

# The beauty of data capturing for BirchBox

---

PRESENTERS LUND CONSULTING:

TIMOTHY LILJEBRUNN, JESPER SUNDSTROM, KAISA VAINO, IRIS POLITIEK

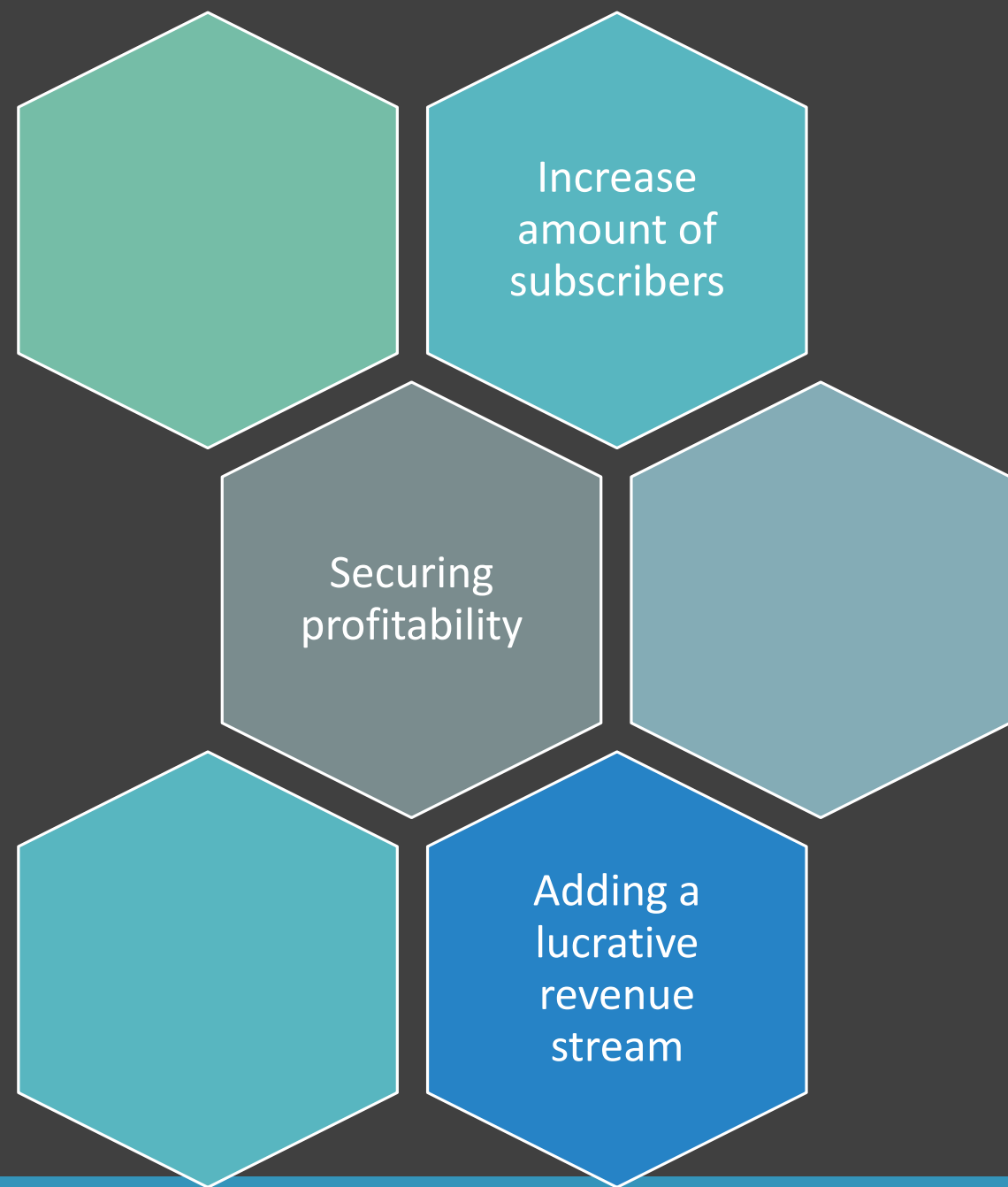
PRESENTING TO:

MRS. BARNA & MRS. BEAUCHAMP

YOUR MAIN  
CHALLENGE

How can BirchBox establish a competitive advantage to reach it's growth aspirations?

