key criteria need to be considered: Price sensitivity, growth opportunity and competitive situation

Price sensitivity

- Lower price sensitivity increases profitability
- Better leverage for future investor discussion

Growth opportunity

- Stay competitive in cosmetic market
- Bigger size allows economy of scale effects

Competitive situation

- High competitive density leads to margin decrease
- Less competition will bring higher margins

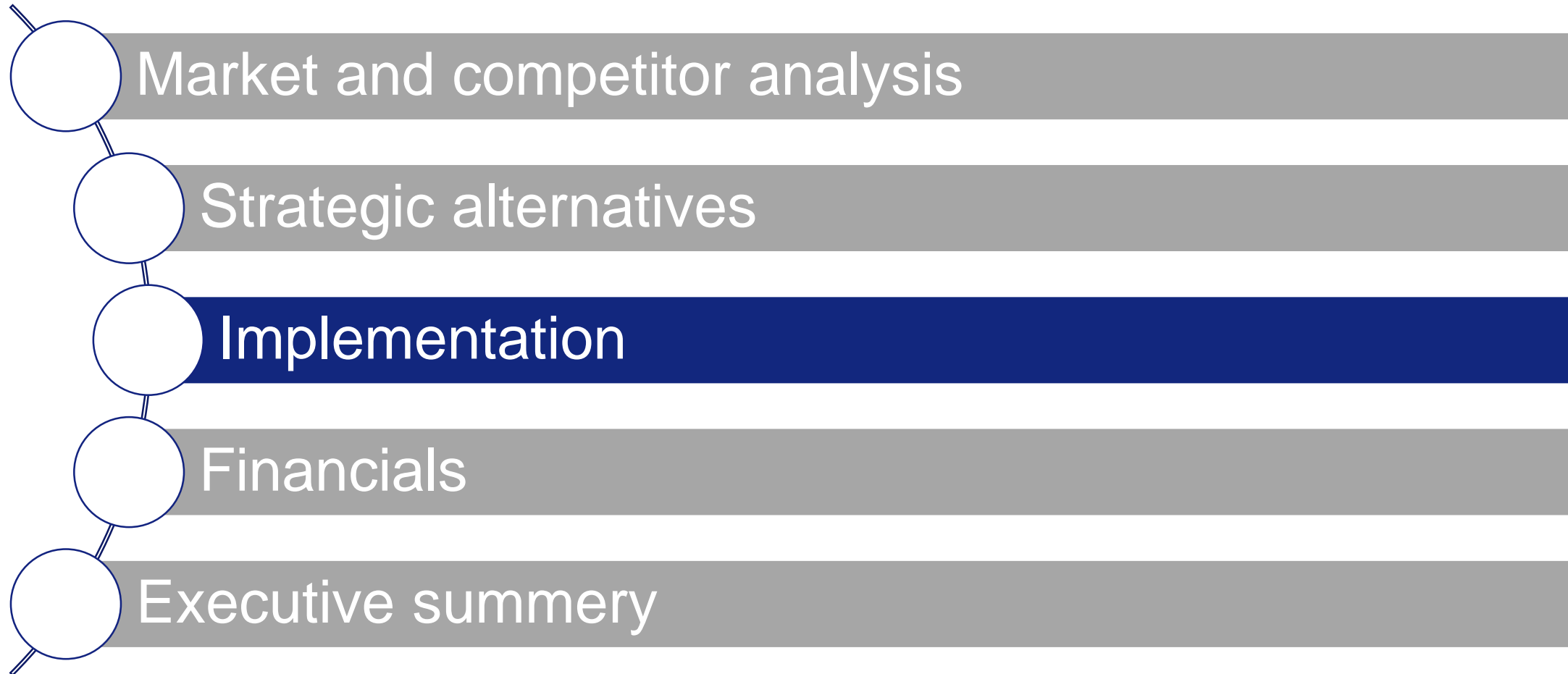
Clear business model needs to differentiate from competition, reduce logistic effort and generate profits

		Price sensitivity	Growth	Competitive situation
		40%	40%	20%
1	Men active	Medium	Good	Good
2	Men passive	Good	Good	Good
3	Women active	Bad	Medium	Bad
4	Women passive	Medium	Medium	Medium

