

Birchbox: Getting a make-over

Adnan Ali | Vannessa Karras | Anne Morinville | Rex Parappilly

JMSB consulting

Discovery retailing

Subscription model

How can Birchbox sustain growth and become profitable?

Fierce competition

Low conversion rate

Subscription-based to subscription-“bait”

Full focus on on-line

- Improve customization
- Market effectively to men and women
- Retrench stores and private label

Increase customer conversion

- Focus loyalty program on full-size products
- Free shipping on orders over \$50
- Promotions for full-sized products

Renegotiate with partners

- New makeup products (not drugstore)
- New, more balanced contracts
- First access to products

Subscription-based to subscription- “bait”

Full focus on on-line

- Improve customization
- Market effectively to men and women
- Retrench stores and private label

Increase
C

9.5M EBIT now

us loyalty program
e ship on o
motio for full

79.5M EBIT 2020

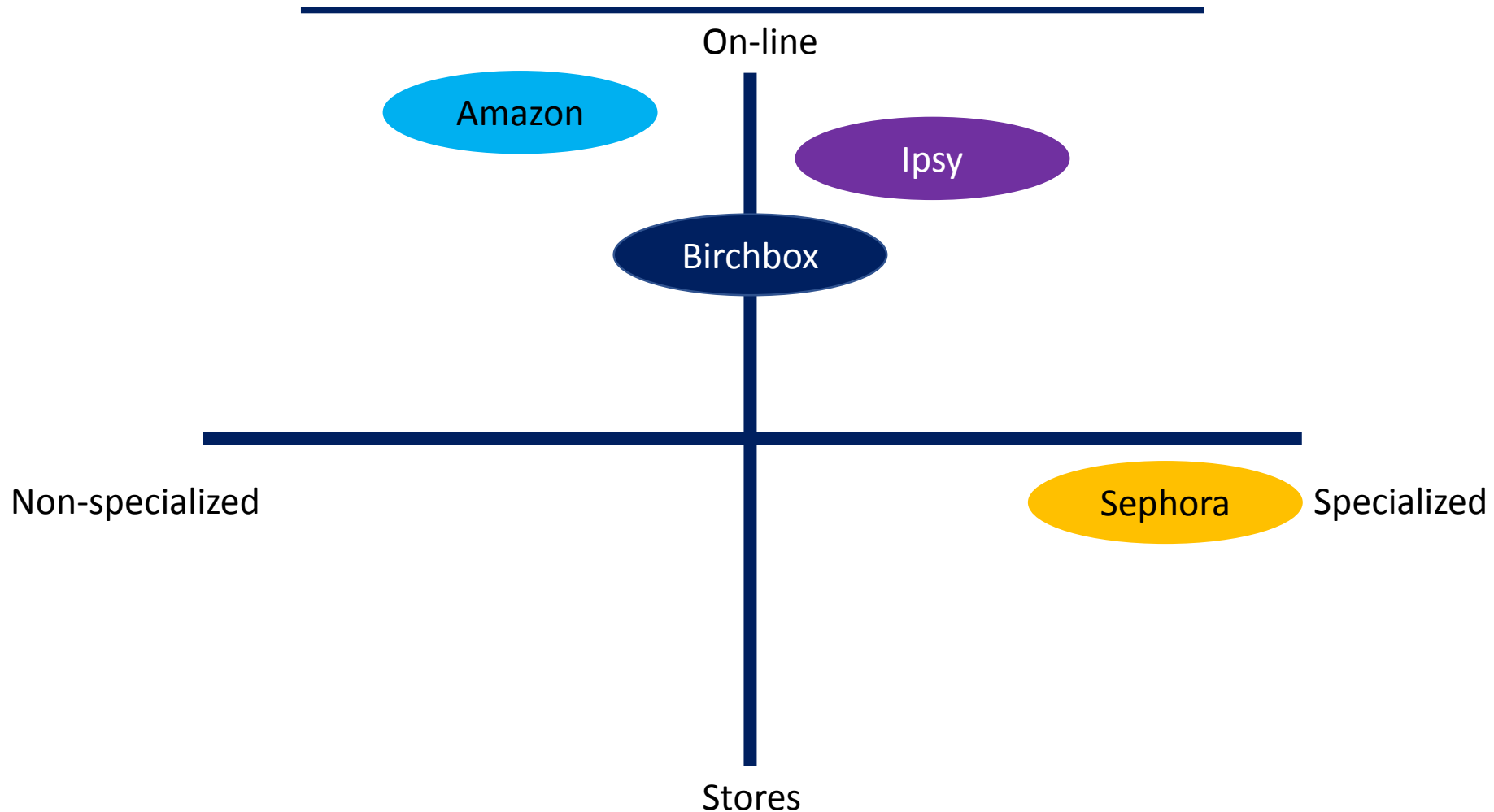
Renegotiate with partners

- New makeup products (not drugstore)
- New, more balanced contracts
- First access to products