Imagine this future for Birchbox...



RECOMMENDATION

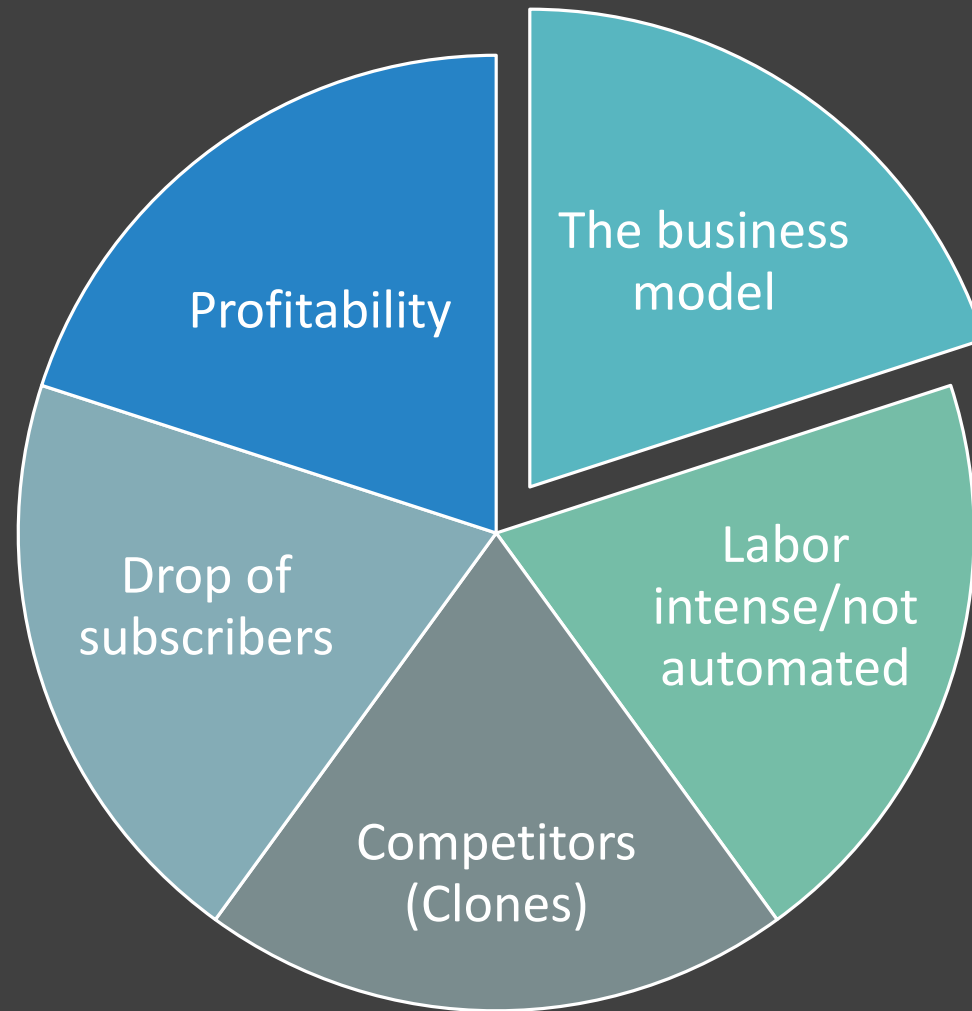
Adjusting business model by capitalizing on customer data for the beauty industry