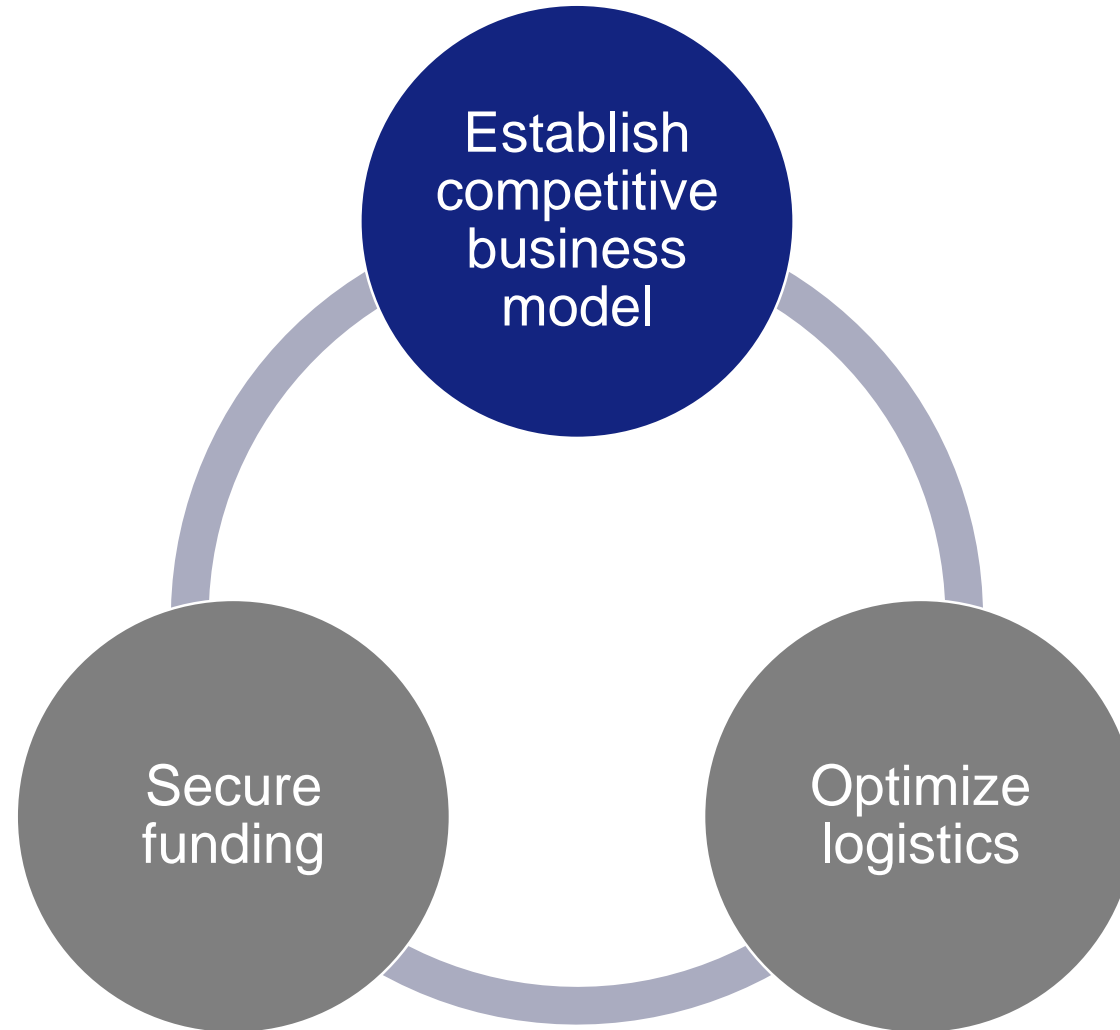


Focus on target group of men who are passive shoppers in order to generate growth and keep focus on current women segment

		Price sensitivity	Growth	Competitive situation
		40%	40%	20%
1	Men active	●	●	●
2	Men passive	●	●	●
3	Women active	●	●	●
4	Women passive	●	●	●



Key Issues



Finding one Solution for several different customers



Peter

- 35 years
- Above \$ 100,000 income
- Passive customer
- Needs convenience

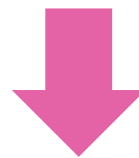


Needs a convenient solution to get his cosmetic products



Sarah

- 31 years
- \$ 80,000 income
- Passive customer
- Currently only box subscription



Could be interested in full-size products



Lisa

- 31 years
- \$ 80,000 income
- Passive customer
- No longer subscriber



Bring her back to Birchbox

Developing an App with a specific Algorithm to fulfill customer needs



- Peter is already a subscriber of box
- Can log-in to App
- Sees his past boxes online
- Can directly with one fingertip buy full size products
- Algorithm calculates what Peter prefers
- After 6 Months Peter is asked if he wants to get full-sized products as subscription



- Sarah is already a subscriber of box
- Can log-in to App
- Sees her past boxes online
- Can directly with one fingertip buy full size products
- Algorithm calculates what she prefers
- After 6 Months Sarah is asked if she wants to get full-sized products as subscription
- Sarah can take a quiz to get her products even more fitted to her



- Lisa is no longer a subscriber of box
- Advertise with our steady content marketing App to get Lisa back → showing benefits of App
- Lisa can take a quiz to get her products even more fitted to her

App provides Algorithm with information

The App is handy for the customers using QR-codes

Sections in
App

What does that mean:

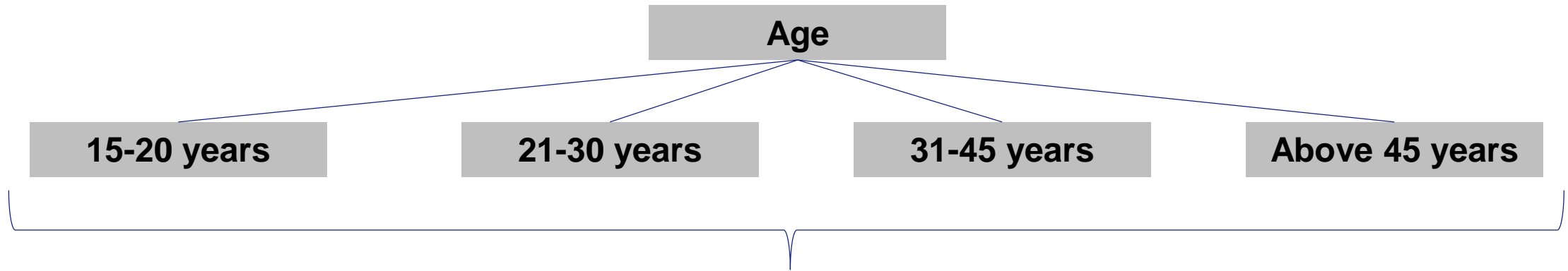
Online
Shop

- Offering regular boxes and full-size products

Log-In

- Past boxes
- QR Scanner for full-size products
- Showing suitable products for females due to participation in quiz