Revenues to come from full-size purchases rather than subscription

Analysis

Crowded marketplace



Need to focus on on-line to differentiate

Loss of initial core competencies

Discovery retailing

Surprise

Customization

Product offering

Better value

Men's products

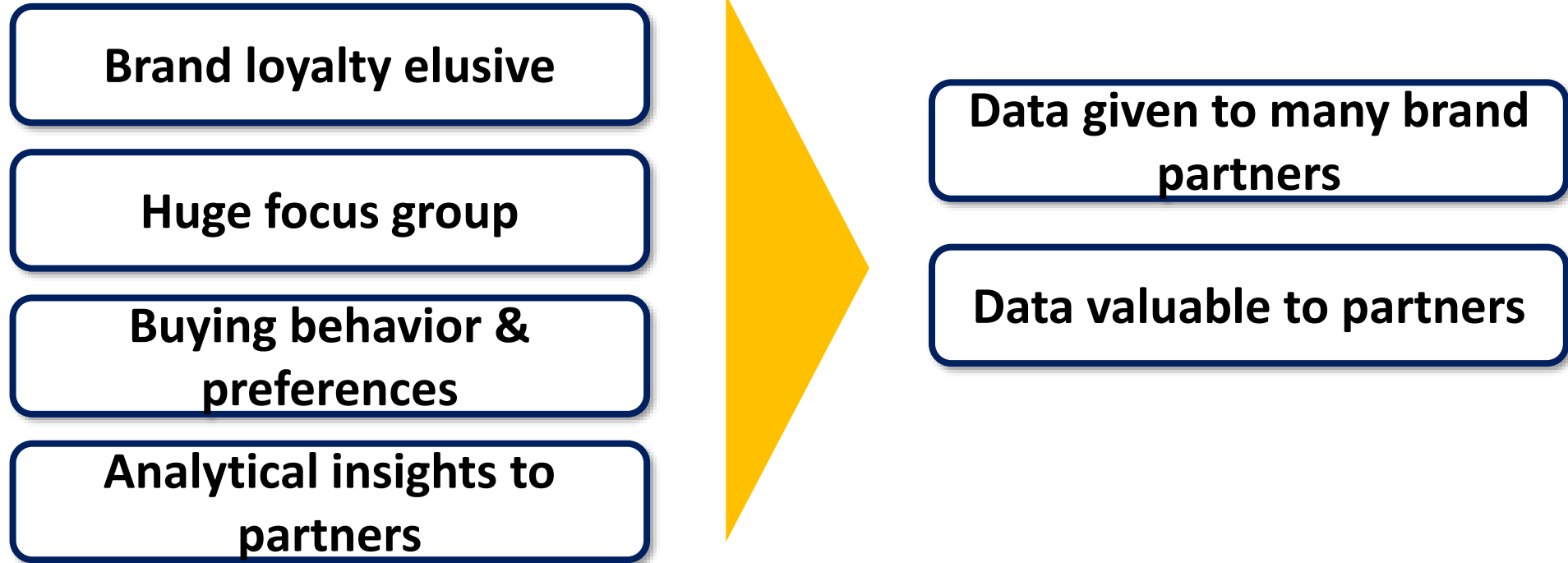


Loss of subscribers

**Poor conversion to
full-sized products**

Need to fix to be competitive

Data is key asset



Need to leverage more effectively

Financials

Birchbox's financial situation

Revenue from
business lines

Loyalty program
costs

Valuation
today

Birchbox's financial situation

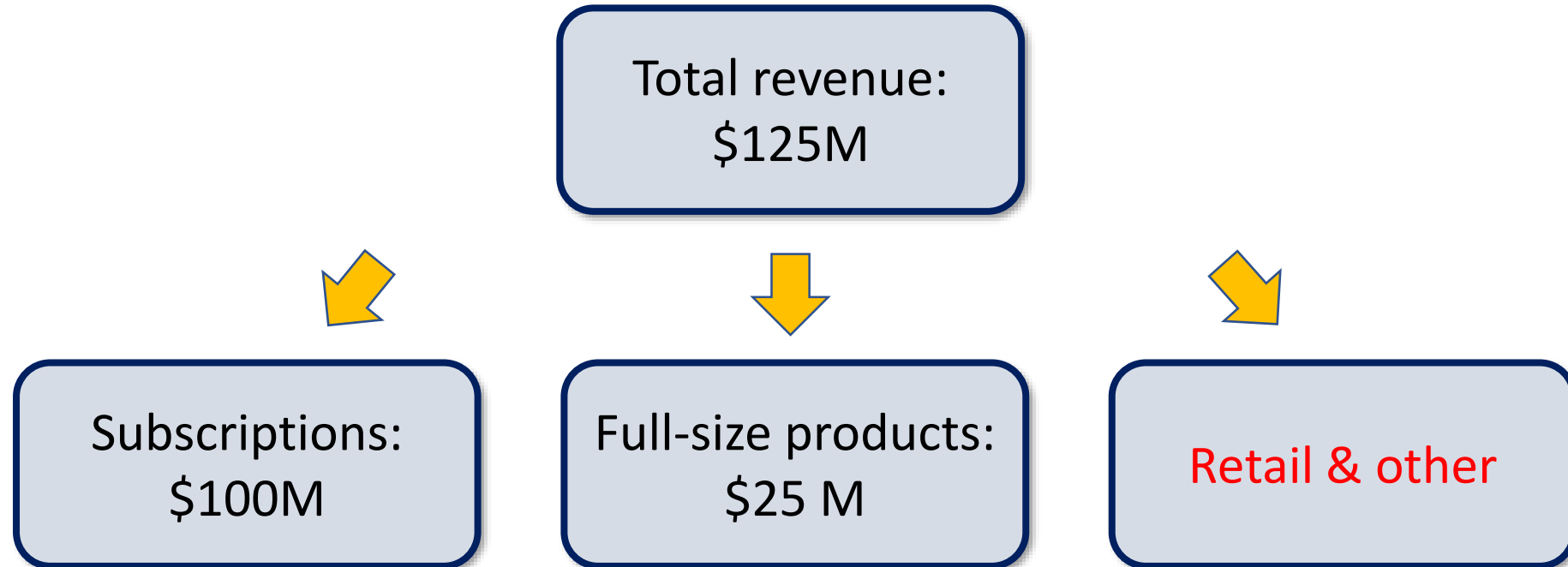
Revenue from
business lines

Loyalty program
costs

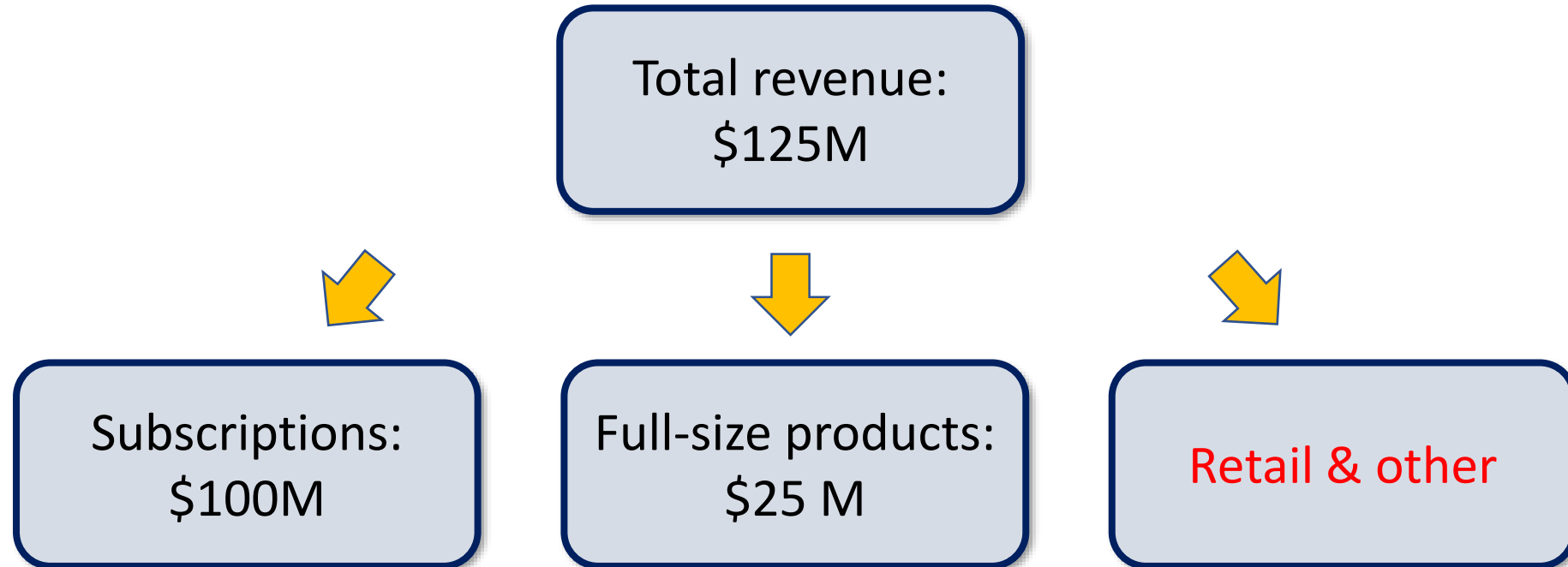
Valuation
today

Birchbox must be careful with their next move

2016 revenue breakdown

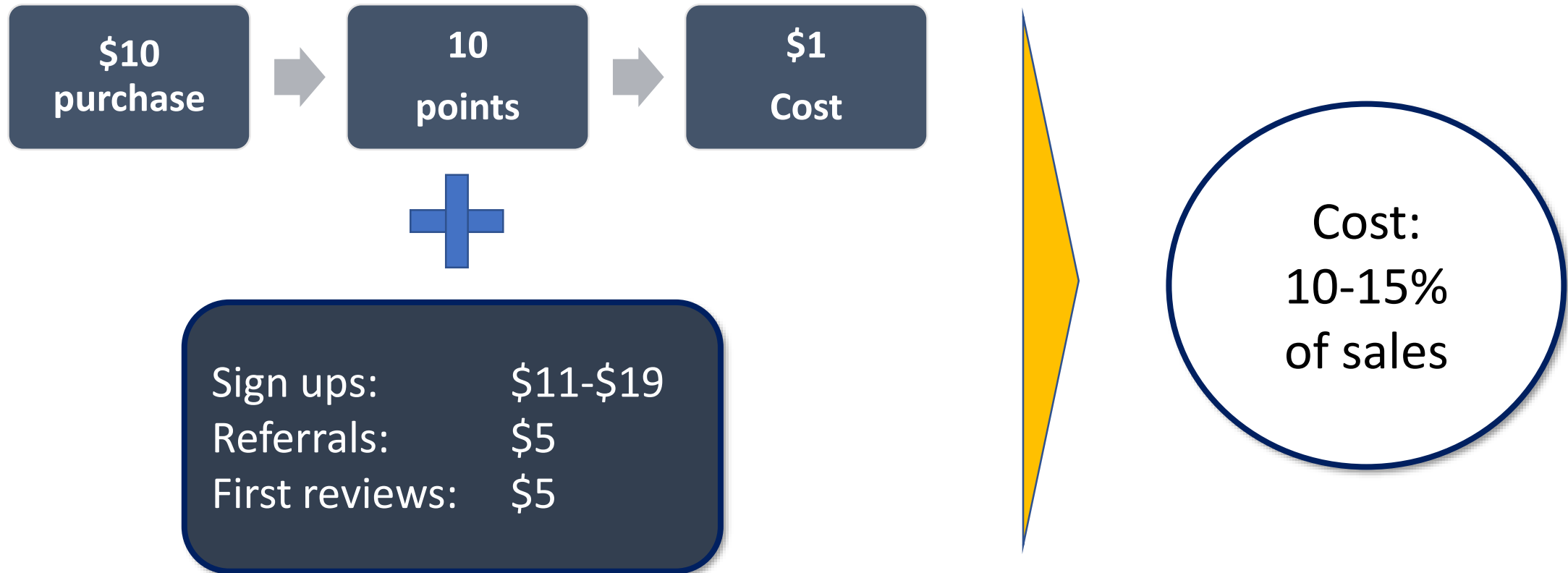


2016 revenue breakdown

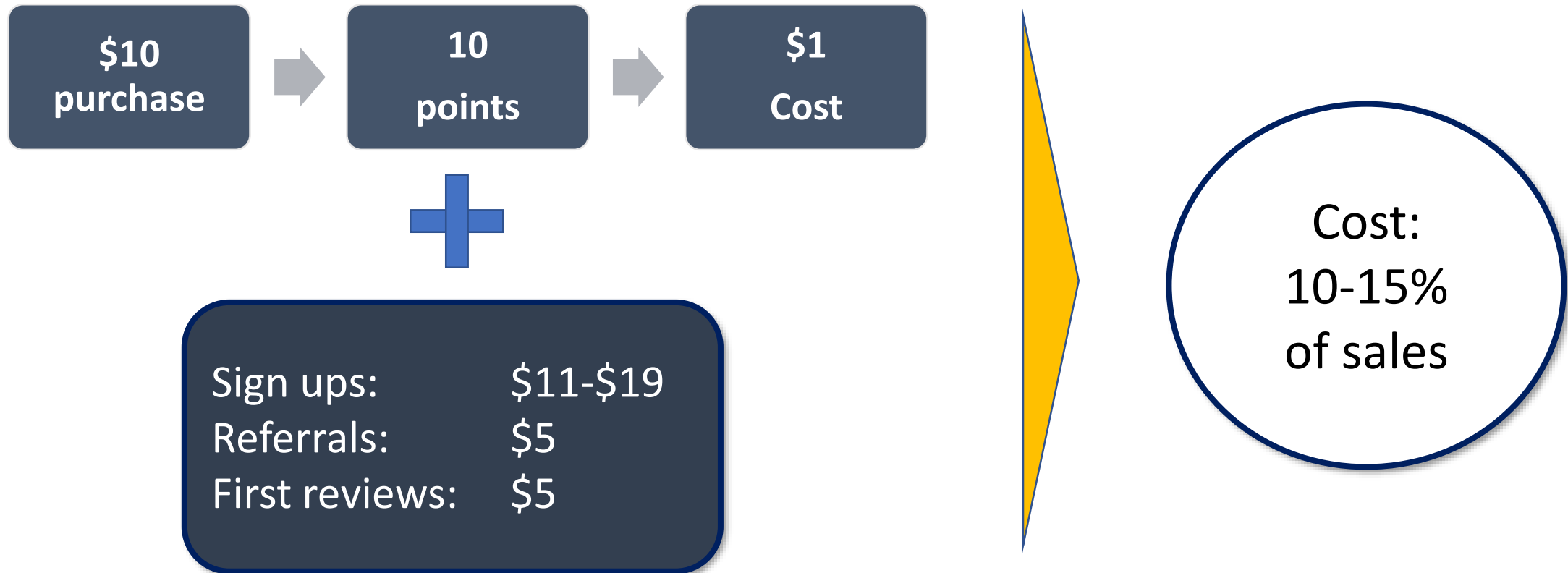