# Today's agenda



# Situation – Birchbox is facing a lot of different challenges but the business model stands out

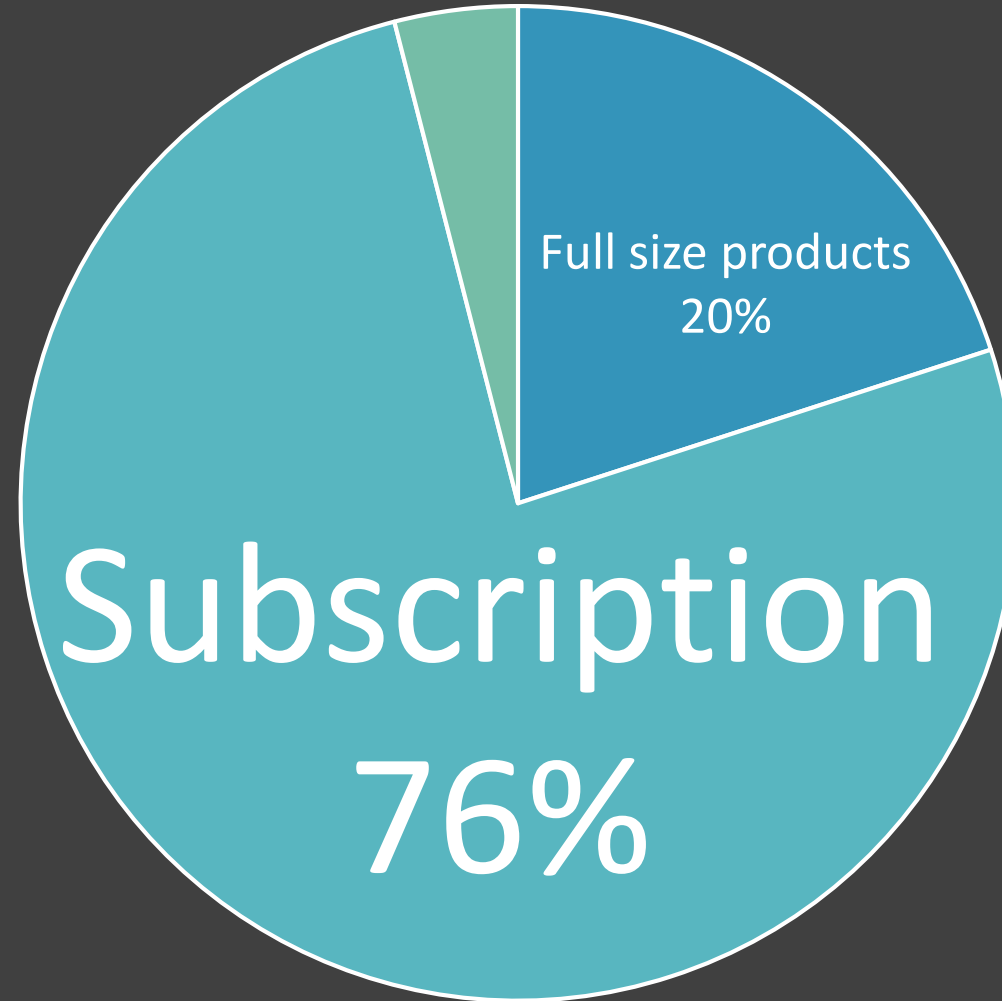
---



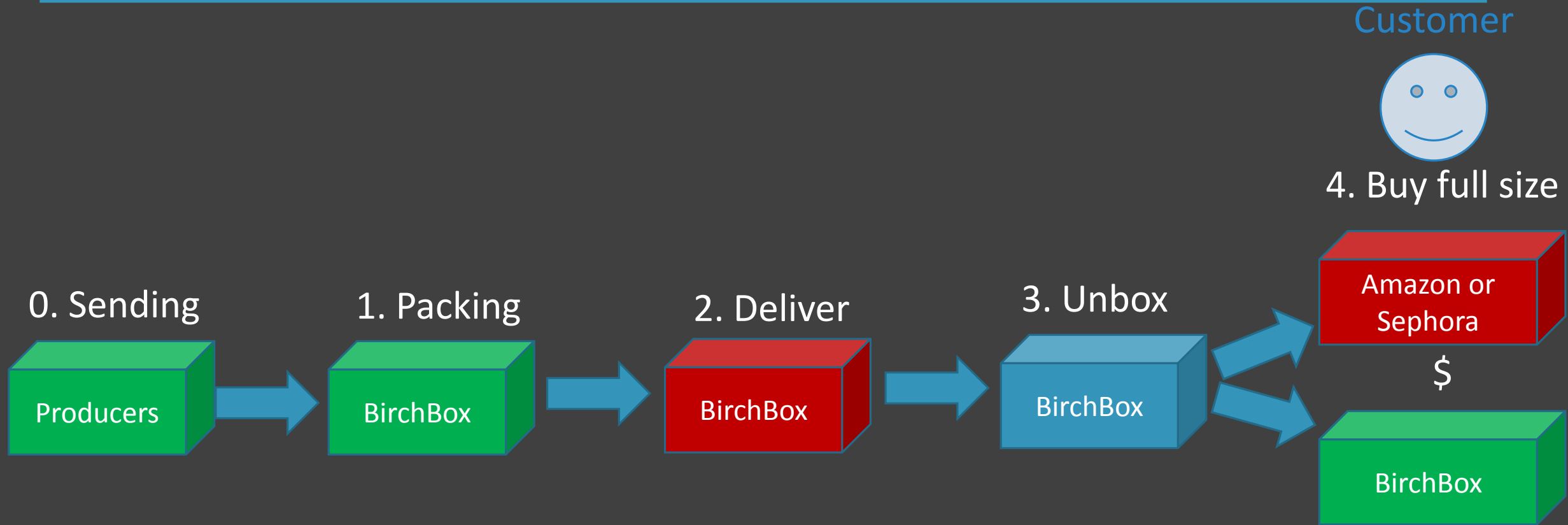
## Situation – The greatest revenue stream comes from unprofitable areas

---

Where does the revenue come from?



# Situation – The subscription based business model does not turn profitable easily



Process owed by Birchbox

Process owed by another party

Process owed by the customer

Situation

Analysis

Recommendation

Implementation

Financials

Risks

Conclusion



Experts:

“The subscription retail model might be unsustainable”