The quiz for female customers figures out specific customer needs



- Specific suggestions regarding labels and product offerings targeted to the needs
- Especially cosmetic start-ups with interesting products to separate from competition like Sephora

Pricing opportunities tailored to customer needs

Products

Subscription Box

Full-size products

Pricing

- \$ 10 per month

- Per product

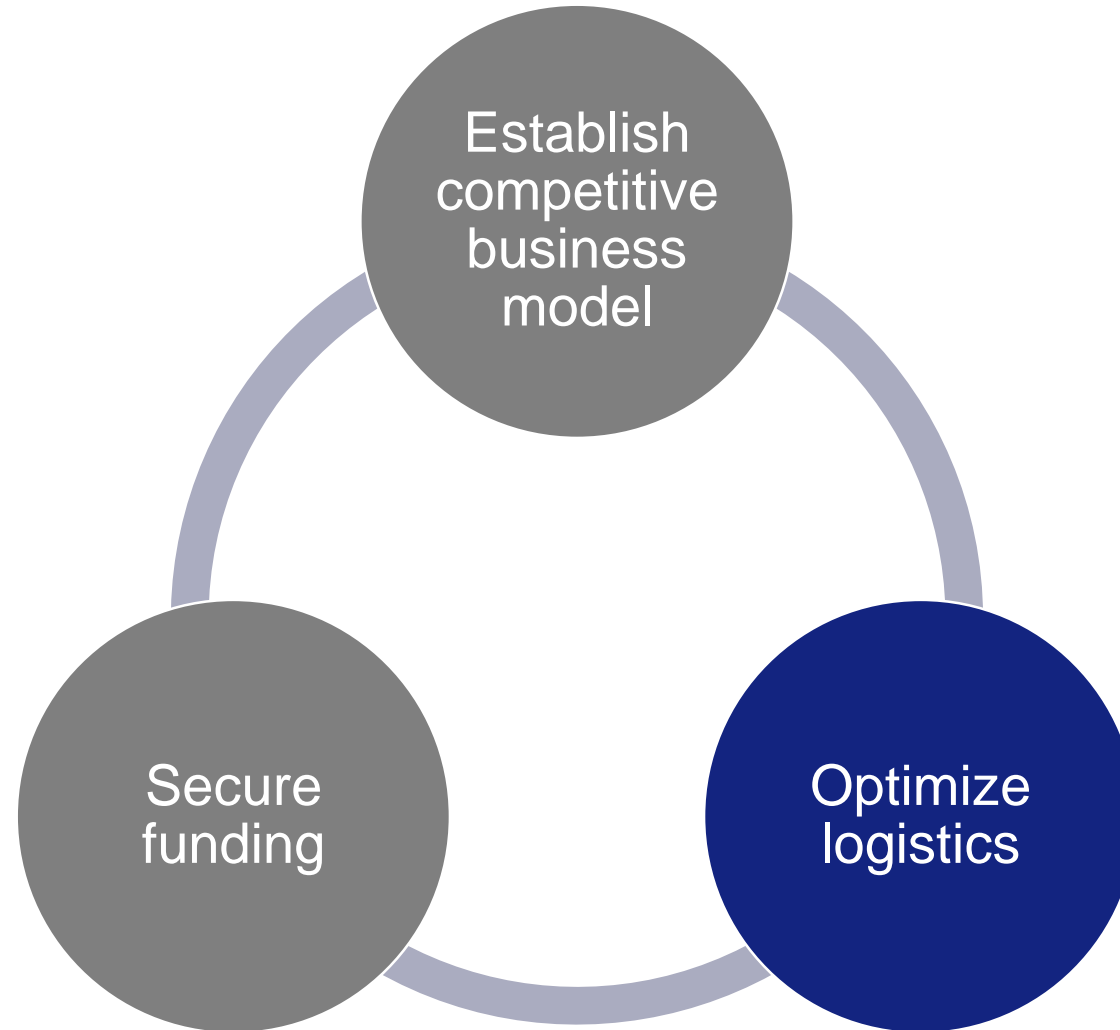


*After 6 months has
Algorithm learned*

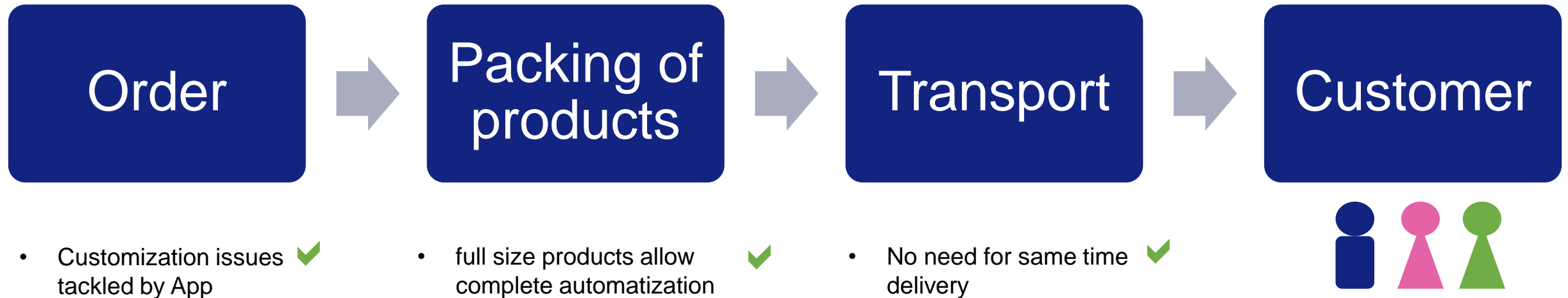
**Developed
pricing**

- Products can be bought by subscription pricing depends on products and is tailored to customer