Retail and private-label do not contribute

Loyalty points costs

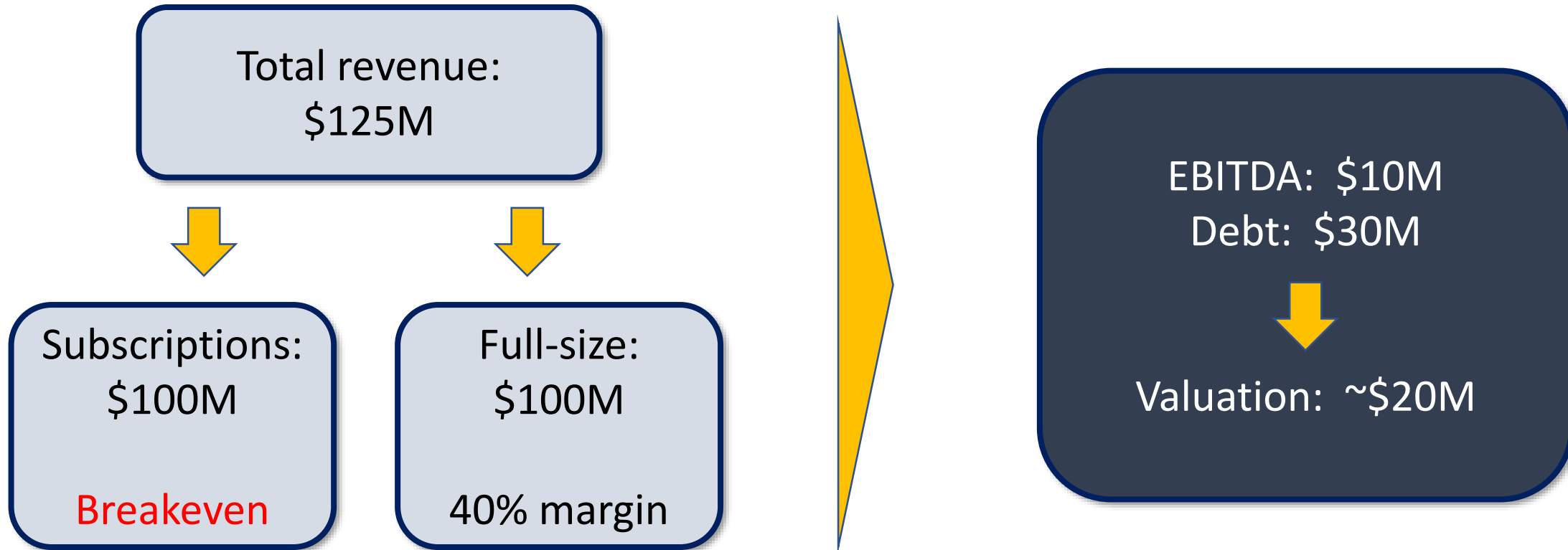


Loyalty points costs

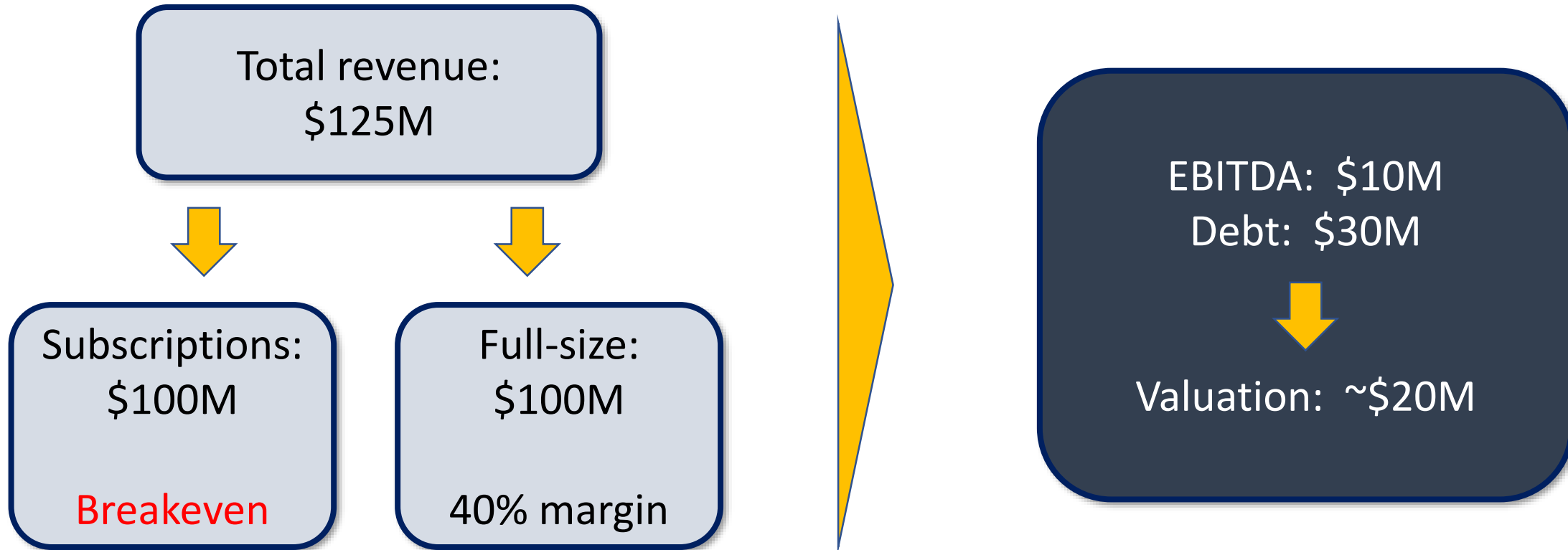


Loyalty program is expensive and must be focused

Valuation



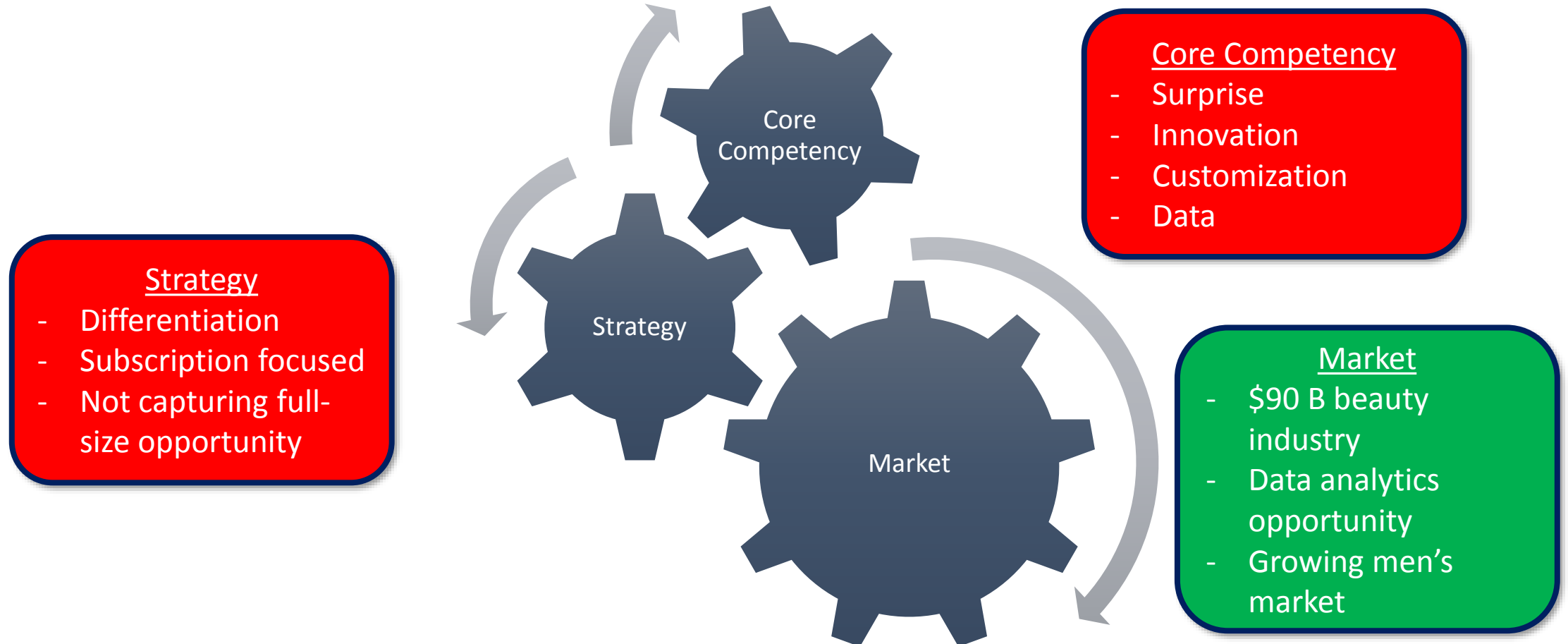
Valuation



Birchbox is not worth selling today

Alternatives

Competitors have made your strategy obsolete



Using subscriptions to drive full-size sales can make you profitable

You need to find a way to drive profits

| Criteria | Private label (LOC) | Store fronts | Subscription based model | Subscription "bait" model |
|---------------------------|---------------------|--------------|--------------------------|---------------------------|
| Favorable supplier terms | Red | Yellow | Yellow | Green |
| Cost | Red | Red | Yellow | Yellow |
| Value to customers | Yellow | Yellow | Red | Green |
| Full – size product sales | Yellow | Yellow | Red | Green |

