

Birchbox

Who wouldn't want that?

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Agenda

- ▶ Executive Summary
- ▶ Analysis
- ▶ Alternatives
- ▶ Recommendation
- ▶ Implementation
- ▶ Conclusion

Executive Summary

Goal

- Identify growth options and path forward for Birchbox

Recommendation

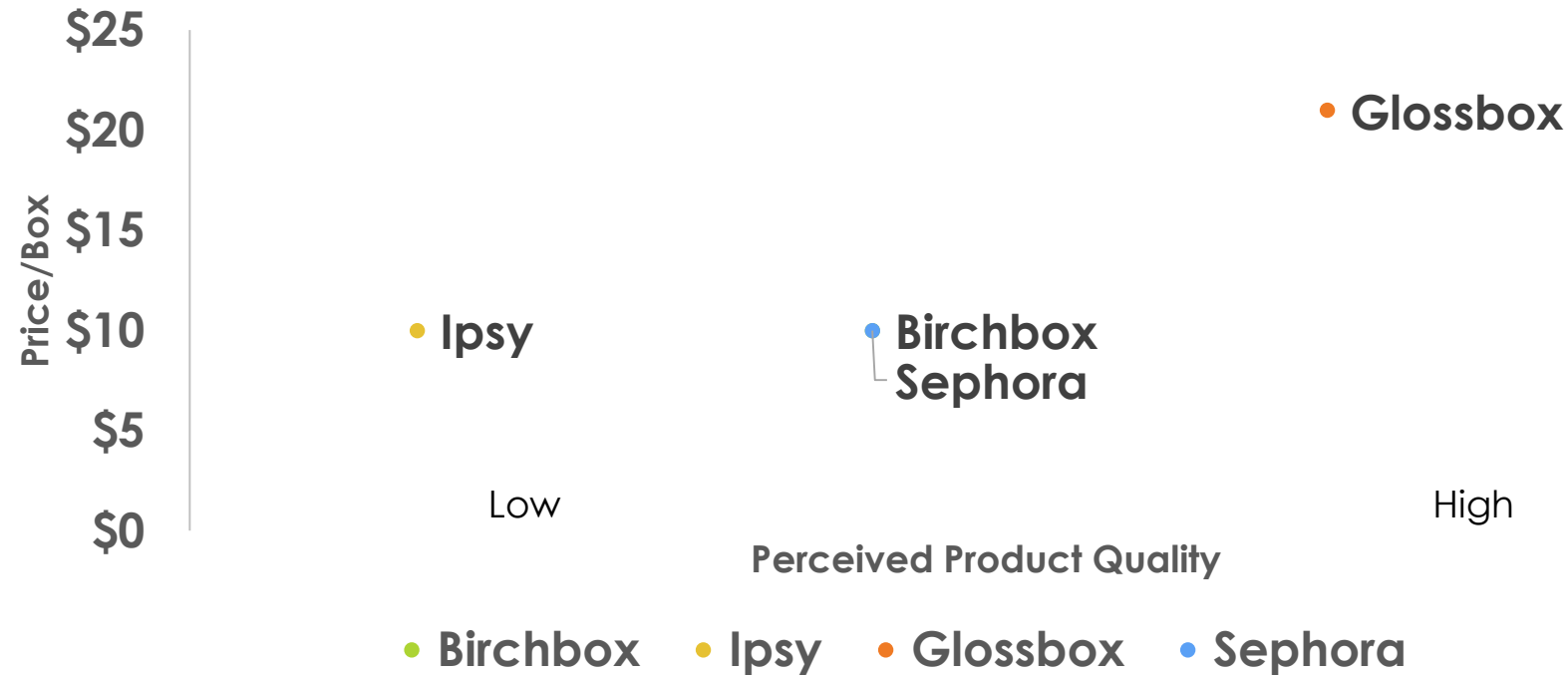
- Invest into further developing niche subscriber bases and warehouse automation - IDEA

Result

- Operating profit **\$40m** by 2019 (up from \$0m in 2016)
- Total increase in subscribers of **150%** over next 3 years