Key Issues



By reducing high complexity within product portfolio costs and times can be reduced in logistics



Long term goal is complete automatization of full-sized products

Step 1: 2018

Install packaging line with manual input of products for full-sized products

Automatization:

- Final packaging
- Labeling
- Boxing in regional transport boxes

Manual:

- Sourcing full size products
- Placing in time packing line




Step 2: 2020

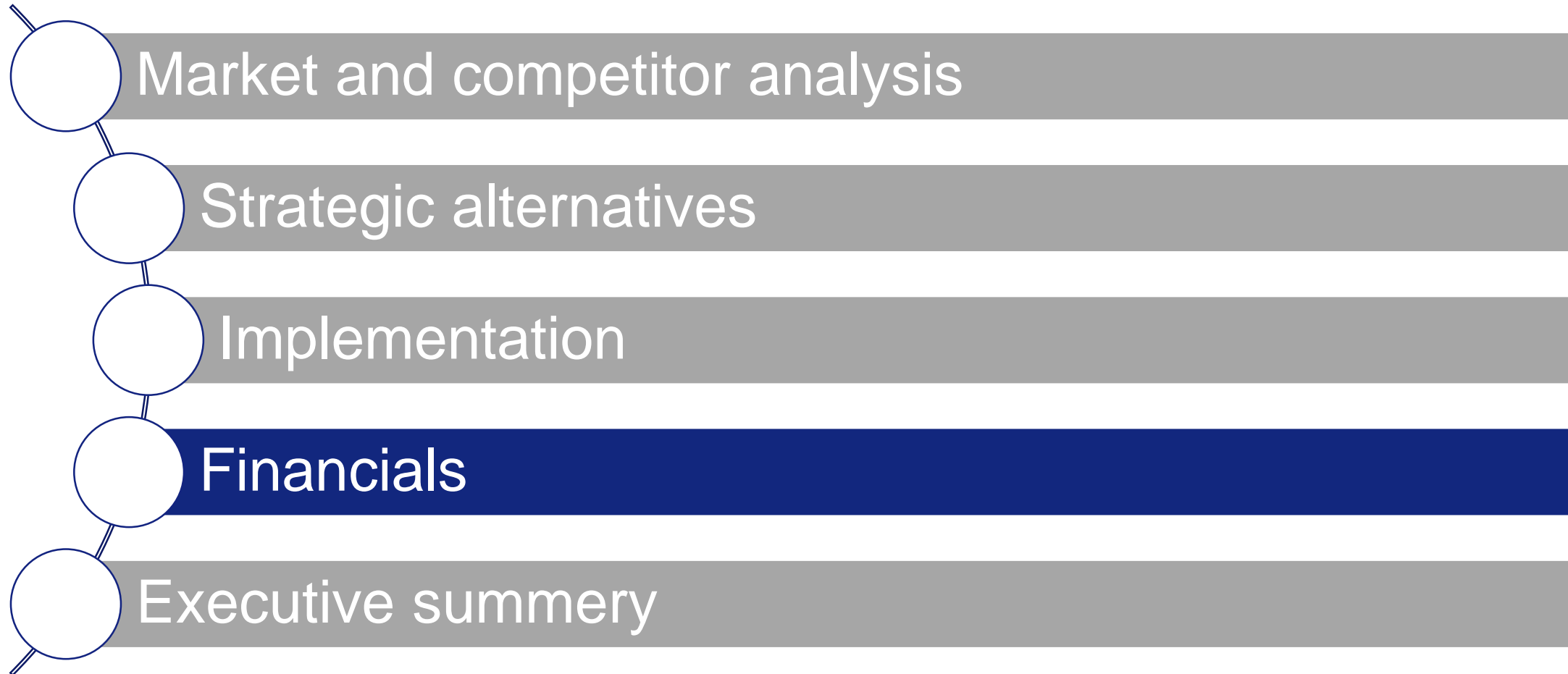
Install robotics for sourcing and placing of the products in filling line

Automatization:

- Sourcing
- Placing
- Packaging
- Labeling

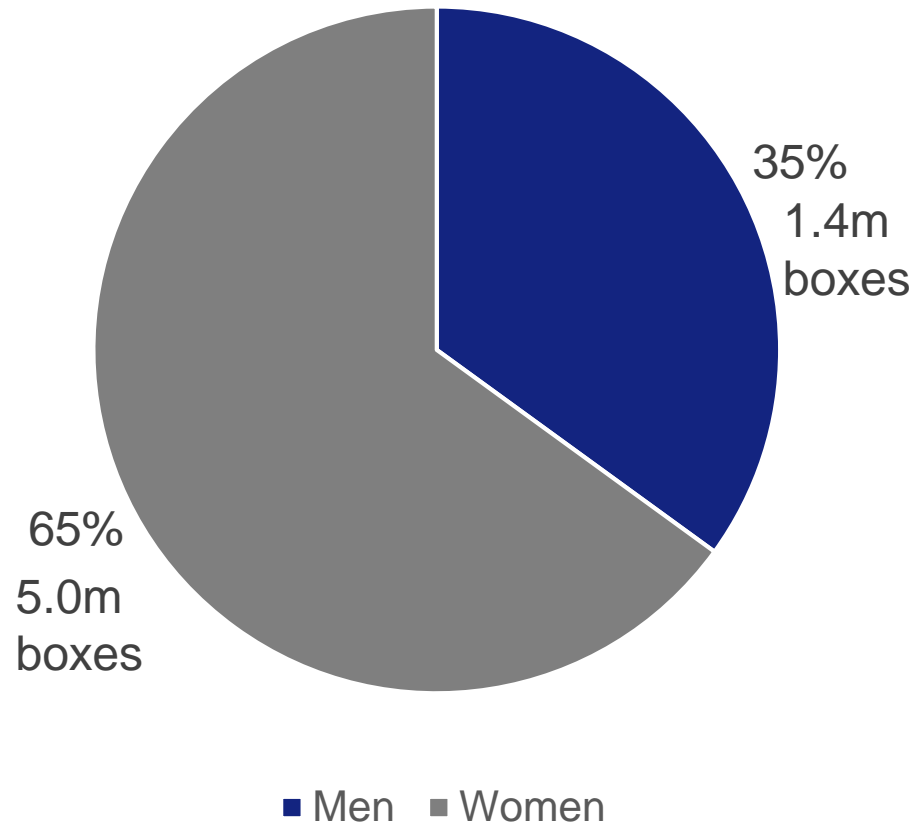
Total costs of 12 million during the next two years to develop the business

Activities	2017	2018	2019	2020	costs
Developing App <ul style="list-style-type: none">• Content (quiz)• Algorithm<ul style="list-style-type: none">• Connect to IT specialists					\$ 8 million
Optimizing Logistics <ul style="list-style-type: none">• Less and less samples• Automatization					\$ 4 million
Funding <ul style="list-style-type: none">• Presenting new product offering and technology to investors					Preparation with current staff
					\$ 12 million

