

Birchbox and the future of e-commerce: It's a beautiful thing

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*Birchbox is facing tough competition from clones and investors are demanding profitability. In order to turn around, it **data and analytics capabilities** must better leverage its and **increase operational efficiency.***

*We recommend Birchbox revamp and **simplify its subscription-based** model by better leveraging the data and analytics it's capturing on its 1 million customers.*

Today's beauty regime

- Analysis
- Alternatives
- Implementation & Recommendation
- Q&A

Analysis

Birchbox is facing a number of external threats that cannot be ignored

New Entrants

Beauty startups:
Hues Box
Cocotique
Ebony Box
Onyx

Low barriers to entry

E-commerce and web capabilities

Established players

L'Oreal
Unilever
Proctor & Gamble

Clones

GlossBox
Preloot
Sephora Play!
Ipsy
Amazon (?)

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The biggest threat facing Birchbox is competition. It can better leverage its data and analytics it has on customers to stand out.

A major challenge is also Birchbox's Operational Model

1

100 box types to 1 million customers

2

Receiving, storing, assembling and dispatching items

3

High volume shipping delivered at same time

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Birchbox has an opportunity to simplify its operations by revamping its subscription-based model

Let's meet our customer Rachel: she has current challenges with Birchbox

- 31 years old
- Annual household of about \$80,000
- Digital Savvy
- Wants a quick and easy beauty regime
- She subscribes to Birchbox but is frustrated by product mix – don't match the preference she set when registering
- But she remains a customer because of the loyalty points and the surprise & delight element

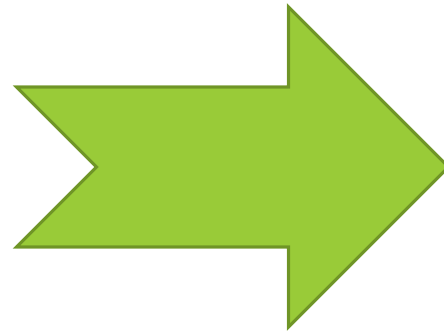
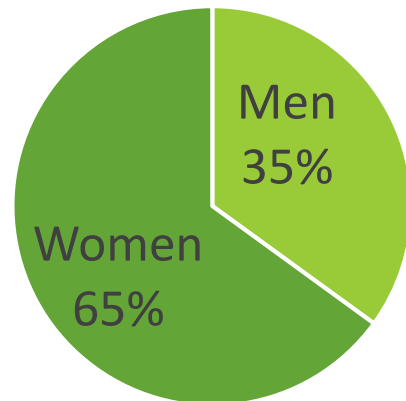
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Birchbox's biggest opportunity is to better leverage the data it has on existing customers to have a more customer-centric box offering

Consumer Base

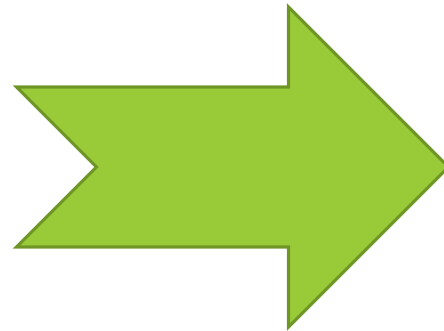
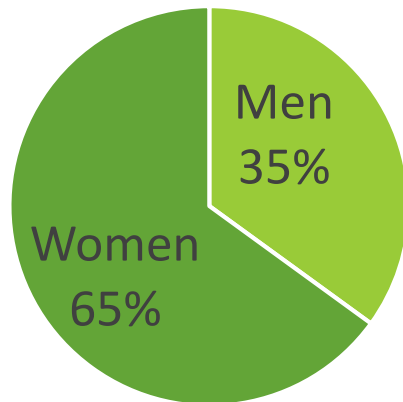
Sales Break-down by Gender



- Men comprise 35% of overall sales and grew 15x, even though it is price twice as high there still a demand at this price point
- Boxes for Women at \$10 is already at the lower end of the competitor price range

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Maintain price point since they meet market demand

Alternatives

Decision Palette

Increase reorders

Increase efficiencies

Enhance competitive
advantage

Decision Palette



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Increase reorders

**Increase
efficiencies**

Enhance competitive
advantage

Address operational and
logistics improvement
opportunities

Decision Palette

Increase reorders

Increase efficiencies

**Enhance
competitive
advantage**

Leverage robust data
and analytics capabilities

Alternatives

1. Expand Love of Color product line
2. Improve customization of Birchbox products via customer archetypes
3. Update pricing model (increase monthly price of women's box)