Analysis

The Industry is Highly competitive on Price and Quality

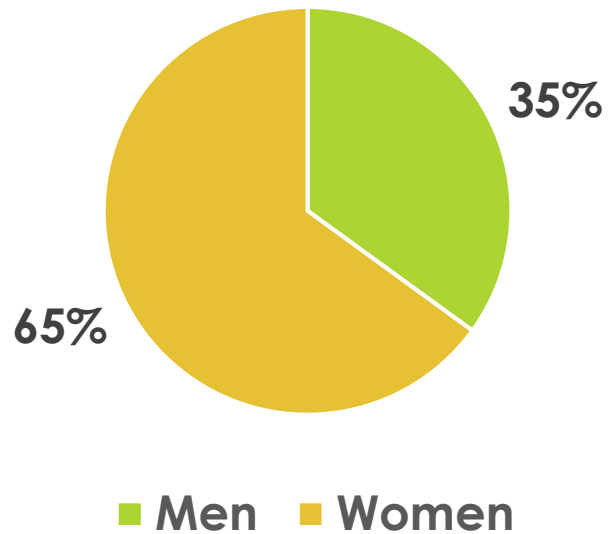


Birchbox's Business Currently Skews Towards Low Margin Customers

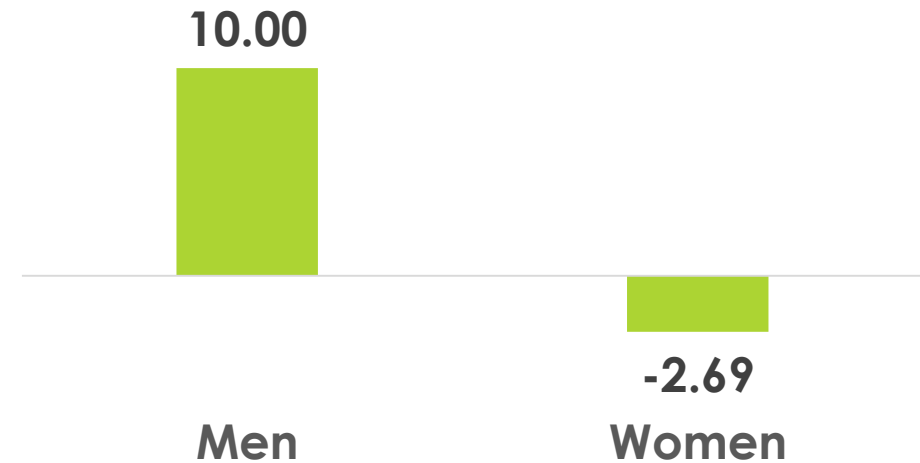
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2016 Actual



Average Operating Profits/Unit (\$)



Customization is Key for Birchbox's Customer Loyalty and Marketing

Value Proposition

People love surprises

Custom boxes can convert passive shoppers

Customization provides a feedback loop for Birchbox and suppliers

Competitive Advantages

Strong supplier relationships from product reviews and info sharing.

Robust following thanks to loyalty program.