Leverage your customization focus to drive customer loyalty for full-size products

This competitive market has its share of risks

Risks

Suppliers not willing to negotiate terms

Customers continue to purchase full-size in other channels

Mitigation

Short term contracts until sales volumes are proven

Offer discount programs in addition to points

Contingency

Focus on small, niche beauty company suppliers

Reduce free shipping limit to be comparable to Amazon

Continue to offer value with customize packages to leverage customer loyalty

Implementation

Refocus and improve conversion

| | 2017 | 2018 | 2019 | 2020 |
|---------------------------------|------------------------------------|------|------|------|
| Full focus on online | Increase SKUs and turnover | | | |
| | Improve data analytics | | | |
| | Retrench stores and private labels | | | |

Refocus and improve conversion

| | 2017 | 2018 | 2019 | 2020 |
|-------------------------------------|------------------------------------|------|------|------|
| Full focus on online | Increase SKUs and turnover | | | |
| | Improve data analytics | | | |
| | Retrench stores and private labels | | | |
| Increase customer conversion | Change loyalty program | | | |
| | Market full size products more | | | |

Refocus and improve conversion

| | 2017 | 2018 | 2019 | 2020 |
|--|------------------------------------|------|------|------|
| Full focus on online | Increase SKUs and turnover | | | |
| | Improve data analytics | | | |
| | Retrench stores and private labels | | | |
| Increase customer conversion | Change loyalty program | | | |
| | Market full size products more | | | |
| Renegotiate terms with partners | Negotiate with new partners | | | |
| | Renegotiate with current partners | | | |
| | Increase products type offering | | | |

Refocus and improve conversion

| | 2017 | 2018 | 2019 | 2020 |
|--|------------------------------------|---------------------------------|------|------|
| Full focus on online | Increase SKUs and turnover | | | |
| | Improve data analytics | | | |
| | Retrench stores and private labels | | | |
| Increase customer conversion | Change loyalty program | | | |
| | Market full size products more | | | |
| Renegotiate terms with partners | Negotiate with new partners | | | |
| | Renegotiate with current partners | | | |
| | | Increase products type offering | | |