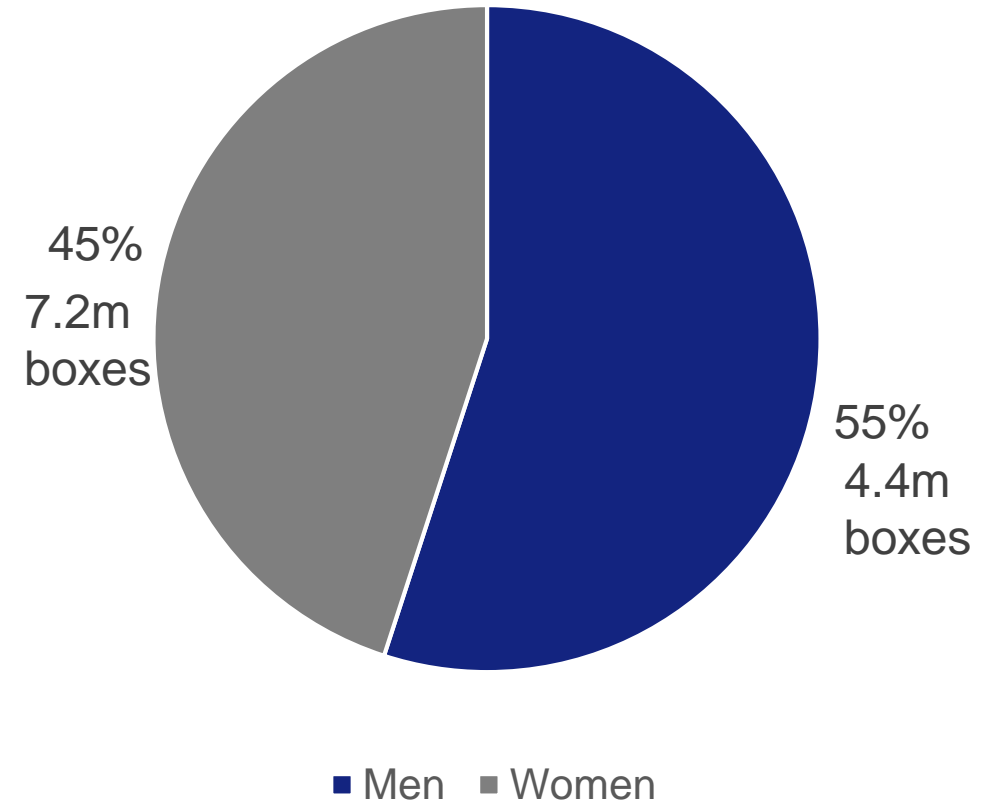


Increase number of boxes sold to men

Revenues by boxes in 2016

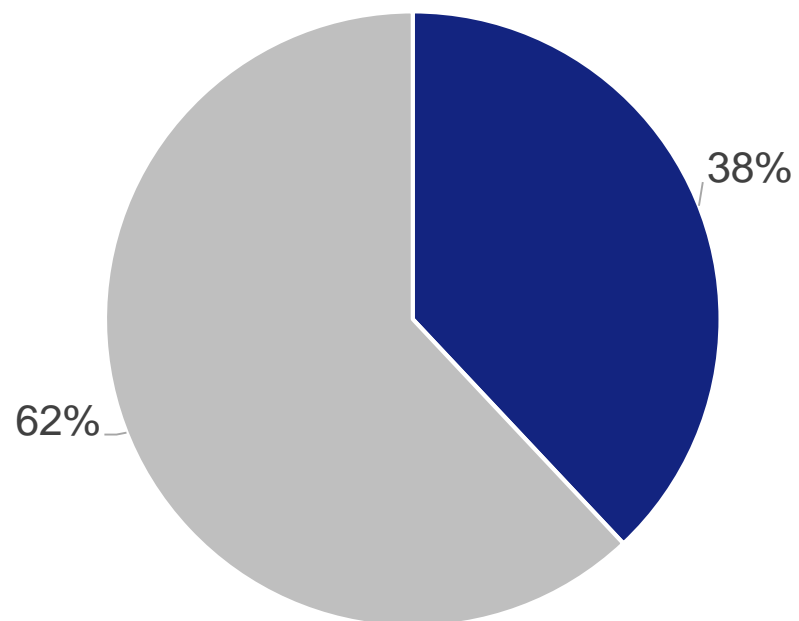


Revenues by boxes in 2020



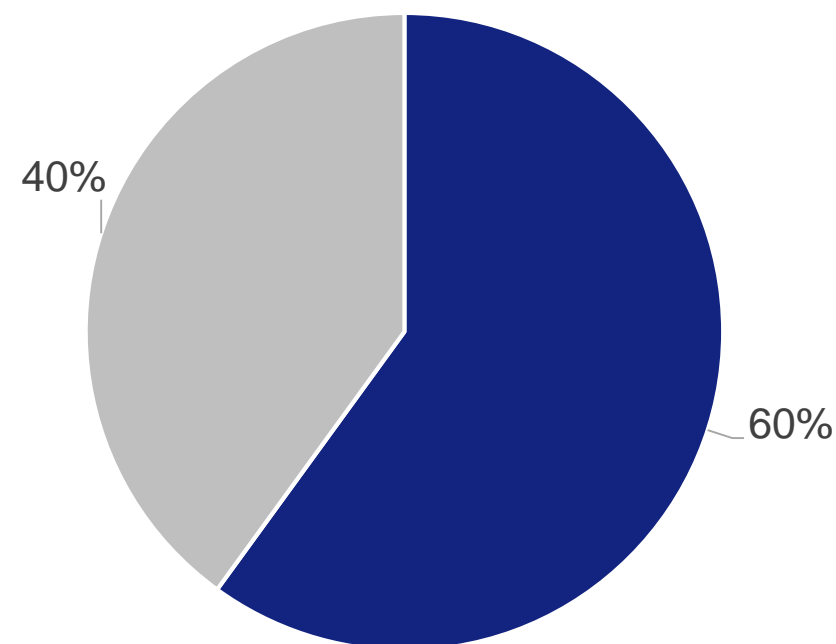
Increase number of full-sized products

Total revenues in 2016



■ Full-sized products ■ Sample boxes

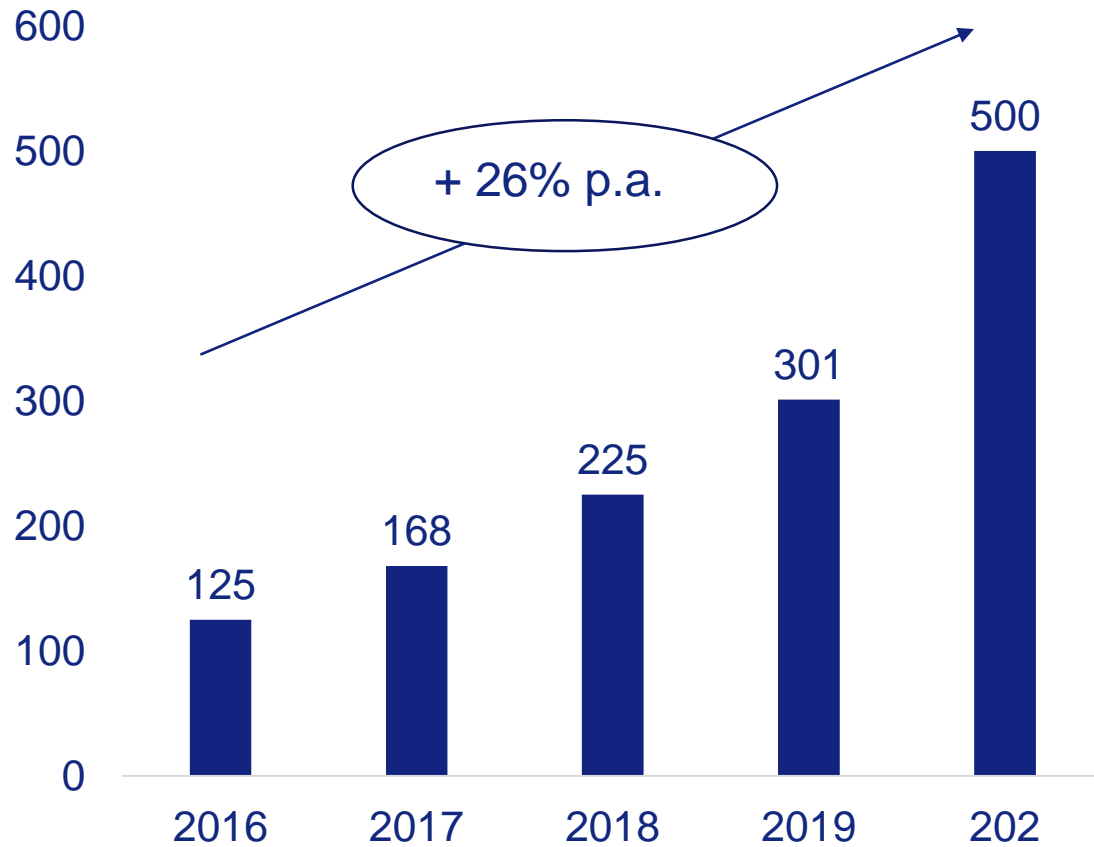