Predictable cash flows from subscription model

Current Customer's Profile

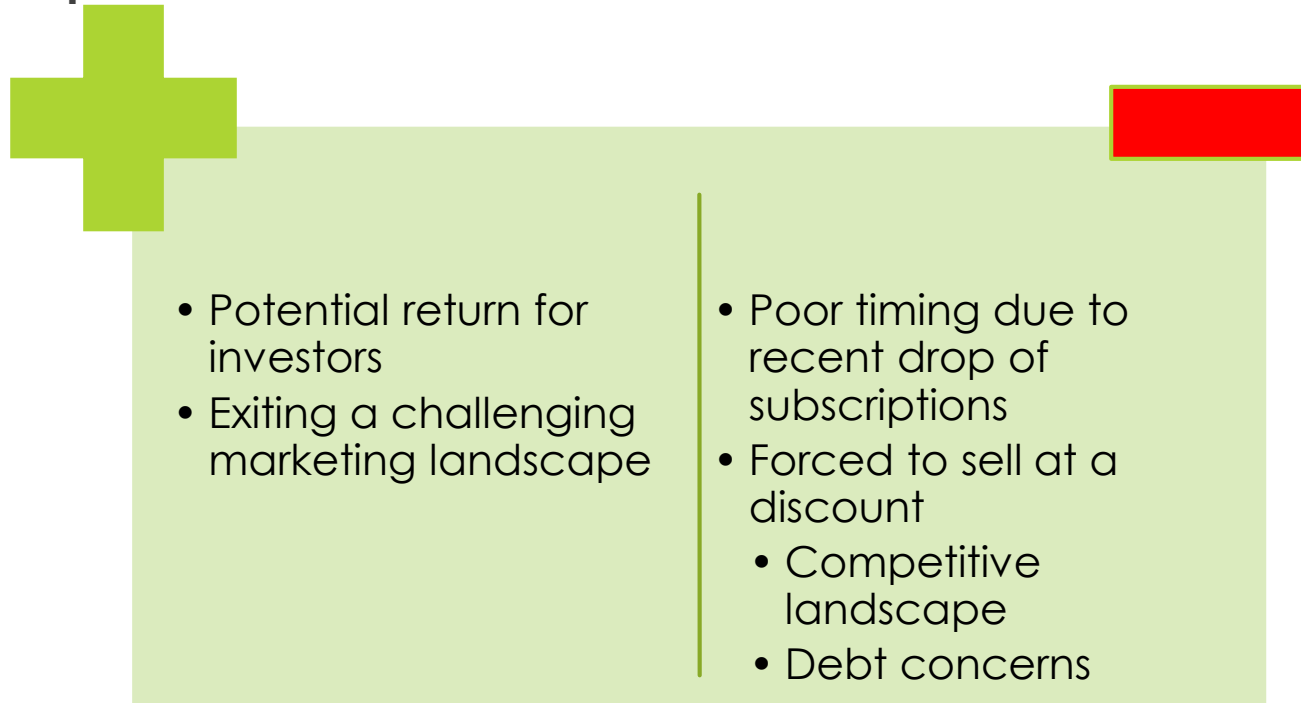
Characteristic	Value
Age	31
Income	\$80k
Time Commitment	Low

Birchbox's Customers are busy, young professionals who would prefer a curated selection of cosmetics shipped to their door, rather than a trip to the store.