Refocusing your business model is the only way to become profitable

Online
focus



Increase
conversion



Renegotiate

Improve customization of subscriptions

More SKUs



Color make up



Higher turn over



Rotate offerings



Change monthly selections

Improve customization of subscriptions

More SKUs



Color make up



Higher turn over



Rotate offerings



Change monthly selections

Having revolving interesting products is key

Perfect customer knowledge



Perfect customer knowledge



Data is the most valuable for e-commerce

Invest in IT system to ensure perfect matching

Customer knowledge



Content curators

Surveys, reviews, history

Skin types, product info



Stronger data analytics team and internal IT system

Invest in IT system to ensure perfect matching

Customer knowledge

+

Content curators

Surveys, reviews, history

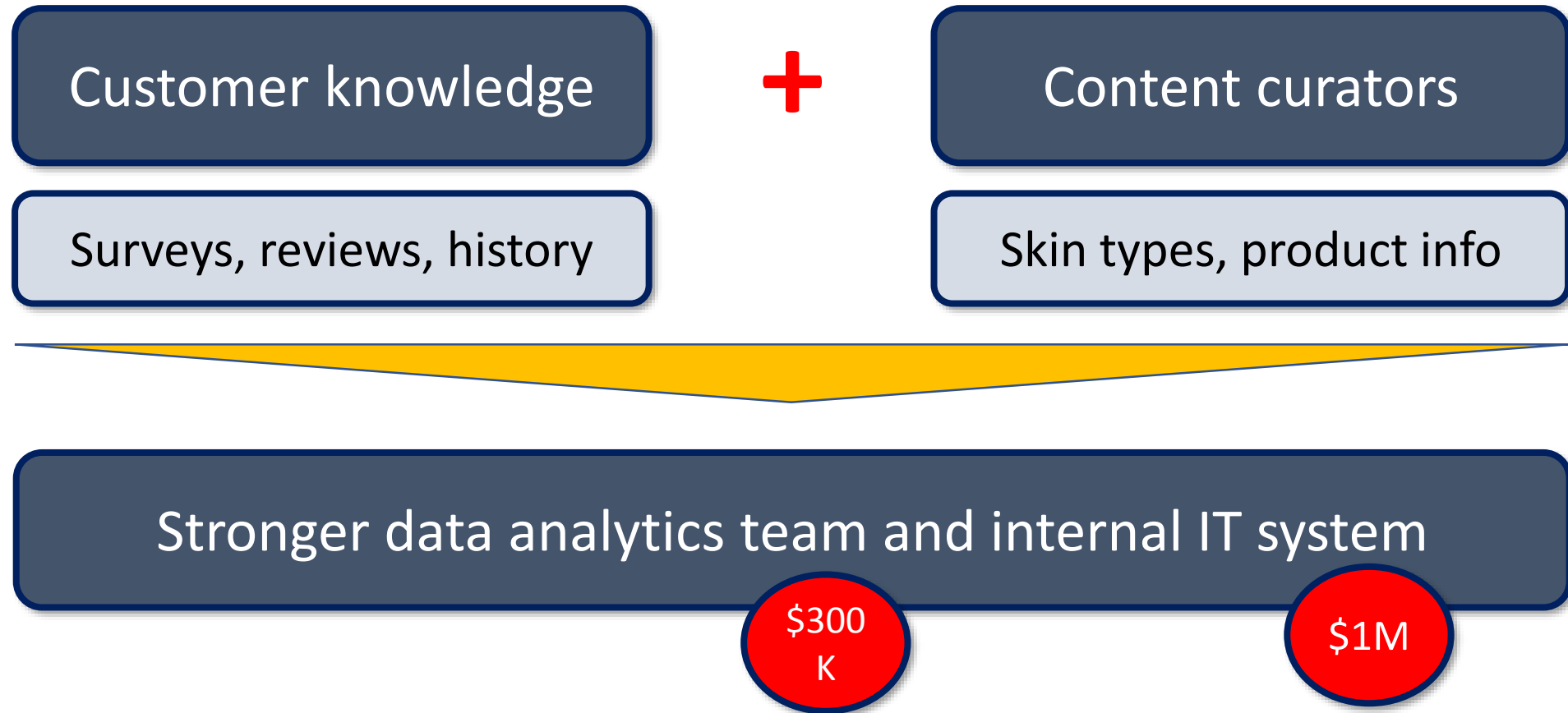
Skin types, product info