# Analysis

---



Situation

Analysis

Recommendation

Implementation

Financials

Risks

Conclusion

## Analysis – all competitions have strong positions

---

### Amazon

- Superior logistics
- Huge customer base

### GlosyBox

- Deep pockets
- High end profile scale

### Ipsy

- Strong marketing
- Strong growth

### Sephora

- Top of mind
- Big product range

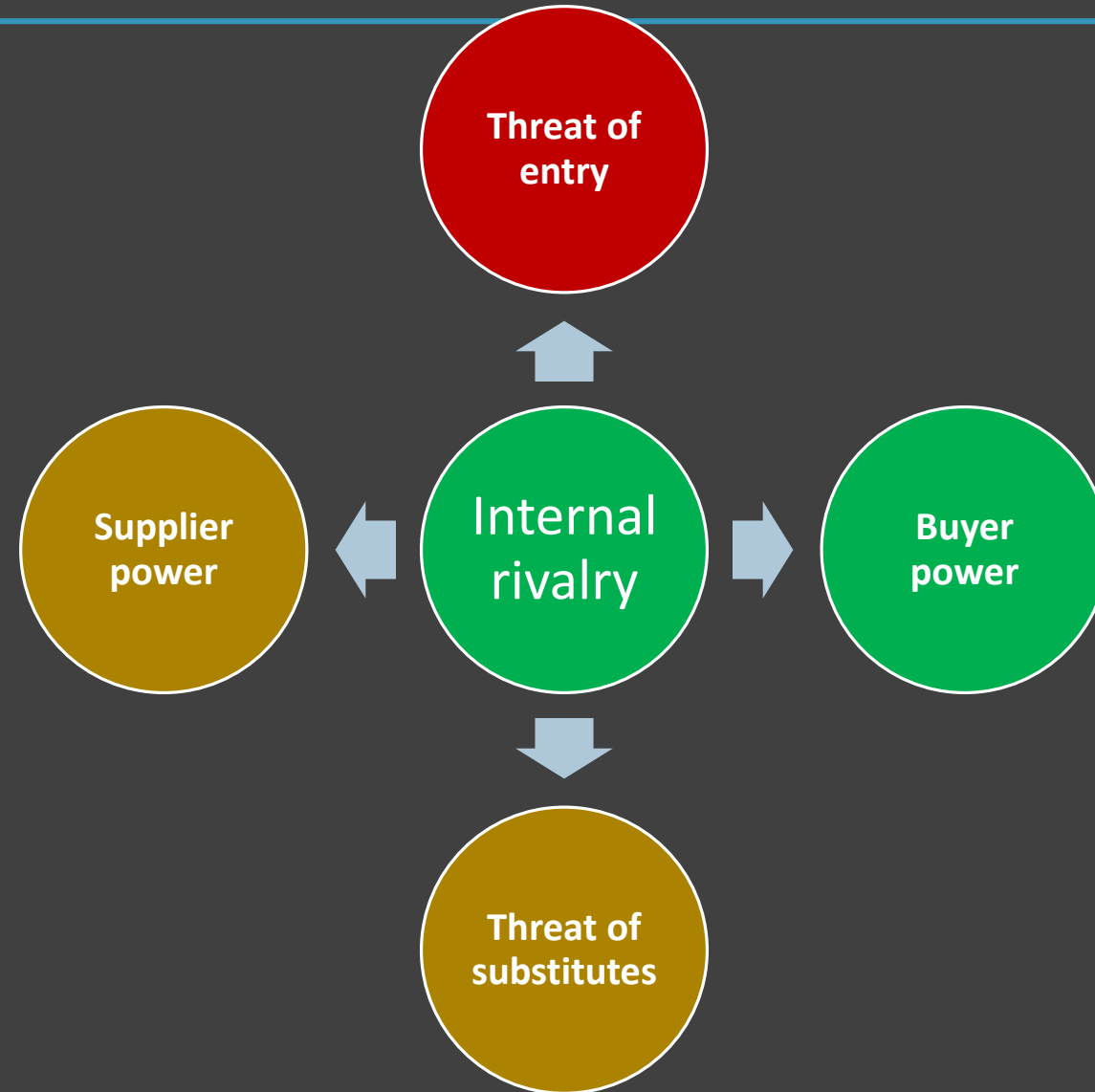


Need:

- Competitive advantage
- New market

# Analysis

---



Situation

Analysis

Recommendation

Implementation

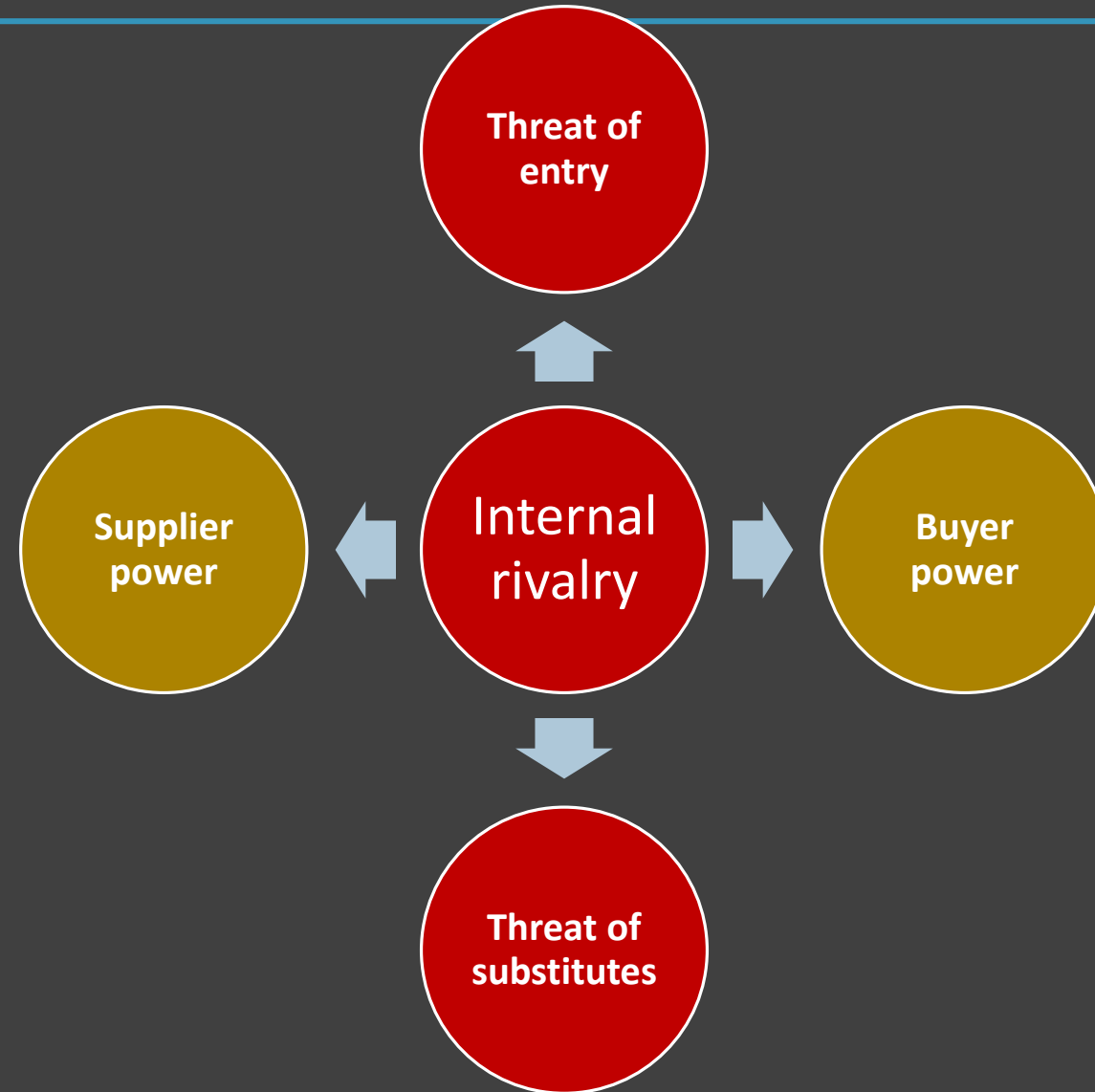
Financials

Risks

Conclusion

# Analysis

---



Situation

Analysis

Recommendation

Implementation

Financials

Risks

Conclusion

# Analysis

---

The two main stakeholders:



# Analysis

---

The two main stakeholders:





## Trends: in the beauty industry:



Complexity of industry



No. of brands

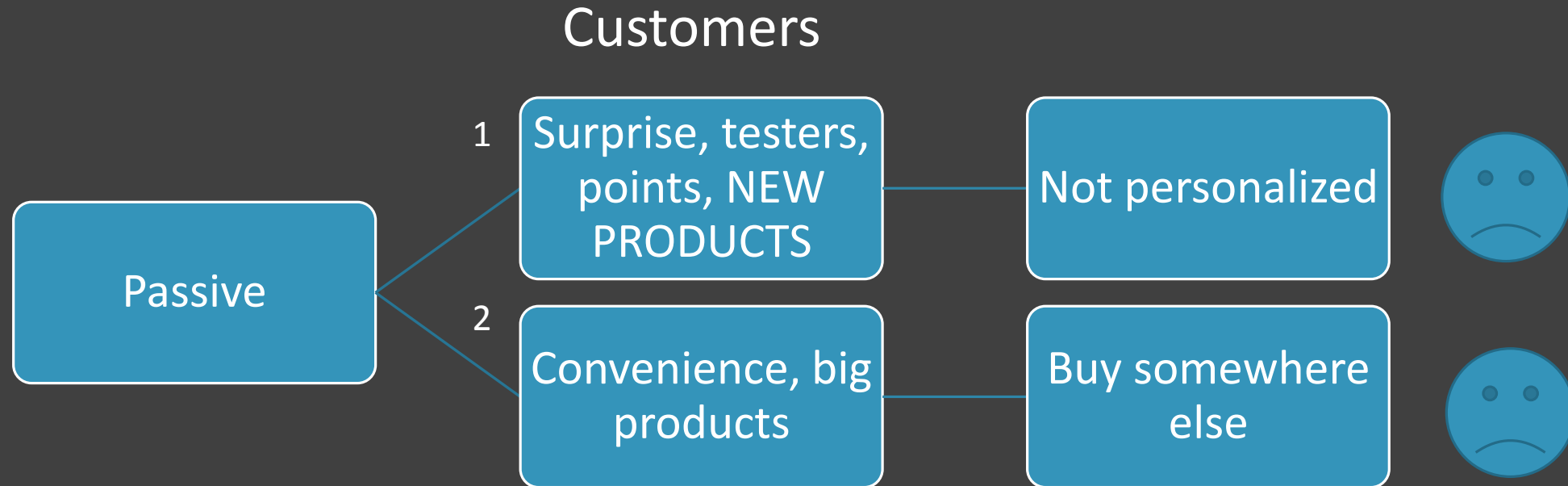


Brand loyalty

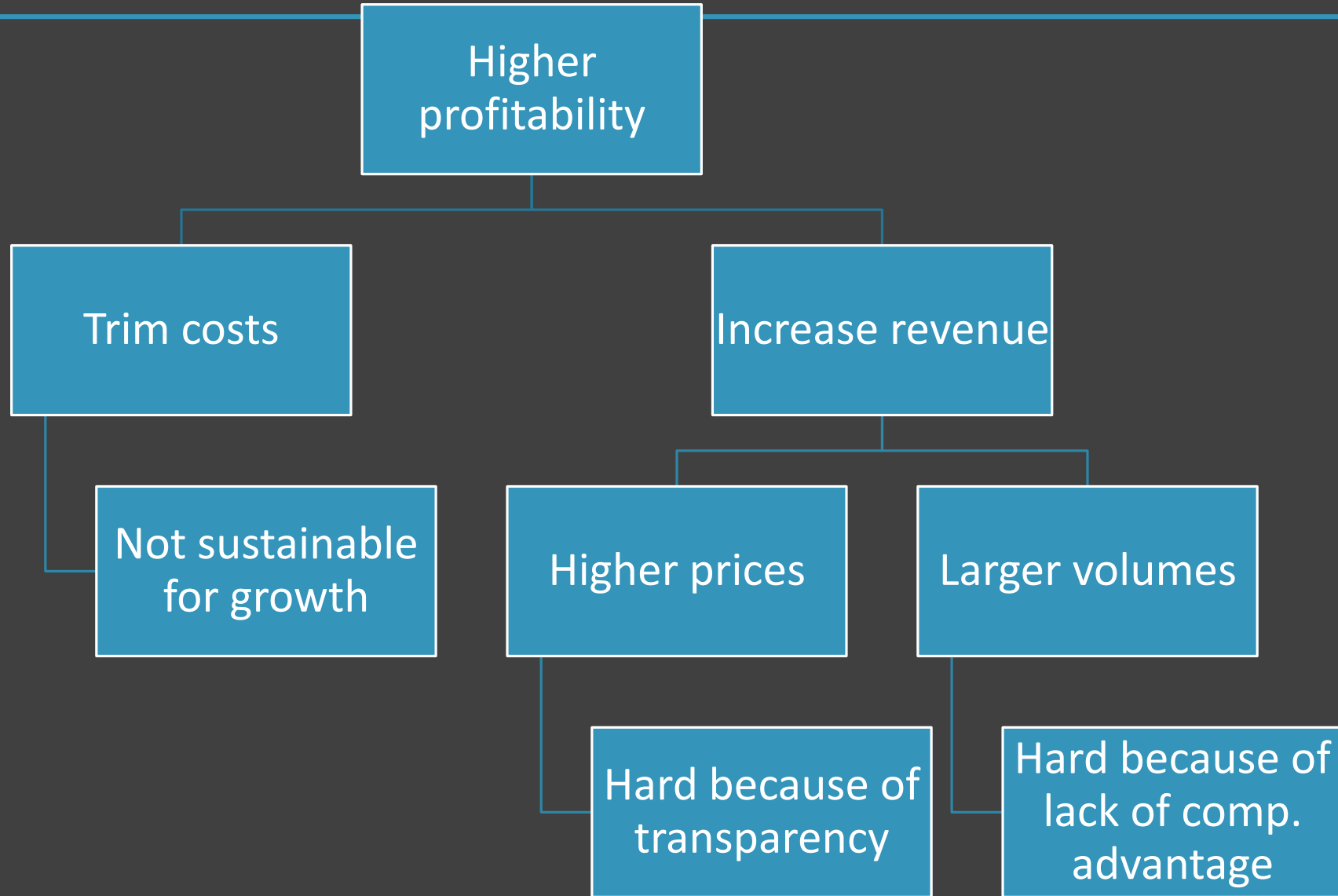


Importance of data

# Analysis



# Analysis



Situation

Analysis

Recommendation

Implementation

Financials

Risks

Conclusion

# Analysis

---

Situation

Analysis

Recommendation

Implementation

Financials

Risks

Conclusion

# Analysis

---

Situation

Analysis

Recommendation

Implementation

Financials

Risks

Conclusion

# Analysis

---

Situation

Analysis

Recommendation

Implementation

Financials

Risks

Conclusion

“Understanding buying behavior and preferences of customers is the Holy Grail”

## Recommendation

---

### YOUR MAIN CHALLENGE

How can BirchBox establish a competitive advantage to reach it's growth aspirations?



## Recommendation – Three viable alternatives moving forward

---

1