Total revenues in 2020



■ Full-sized products ■ Sample boxes

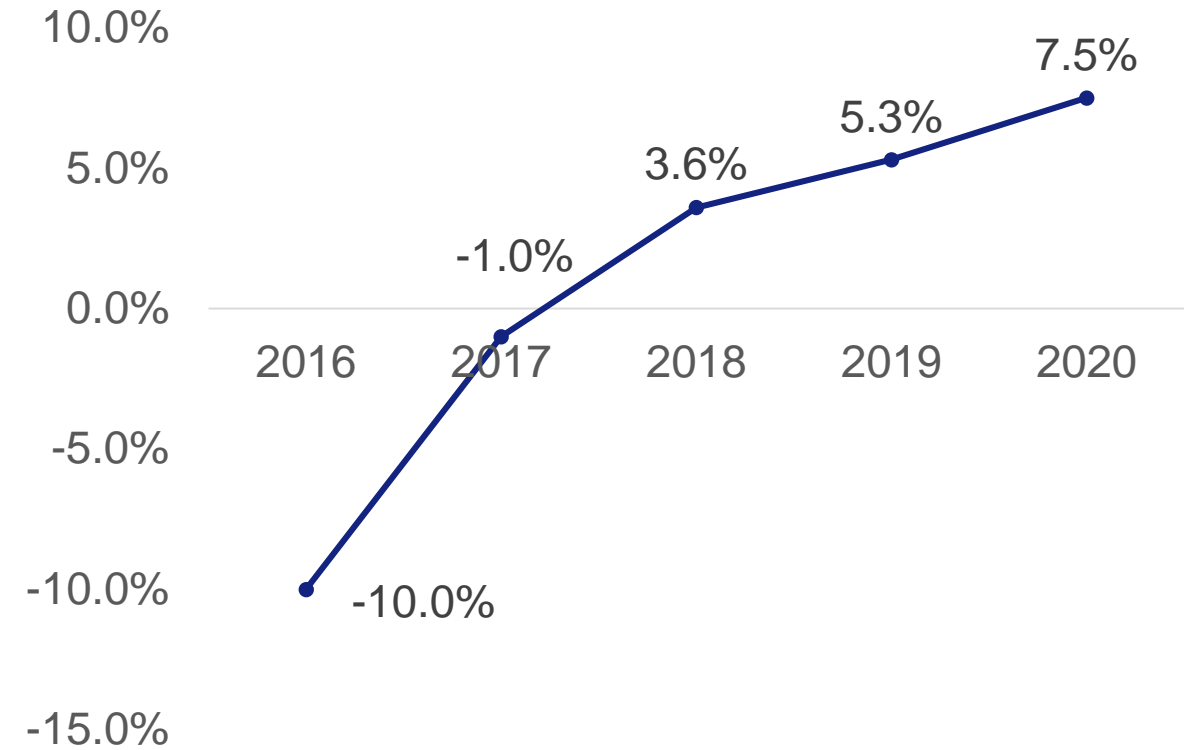
Achieve strong revenue and profitability growth within the next four years

Revenue outlook



In million USD

Profitability Outlook



Convince investors for new funding rounds

Costs

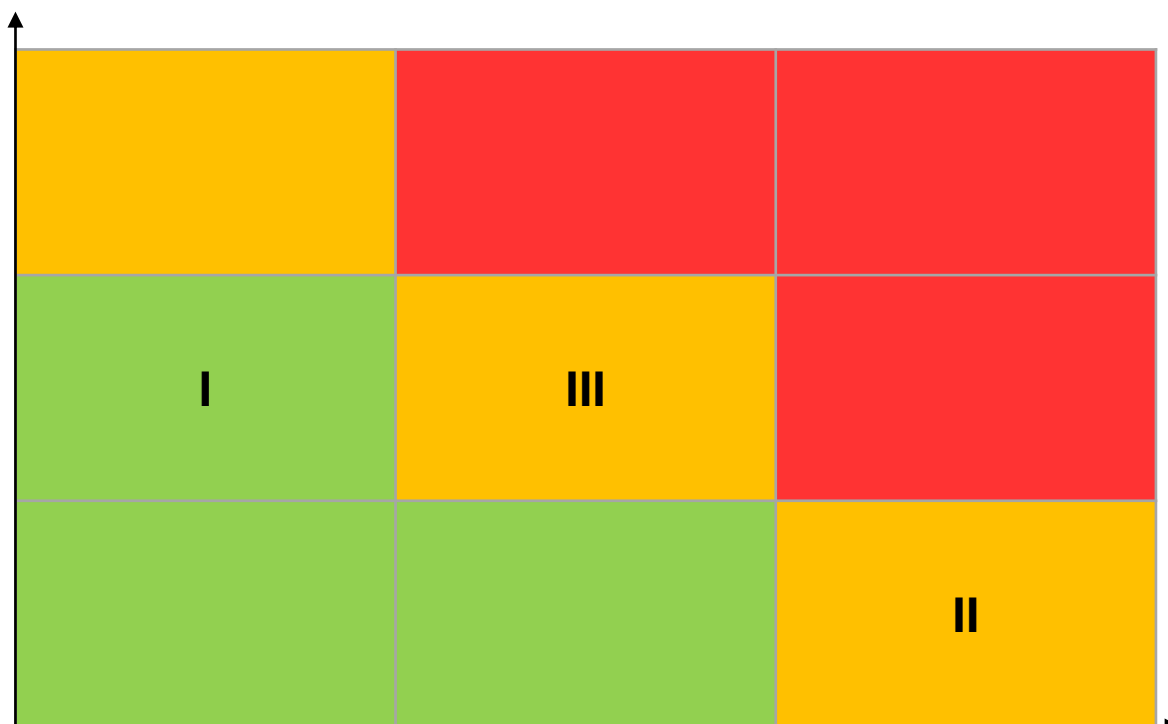
- USD 12m costs of strategy
- Venture debt repayment