Alternative 1: Expand Love of Color product line

Pros

- Provides more control for Birchbox on the overall product offering
- Provides additional value to customers

Cons

- Increases complexity of logistics and operations
- Requires significant R&D for ongoing product line expansion
- Cost-intensive

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Not recommended: does not fix need for short-term turnaround, could be a good long-term solution

Alternative 2: Improve customization of Birchbox products via customer archetypes

Pros

- Leverages robust data that Birchbox has on its customers
- Addresses current issue of customers receiving products that are misaligned to their preferences
- Improves logistics/operations efficiencies

Cons

- Reduces individual personalization of monthly boxes

Alternative 2: Improve customization of Birchbox products via customer archetypes

Pros

- Leverages robust data that Birchbox has on its customers
- Addresses current issue of customers receiving products that are misaligned to their preferences
- Improves logistics/operations efficiencies

Cons

- Reduces individual personalization of monthly boxes

Recommended: enhances customer experience and relevancy of product received, increases likelihood of full-size product orders

Alternative 3: Update pricing model (increase monthly price of women's box)

Pros

- Improves cash flow

Cons

- Potential to lose customers; they are very price sensitive
- Market has low barriers to entry, would make company more susceptible to price wars

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Not recommended: could alienate customers and result in subscriber loss

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Risks and Mitigation

Risk	Impact	Owner	Mitigation
Customers purchase products from other providers/brands	High	Marketing	Leverage Loyalty program to encourage full-size purchases via Birchbox
Further competitor imitation	High	Marketing	Use robust marketing capabilities to build brand equity and loyalty
Customer satisfaction decrease due to reduced personalization of boxes	Medium	Data Analytics/Marketing	Launch of customer archetypes to ensure relevant product delivery