Stronger data analytics team and internal IT system

\$300
K

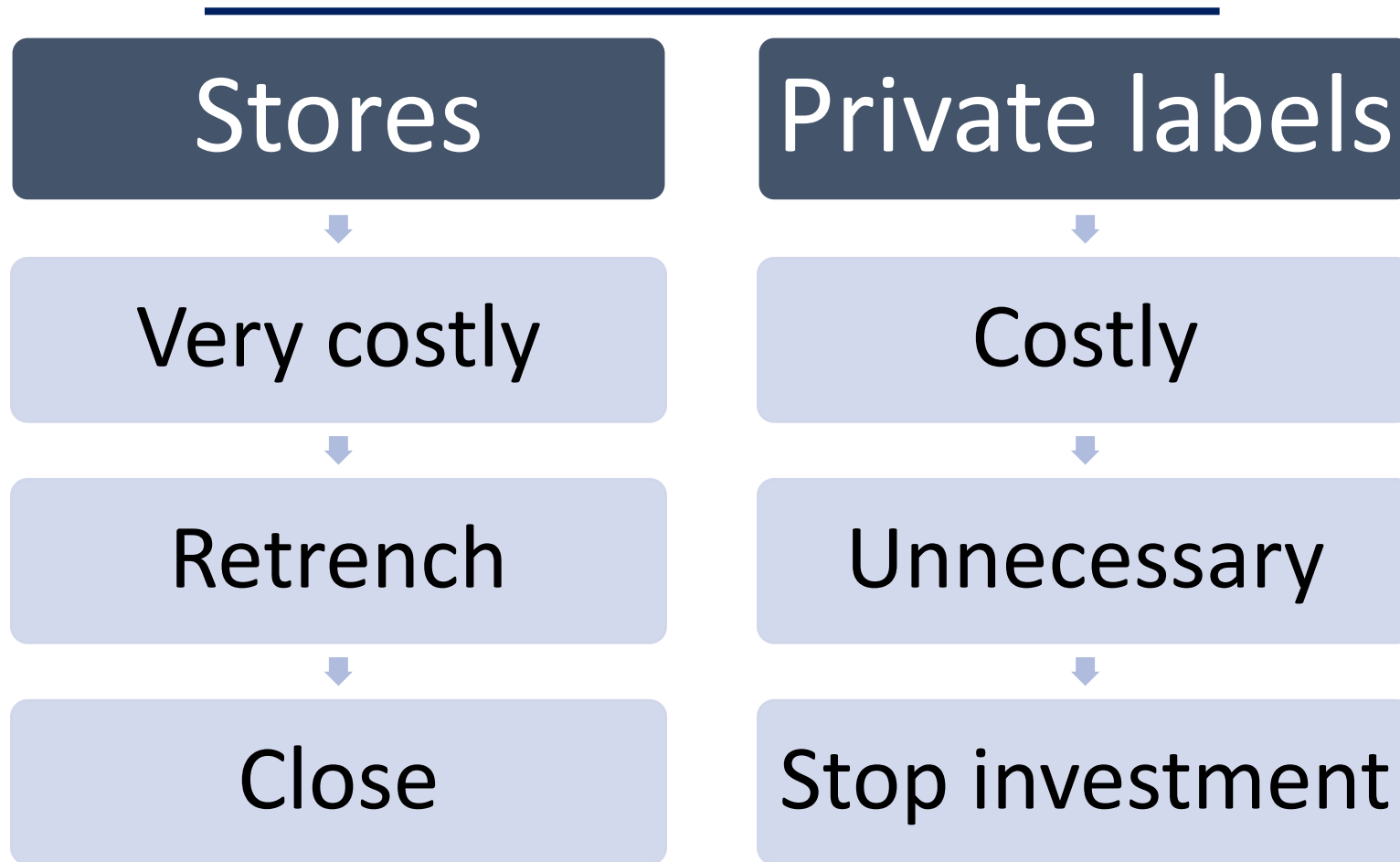
\$1M

Invest in IT system to ensure perfect matching

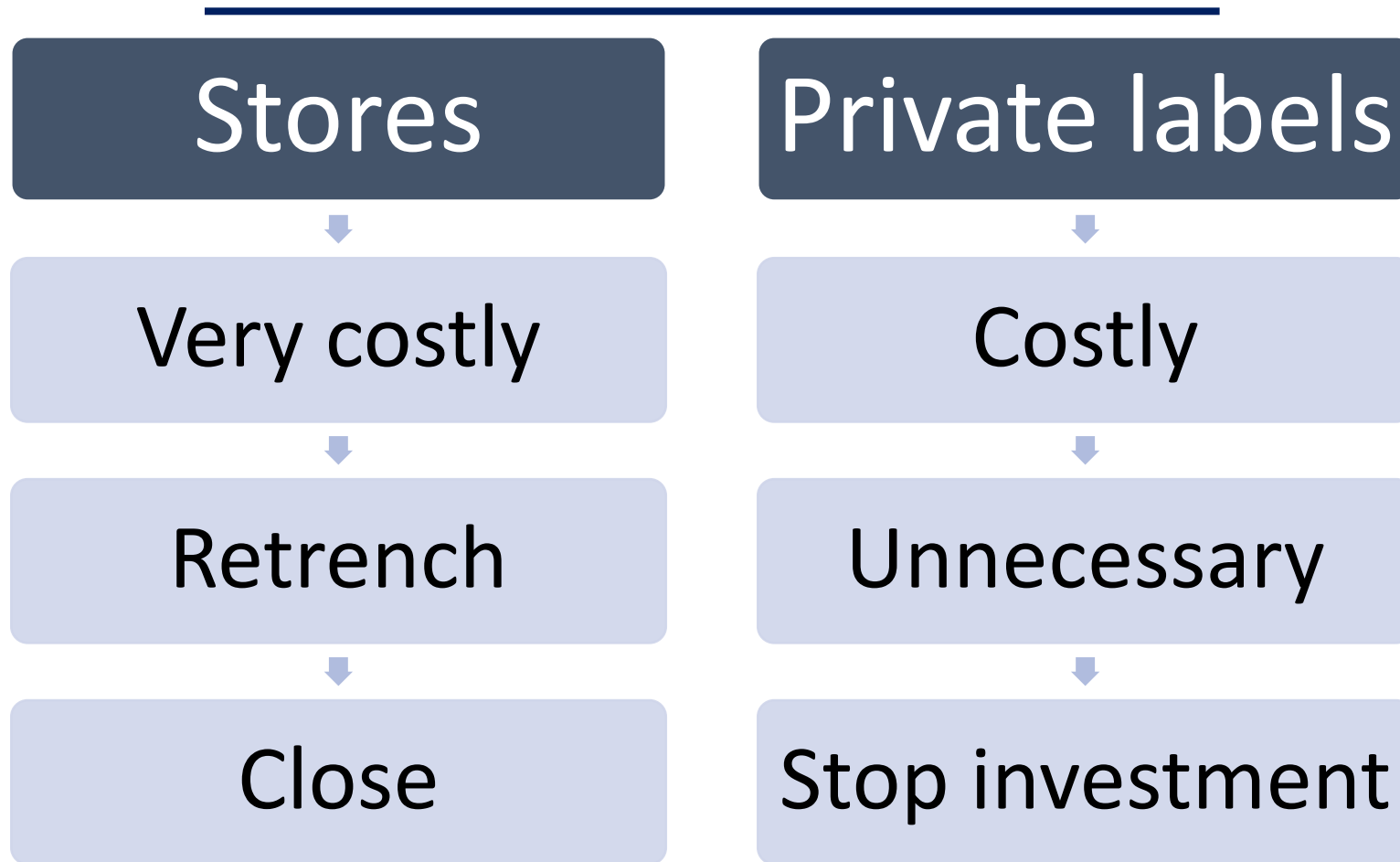


Ensuring excellent recommendations in box is essential

Retrench from stores and private label



Retrench from stores and private label



Focus investment on core profitable activities

Online
focus

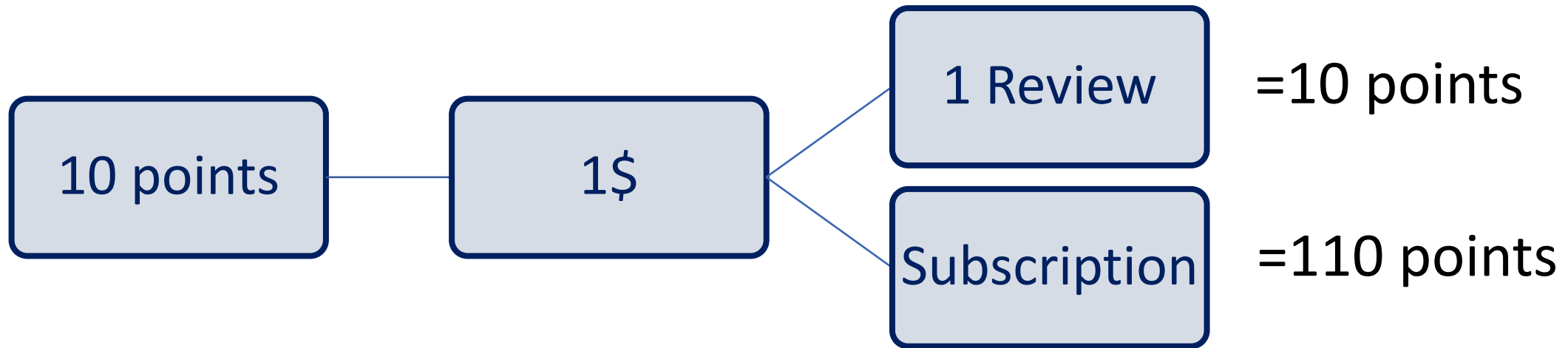


Increase
conversion



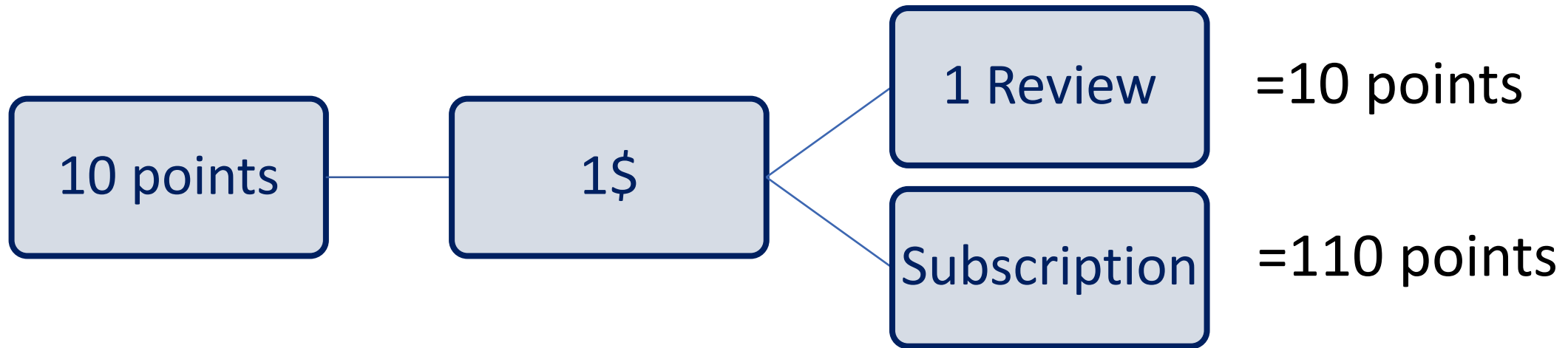
Renegotiate

Focus loyalty system on full size products



Only redeemable for full size products

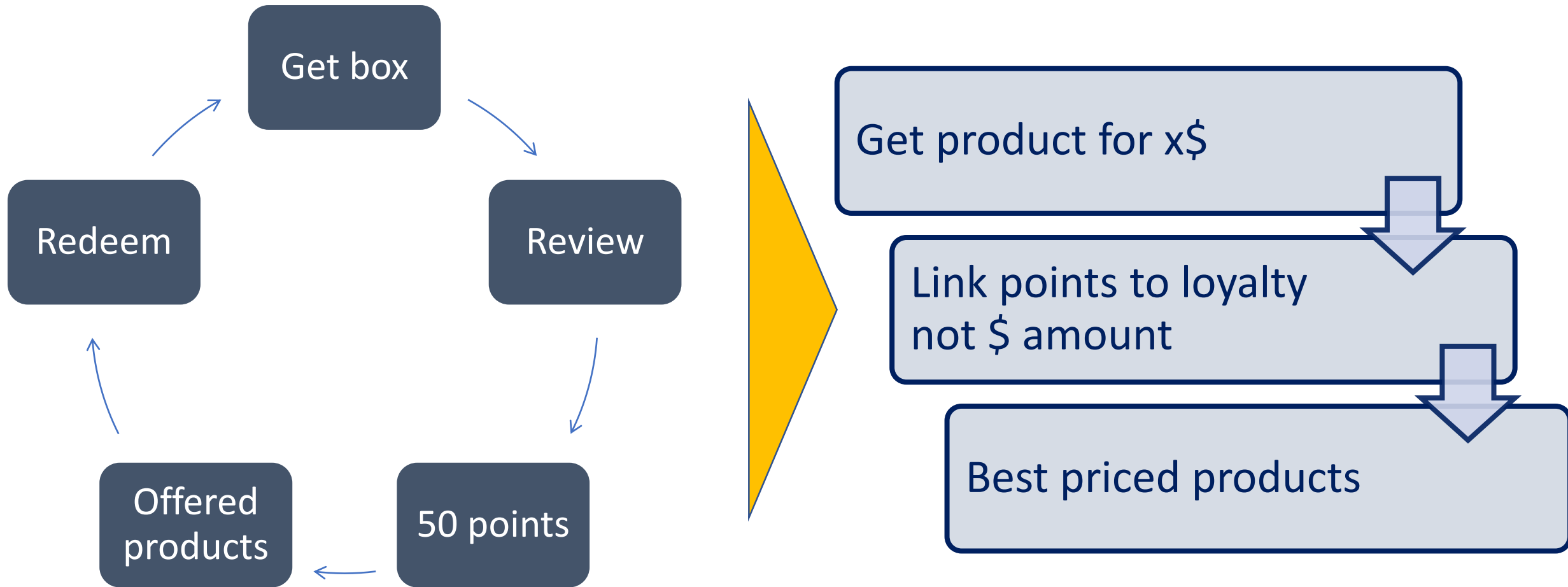
Focus loyalty system on full size products



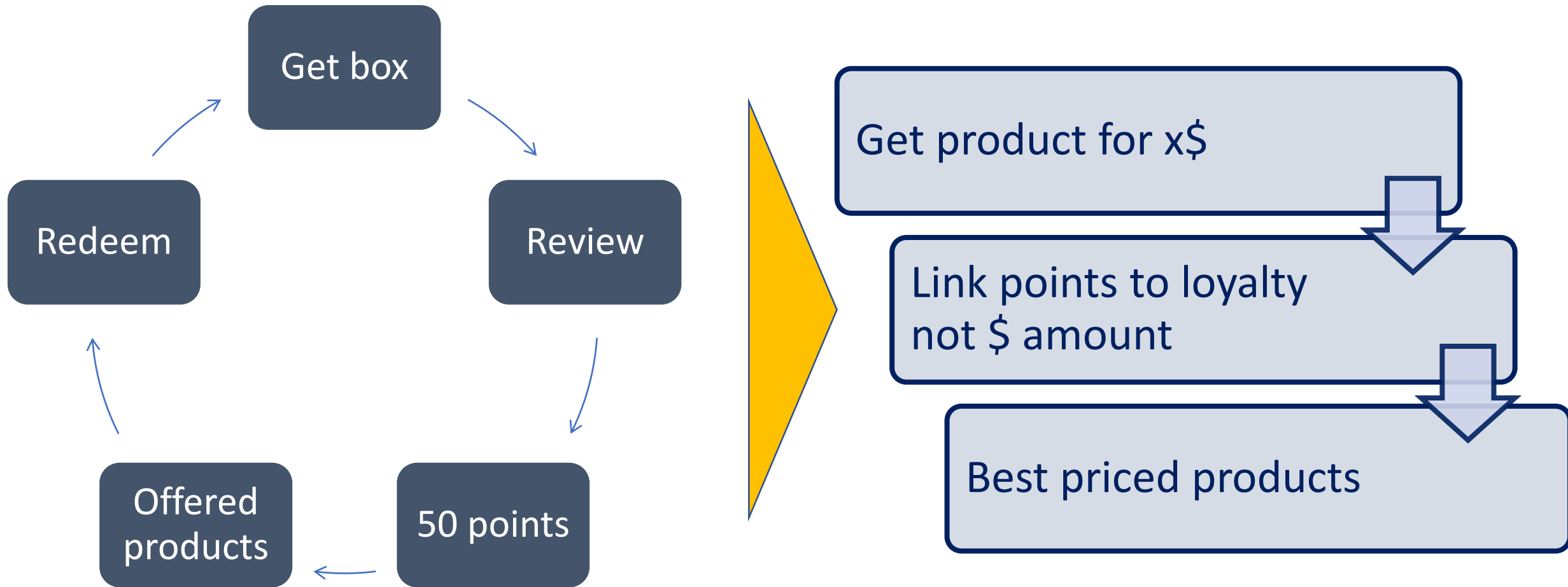
Only redeemable for full size products

You need to lock in customers to purchase products

What will points redemption look like?



What will points redemption look like?