Fundings

- **Convince existing or new investors** for new funding rounds with strong revenue and profitability growth
 - Already 3 rounds of funding amounting to USD 87m
- **Requirements:**
 - Min. USD 20m funding
 - First rounds starting in 9/2017
 - Providing of add-on services
- **Consideration:**
 - Milestone-Agreement will lead to a need for strong budget control
 - Continuous reporting to investors

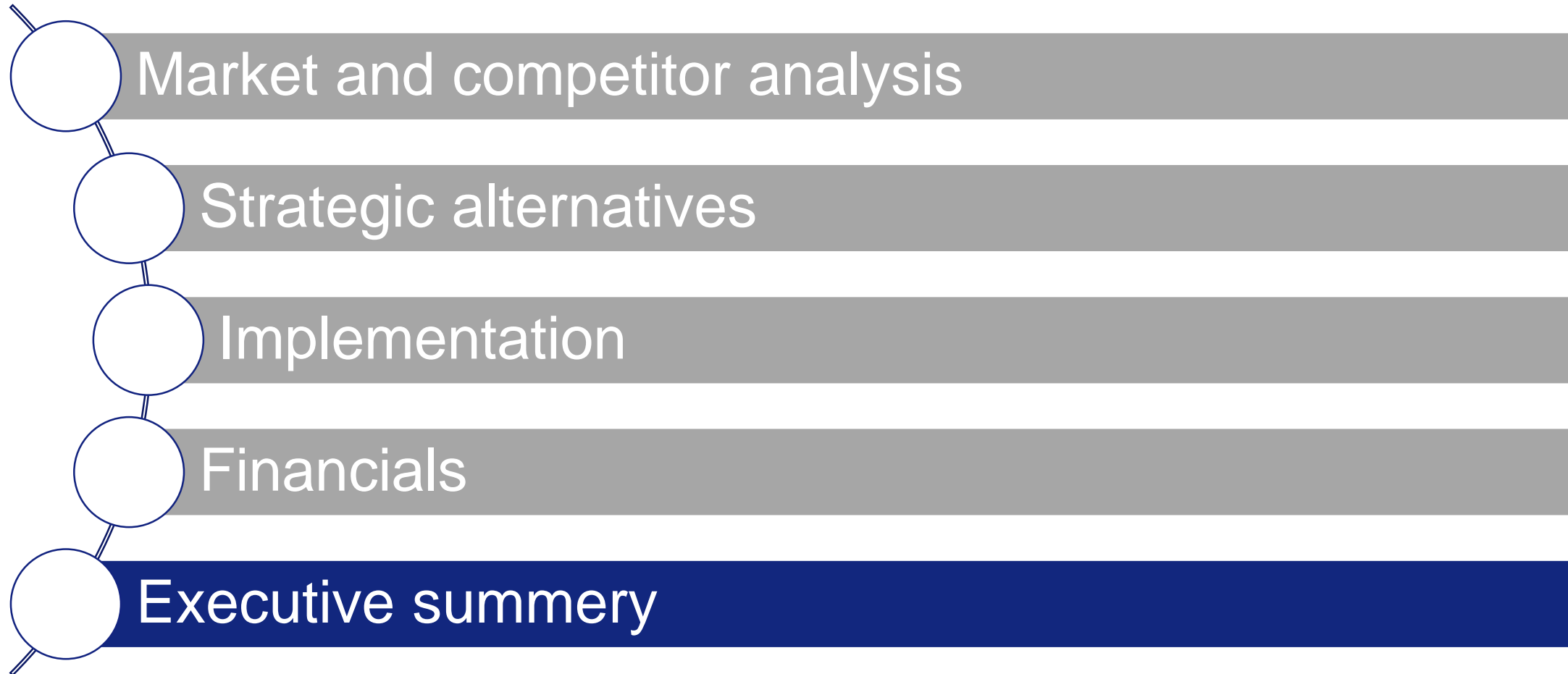
Risks and mitigation

Impact



Probability

- I. Issues regarding app and algorithm development
→ Agile project management
→ close connection to IT specialists
- II. Competition develops in same direction
→ Fast pace in project management
→ Advantage of Birchbox as startup
- III. Current investors stop funding
→ Pitching for new investors



Executive summery

Action

1. Stronger focus on full sized products
2. Stronger focus on men as target group
3. Increase automatization

Timing

1. Start now
2. Start now
3. Start 2018 finalizing 2020

Results

1. Increase profitability, decrease logistic costs
2. Decreased competition leading to higher margins
3. Increase use of robotics will decrease cost of labor