Recommendation & Implementation

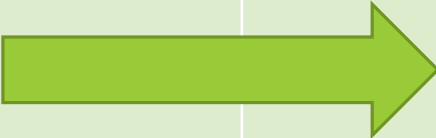


2 Year Implementation Plan

Keys to Success

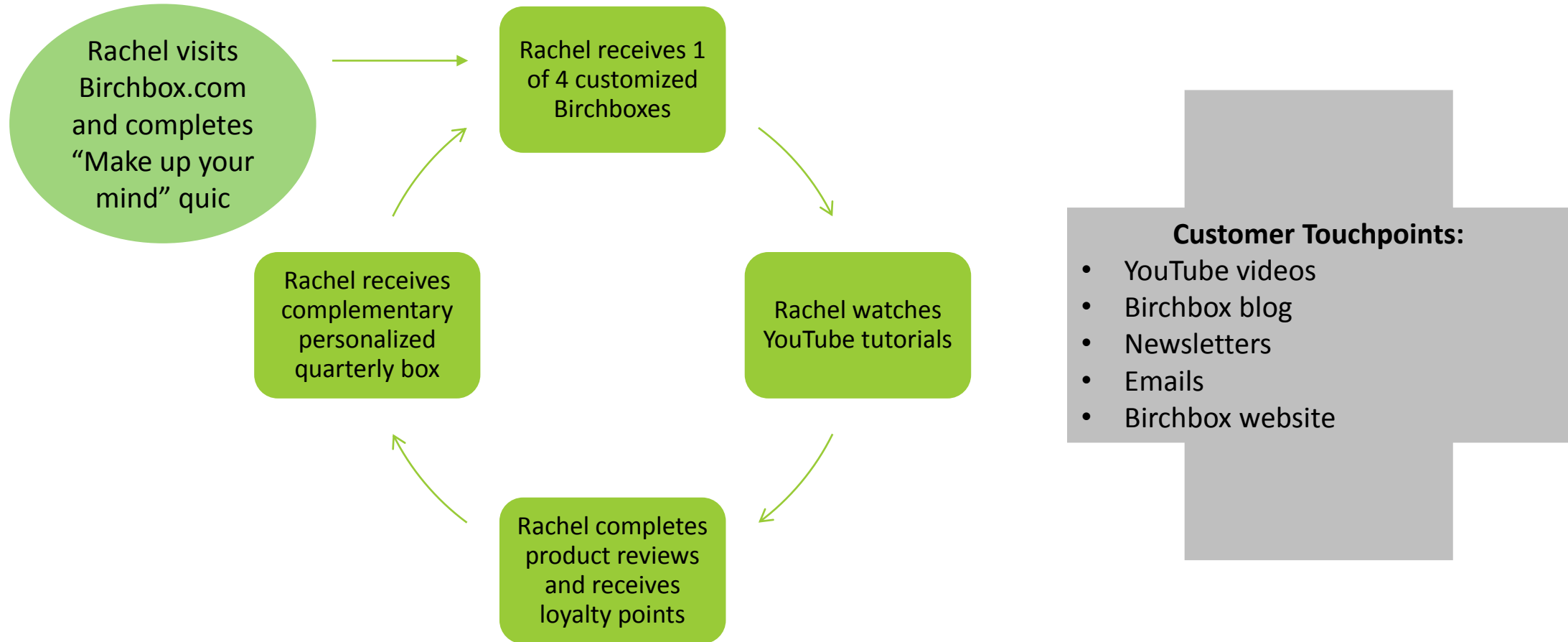
Data Analytics

Operational
efficiency



Implementation Plan: Increase sales and effectively utilize resources

	Activity	Timeline	Year 1	Year 2	Cost	KPI	Owner
Increase sales of Birch Box products	Push product samples through the boxes on monthly or quarterly basis				--	~9 million sub. by 2020	Sales and Marketing
Effectively utilize current data analytics platform	Enhance platform utilization - Hire Data Analytics Senior Manager - Predictive analytics and reporting for customized boxes				Absorbed by marketing	Reporting capabilities and customer pref.	Data Analytics
Customize boxes to align with consumer preferences	- Change customize boxes based on archetype (data) - 4 new box types - Introduce new quiz – “Make up your mind” monthly, renewal, fav items.				N/A -- ~\$84,000 repurposed	Improve customer satisfaction	Marketing

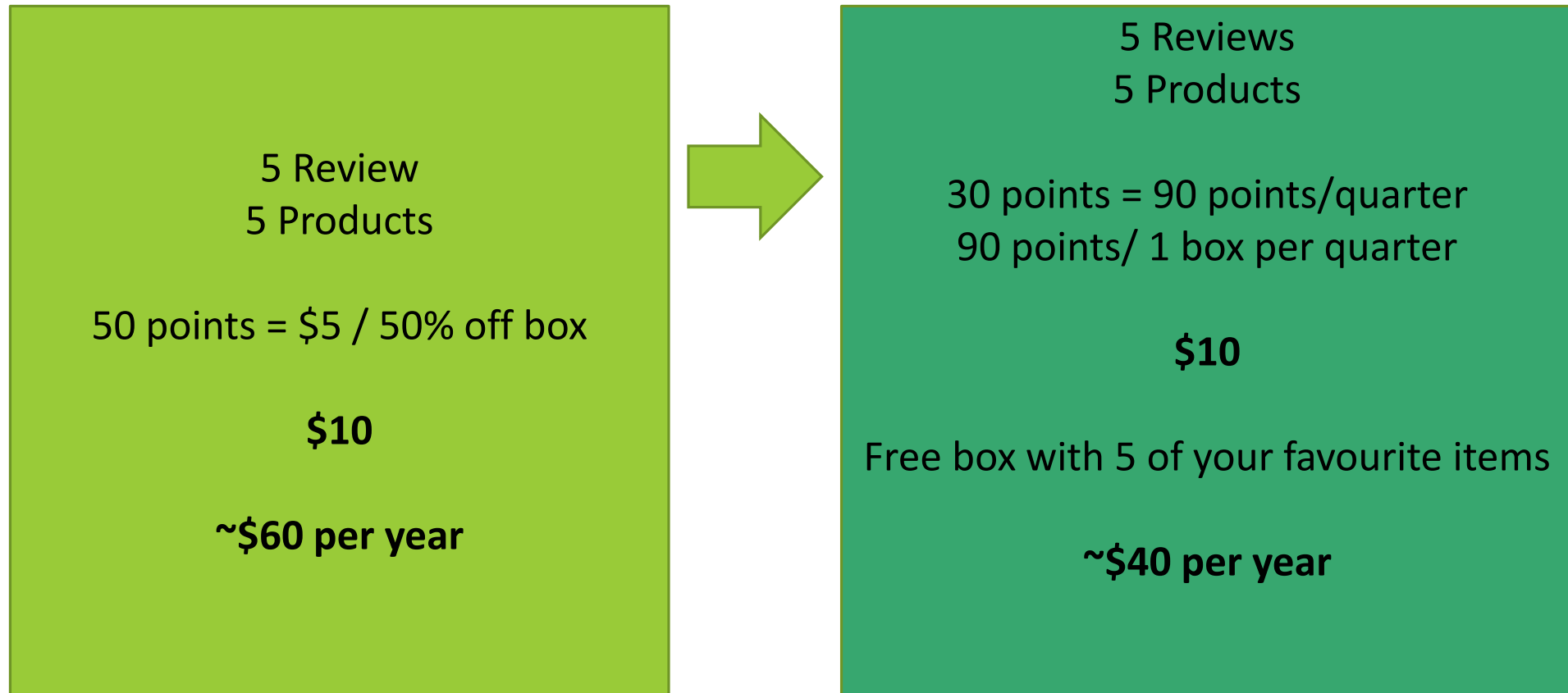
Future State: A pretty great customer experience