Make purchasing products exiting

Market full-size products

Attract customers with full-sized products

Cookies

- Customers navigating for products
- Show price with subscription

Influencers

- Reviews of products with promo
- Test with Birchbox and get rebate

Curation

- Continue promotion of products
- Include make up

Market full-size products

Attract customers with full-sized products

Cookies

- Customers navigating for products
- Show price with subscription

Influencers

- Reviews of products with promo
- Test with Birchbox and get rebate

Curation

- Continue promotion of products
- Include make up

You will offer the value that customers want most

Online
focus



Increase
conversion



Renegotiate

Negotiate with new partners

New companies



More diversified, different sizes, more aligned

New products



Color make-up, men products

New terms



Mutually beneficial

Negotiate with new partners

New companies



More diversified, different sizes, more aligned

New products



Color make-up, men products

New terms

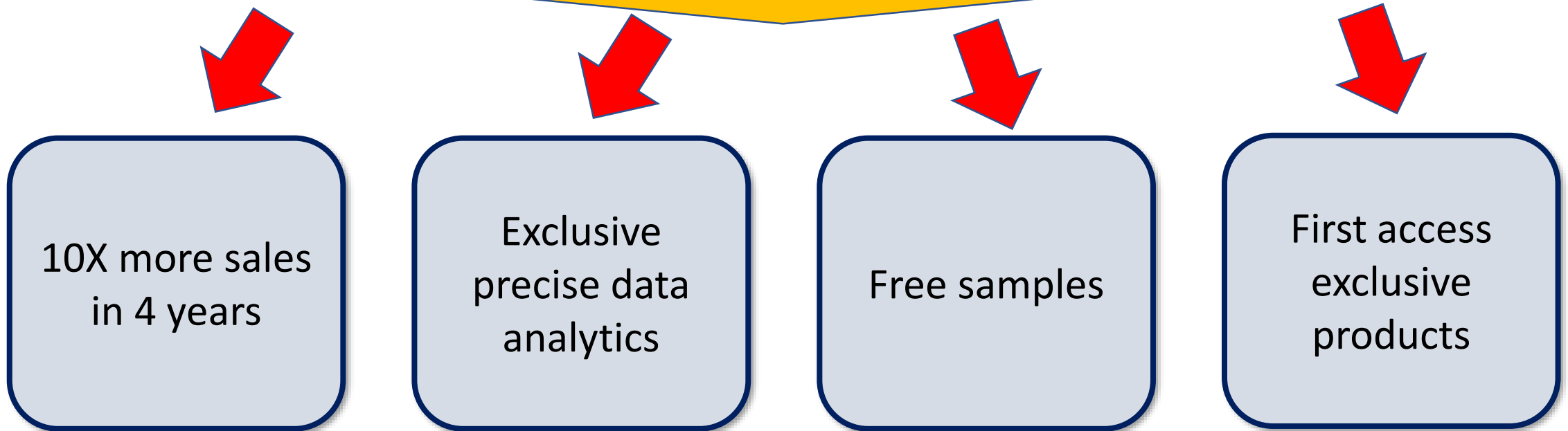


Mutually beneficial

You need the best partners

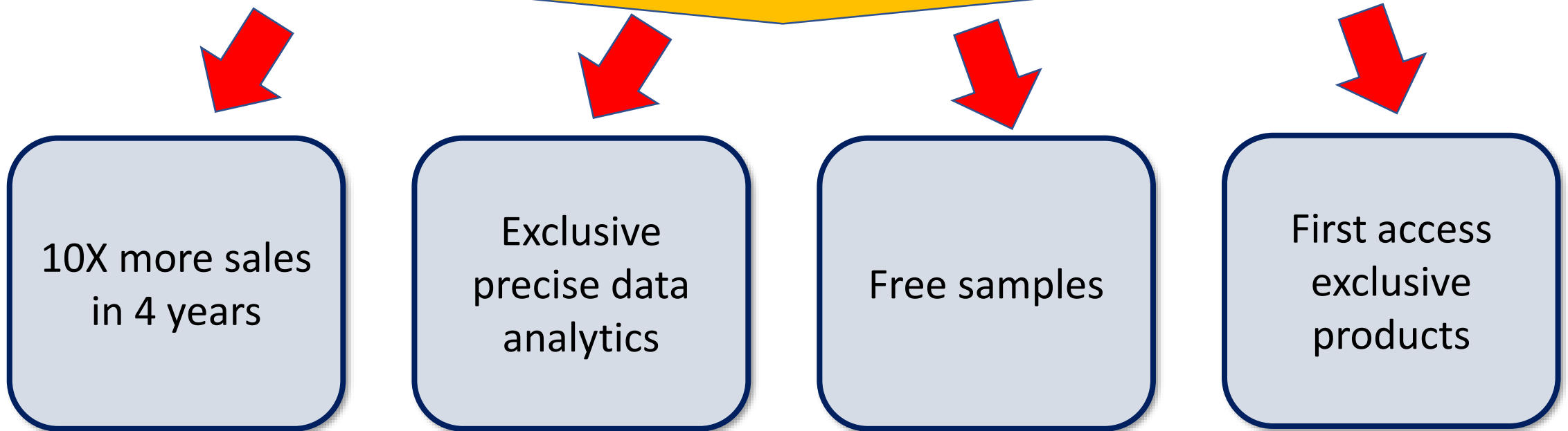
Have more balanced terms contracts

Samples are now not the product, but the bait



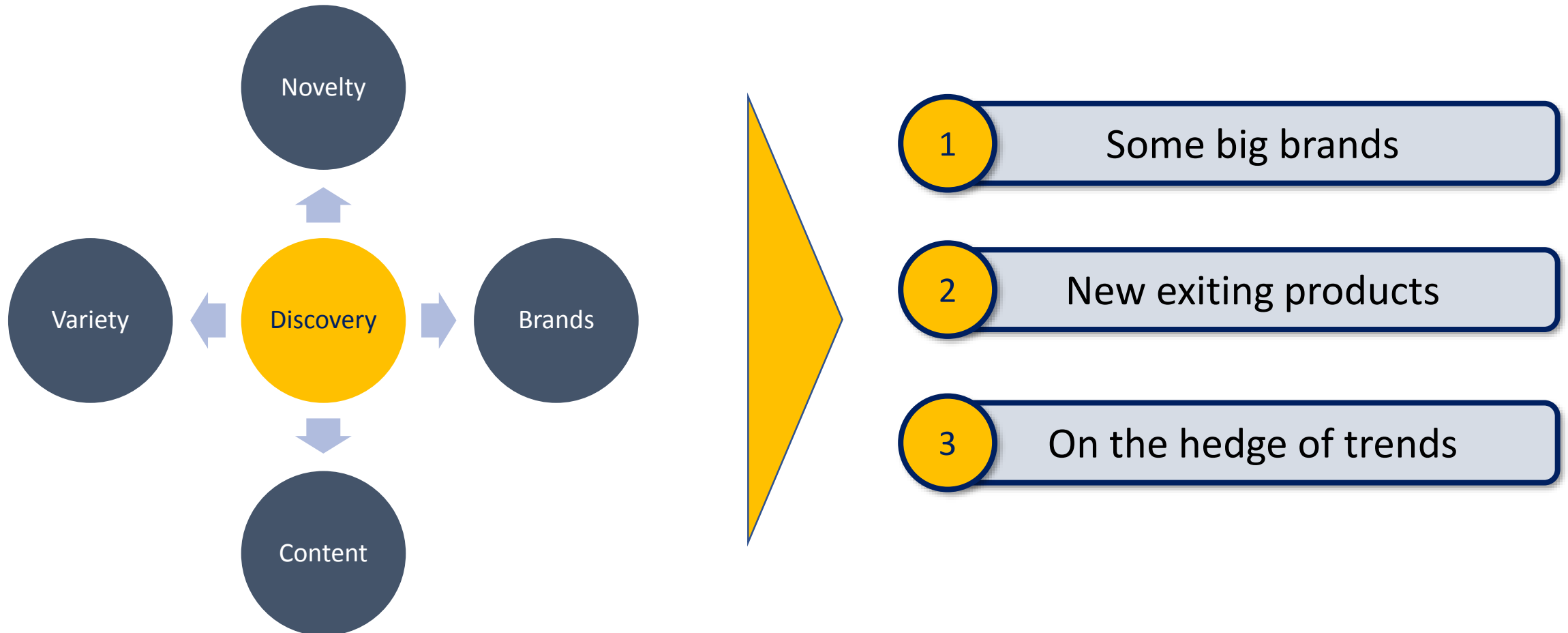
Have more balanced terms contracts

Samples are now not the product, but the bait

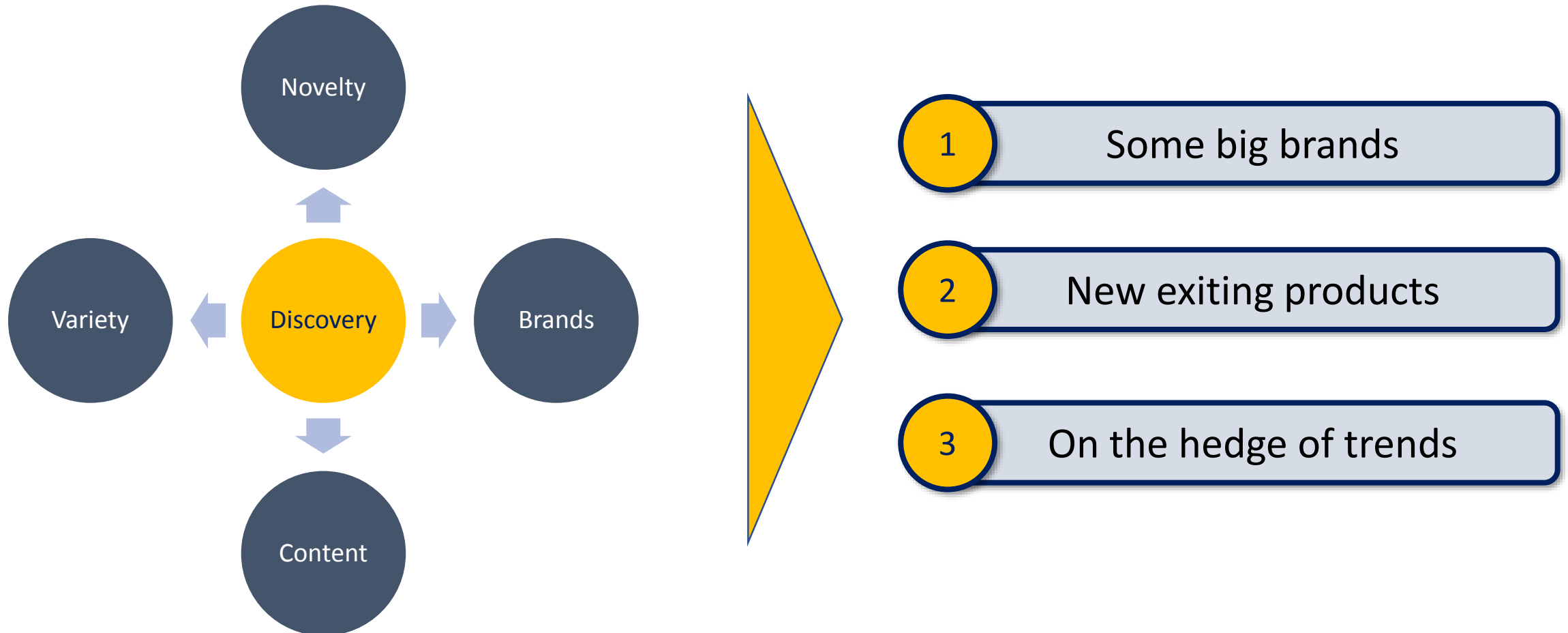


You now have what it takes to negotiate harder

Ensure exiting products



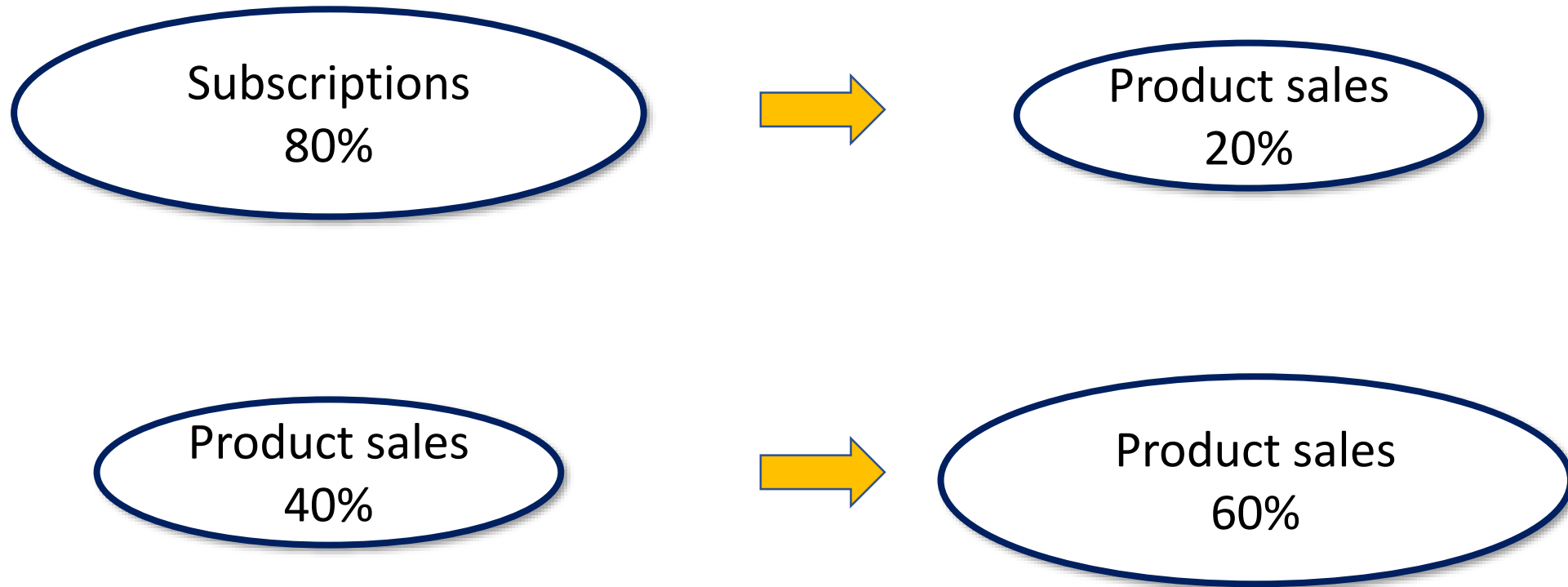
Ensure exiting products



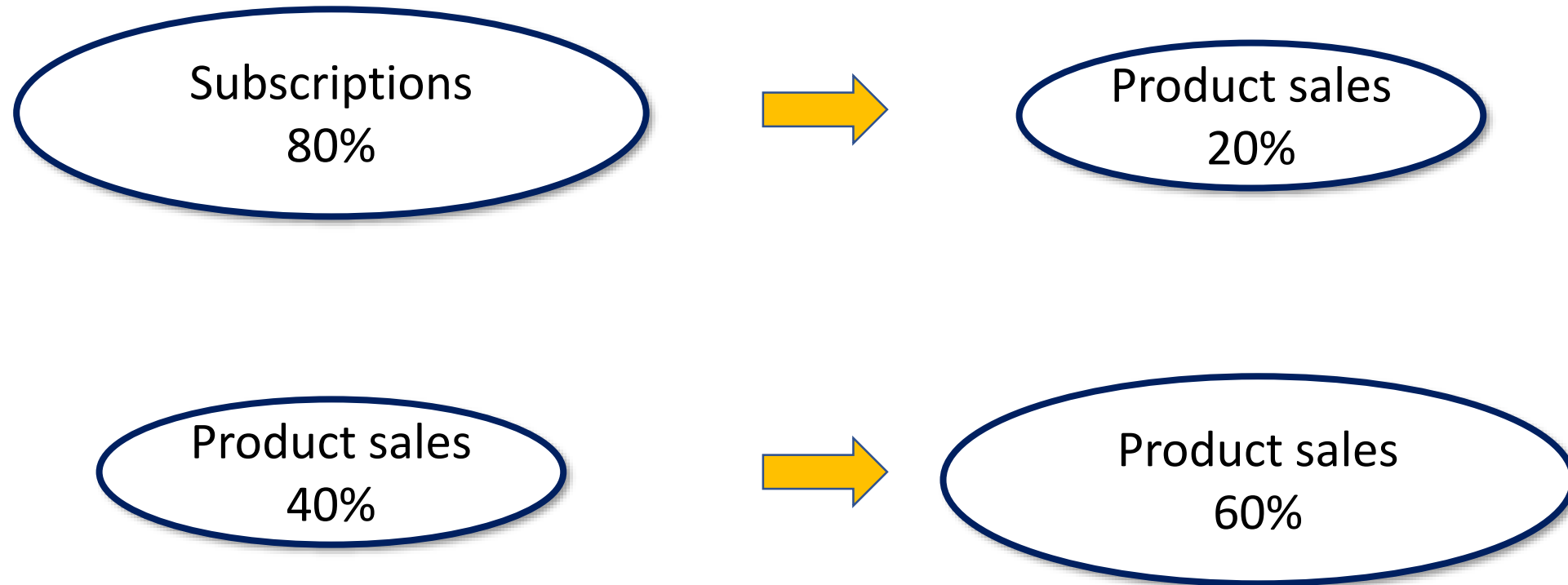
Having exiting products will lock in customers

Financials

New business model



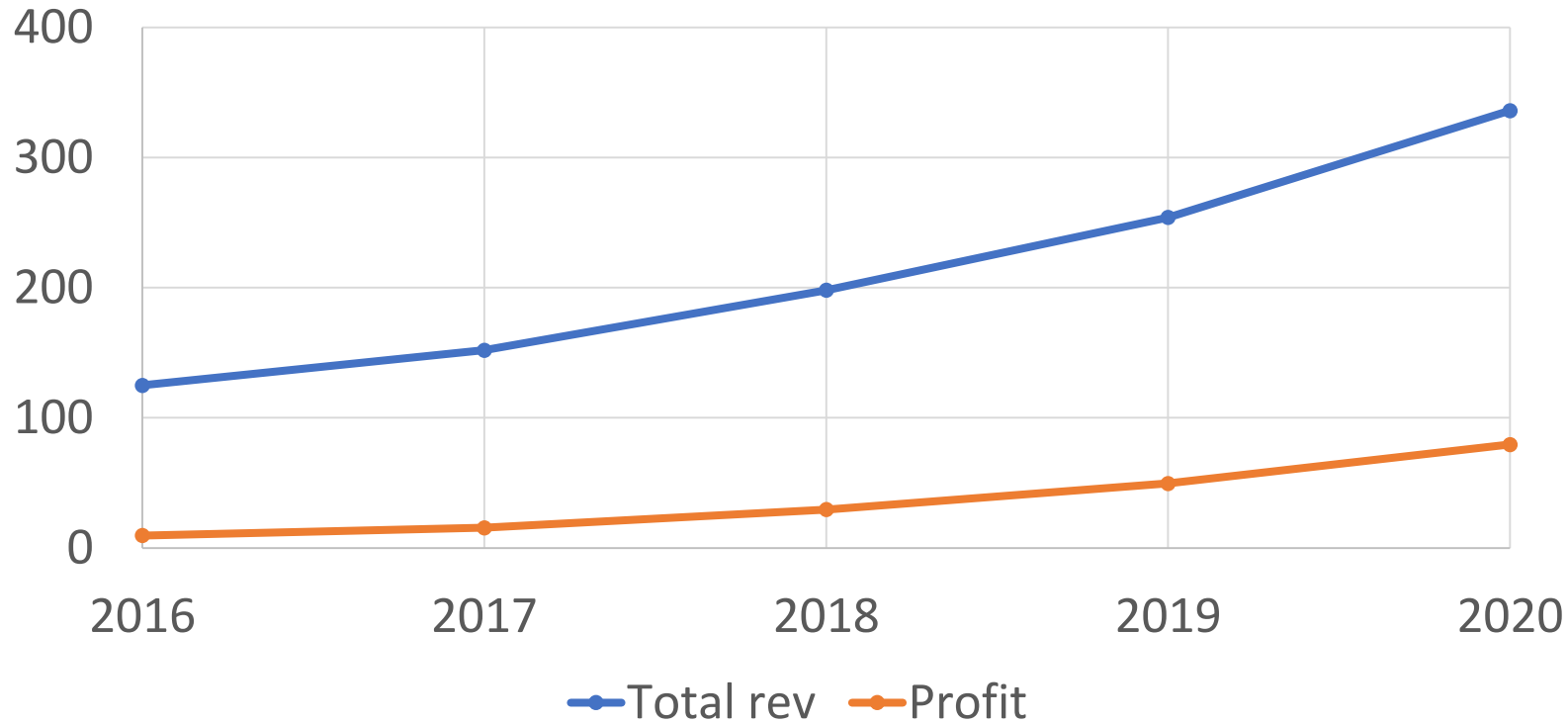
New business model



Focus on product sales will increase profits

Future Profits

Revenue and Profit



**Future
valuation:
\$400M**

Full size products drive profitability

Subscription-based to subscription- “bait”

Full focus on
online

Increase customer
conversion

Renegotiate with
partners

Thank you!