Alternatives Explored

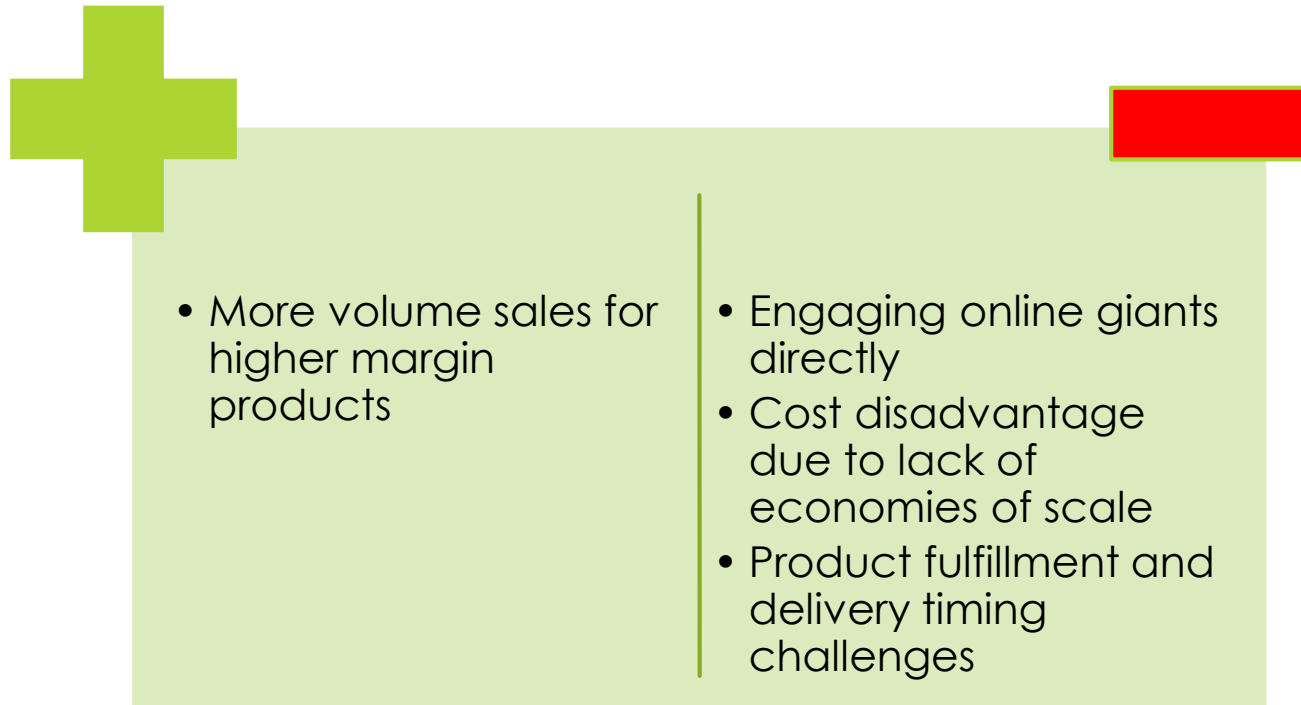
Sell Birchbox

- ▶ Sell Birchbox considering the current burn rate and cost structure of logistics operations



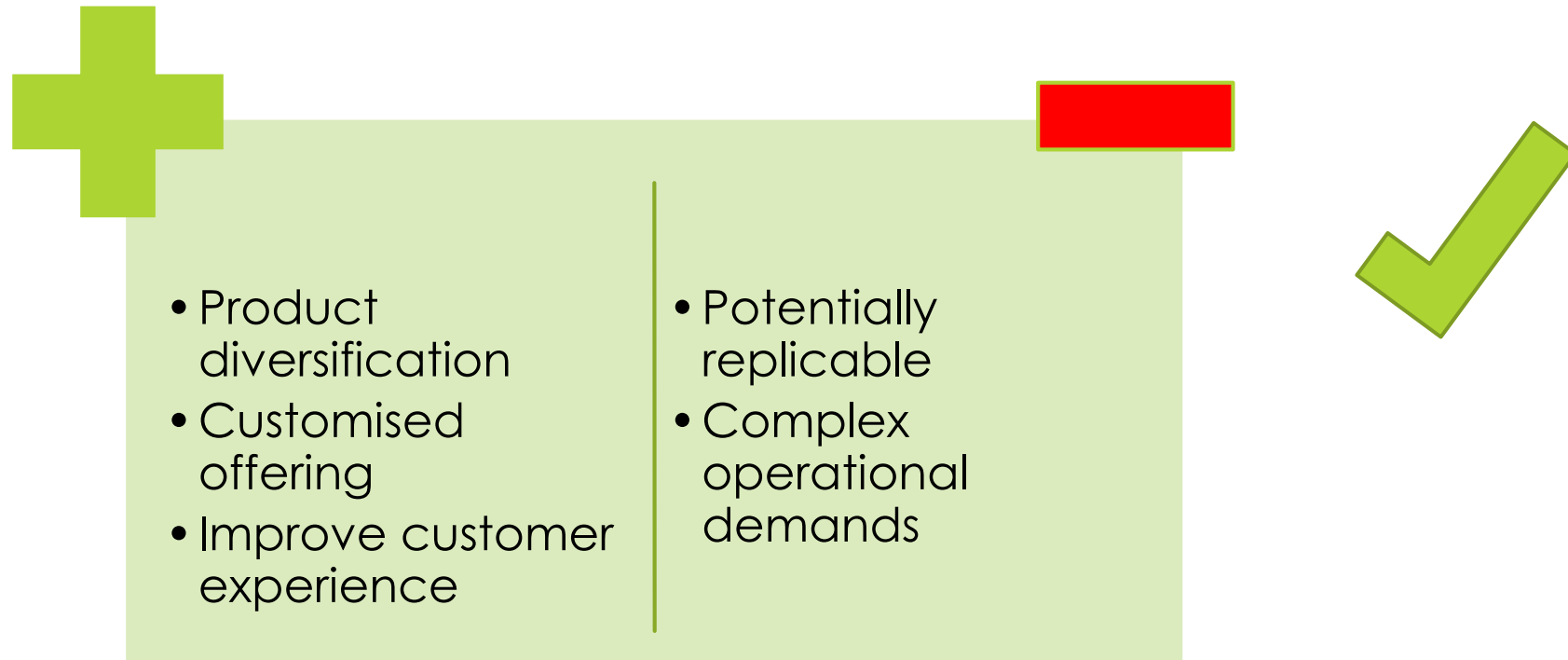
Full-sized product subscription plan

- ▶ Offering current customer base an option to buy full-sized products on a subscription basis