Implementation Plan: Increase sales and effectively utilize resources

	Activity \ Timeline	Year 1	Year 2	Cost	KPI	Owner
Revisions to the Loyalty Program	<ul style="list-style-type: none"> - Launch updated loyalty program to reduce cash outflow/ savings 				Increase in subscribers	Marketing
Organization changes to support new strategy/ re-purpose funds	<ul style="list-style-type: none"> - Reduce Marketing team headcount by 4 - + Data Analytics Manager - + Social Media Influencer - + Update Youtube videos on the website 			N/A -- ~\$84,000 repurposed	Increased customer satisfaction 1 million impressions	Marketing and Sales

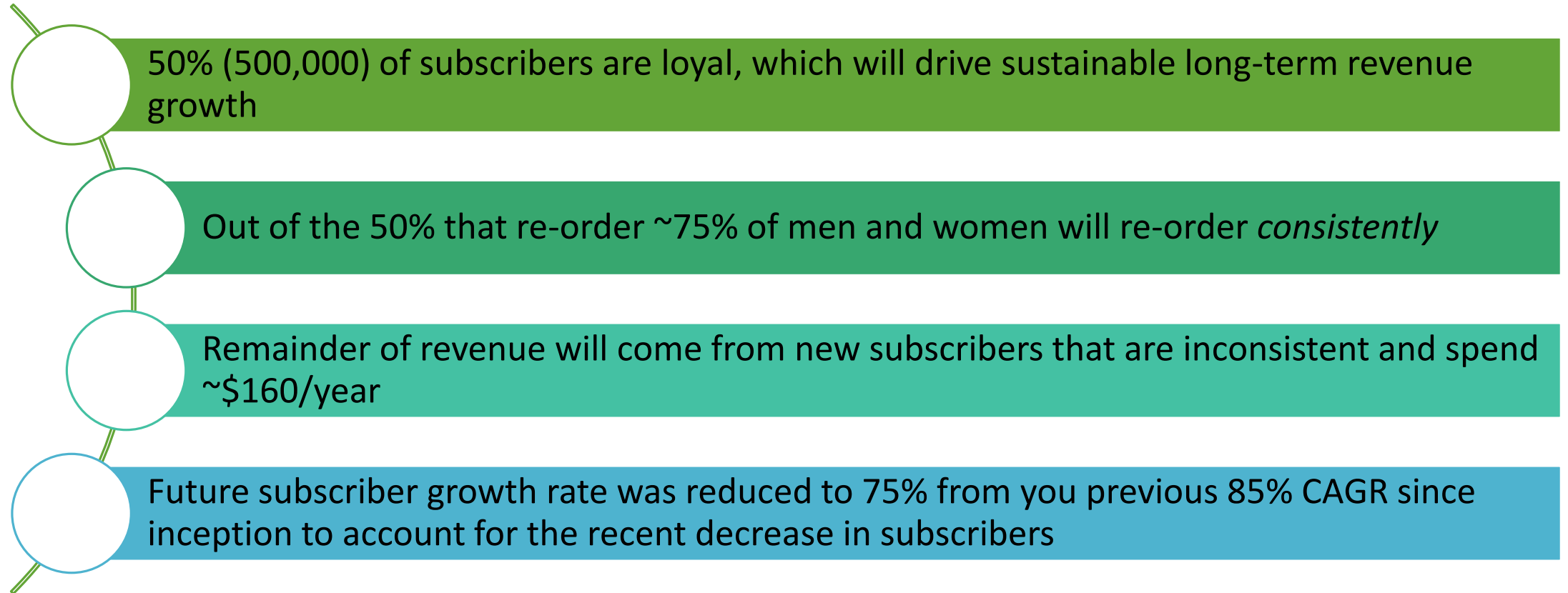
Loyalty Program: BOX POINTS



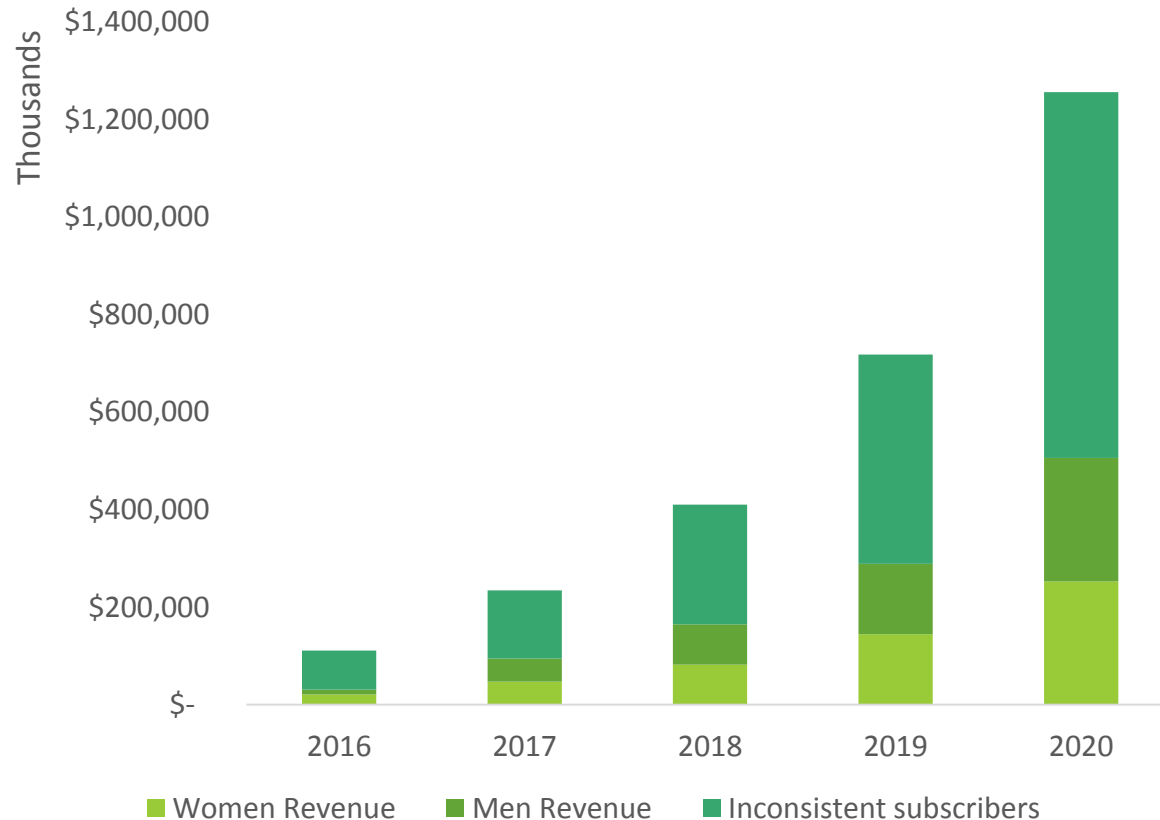
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	Timeline	Year 1	Year 2	Cost	KPI	Owner
	Activity					
Address challenges with 3rd Party Logistics	<ul style="list-style-type: none"> Discuss new terms with OHL Update delivery to staggered by box type 			--	Reduce shipment and labour costs	Operations
Ongoing products and instore sales	<ul style="list-style-type: none"> Closely monitor instore sales and product line to understand profitability No significant changes 			BAU	Break-even	Business Managers
Long-term considerations	<ul style="list-style-type: none"> M&A Shipment with preferred OHL partners Expand additional stores 			--	--	Executives & Investors

Key Financial Indicators for Subscriptions



Future Revenue Break-down



- Inconsistent subscribers will remain to be the majority of revenue, however the importance of converting them to re-order consistently will be monitored to re-adjust subscription retention
- With a 60% projected annual growth rate, Birchbox is projected to reach just over a billion dollars by 2020

Additional Cost Considerations

- Reduction in loyalty changes saving \$20/person annually for those who's post a product review
- Savings on Shipment
- Savings from HR re-organization
- Savings on operating costs from improved efficiencies (with lower margins currently, there is higher potential for savings, estimating ~15% improvement)

Funding

Initial funding	\$12M
2014	\$60M
Other	\$15M
Total	\$87M

Expected gross profit margins between 30%-40% that will result in gross profit between \$375M-\$500M

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Q&A