Aggressively pursue growth by engaging niche customers

- ▶ Tweak the product offerings to cater to niche segments : Men and multicultural women



Recommendation

Proposed Target Customers have Specific, Unique Needs

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Multicultural Women

Market growth of ~8%

Market Size approaching \$16 Billion

Opportunity for high margin, niche products

Men

Market growth of ~4%

Market size around \$8 Billion

Proven ability to sell men's boxes for higher prices

Birchbox's core customers are busy 31 years old with an annual income of about \$80k

Marketing recommendation

I IDENTIFY

D DEVELOP

E ENGAGE

A ASSESS

Invest in warehouse and fulfillment automation technology

- ▶ Centralised warehouse and fulfillment
- ▶ Install automated product carousels(\$15m)
 - ▶ Products are similar sized
 - ▶ 77% increase in productivity
 - ▶ Lower staffing demands
 - ▶ Ease of product picking
 - ▶ Totally customizable orders
- ▶ Shipping case erectors(\$50,000)
 - ▶ Erect, tape and label boxes for shipping
- ▶ Conveyer technology (\$5m)
 - ▶ Efficient movement of product and orders through facility

8-10 month to get the warehouse operational

Implementation

IDEA - Identify

IDENTIFY

0-6 months

- Identify the key segments and targeted niches
 - Men's subscription products
 - Multicultural women
- Identify social media influencers in these segments

IDEA - Develop

DEVELOP

0-12 months

- Subscription product catalogues based on key segments
- Relationships and product contracts with beauty brands
- Social media marketing campaign leveraging brand ambassadors

IDEA - Engage

ENGAGE

0 months - indefinite

- Engage the users through influencers and social media blogs and posts
- Enrich the current reward policy
 - Monthly and Yearly top reviewers
- Design a box challenge

IDEA - Assess

ASSESS

6 months - indefinite

- Monitor social media strategies and returns from it
- Assess current market trends to remain relevant to customers
- Utilise data from niche segments into product development of private label

Warehouse upgrade implementation

Phase 1 - Planning

- Streamline warehouse process flow
- Identify key IT infrastructure needs
- Select vendors for technology and installation

0-3 months

Phase 2 - Installation

- Interim warehouse operation plan in place
- Technology and infrastructure installation

3-10 months

Phase 3 - Testing

- Mechanical confirmation of handling
- Stress testing for operations and IT

10-12 months

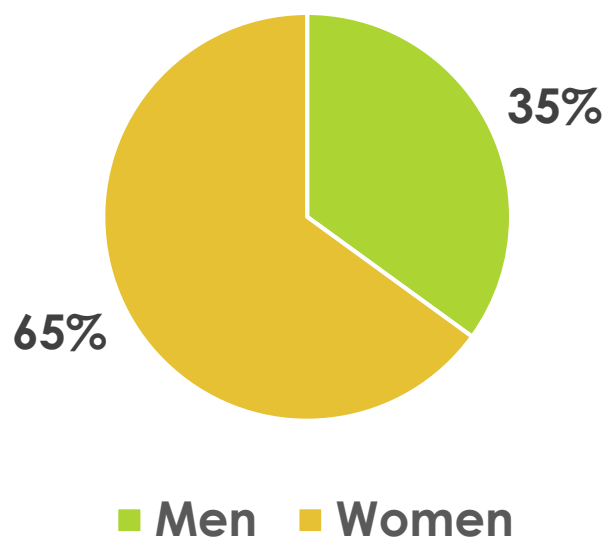
Financials

Assumptions

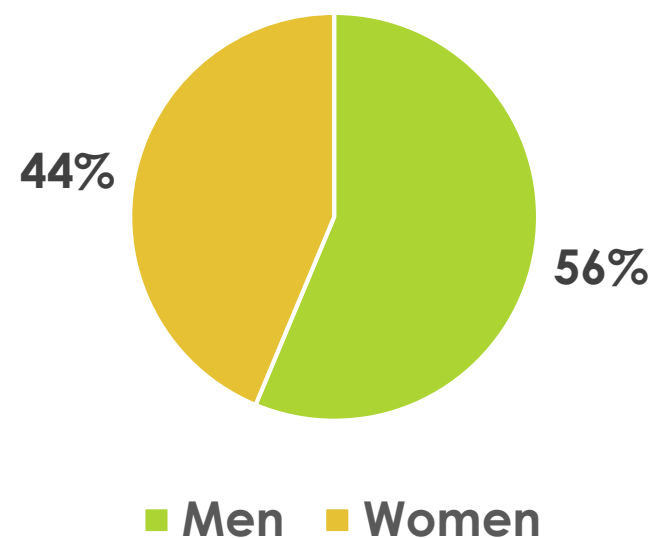
- ▶ Men's revenue growth tapers to 25% by 2019 from 70% in 2016
- ▶ Men's and Women's operating profits per unit remain unchanged
- ▶ Average Growth of Men's Revenue is 50%
- ▶ Average Growth of Women's Revenue is 10%

How We Expect Product Mix of Men and Women to Shift

2016 Actual



2019 Projected

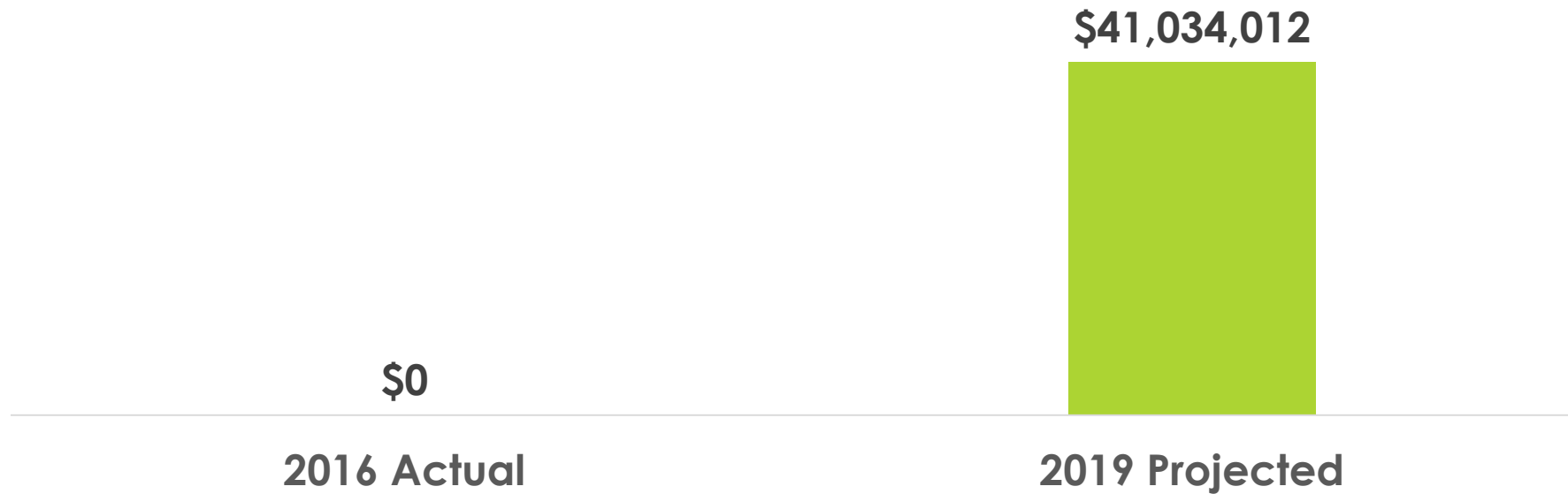


Product Mix Shift will Result in Stronger Operating Profits

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Operating Profit Expectations



Risks and Mitigation

Risks are Well Known, but Surmountable

Risk	Threat Level	Mitigation
Target customers aren't receptive to subscription model.	Low	Utilize marketing to further engage core, driving up full product sales.
Copycat businesses.	High	Cost leadership, product development, and brand awareness.
Large online retailers could further penetrate the market.	High	Insulate ourselves with niche product offerings and high customization.

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