Automate packing process to become less labour intensive

2

Adjusting the business model by capitalizing on customer data for the beauty industry

3

Focus on the male segment with the current business model

## Recommendation – Four important criteria evaluating the alternatives

1

Growth potential

2

Profitability

3

Scalability

4

Investor attraction

5

Sustainability

## Recommendation – The second alternative is the superior choice

	Automate	Business model	Male
Growth	2	3	1
Profitability	1	2	3
Scalability	2	3	1
Investor	1	3	2
Sustainability	1	3	2
	<b>SUM: 7</b>	<b>SUM: 14</b>	<b>SUM: 9</b>

# Recommendation

---

Situation

Analysis

Recommendation

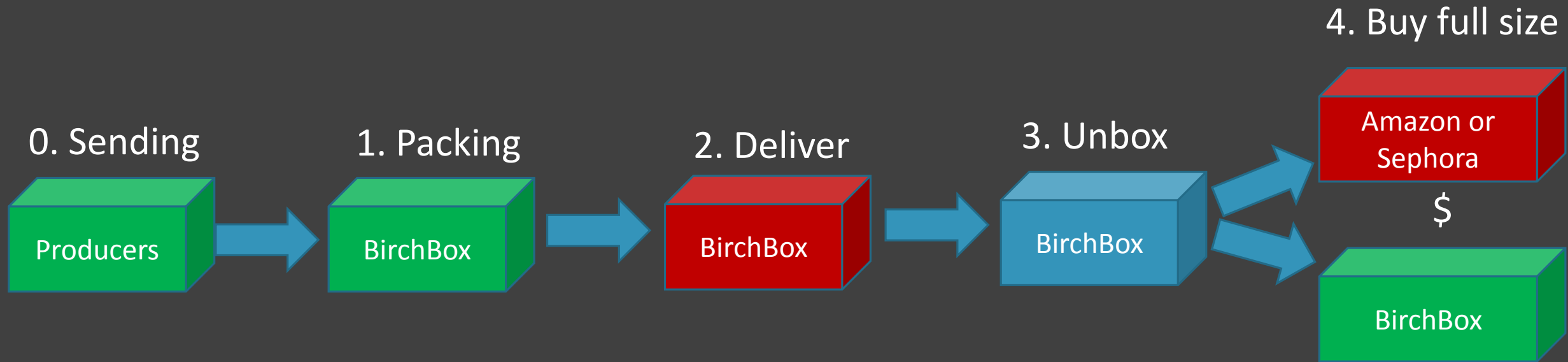
Implementation

Financials

Risks

Conclusion

# Implementation – Refocusing the key revenue model of Birchbox



Process owed by Birchbox

Process owed by another party

Process owed by the customer

Situation

Analysis

Recommendation

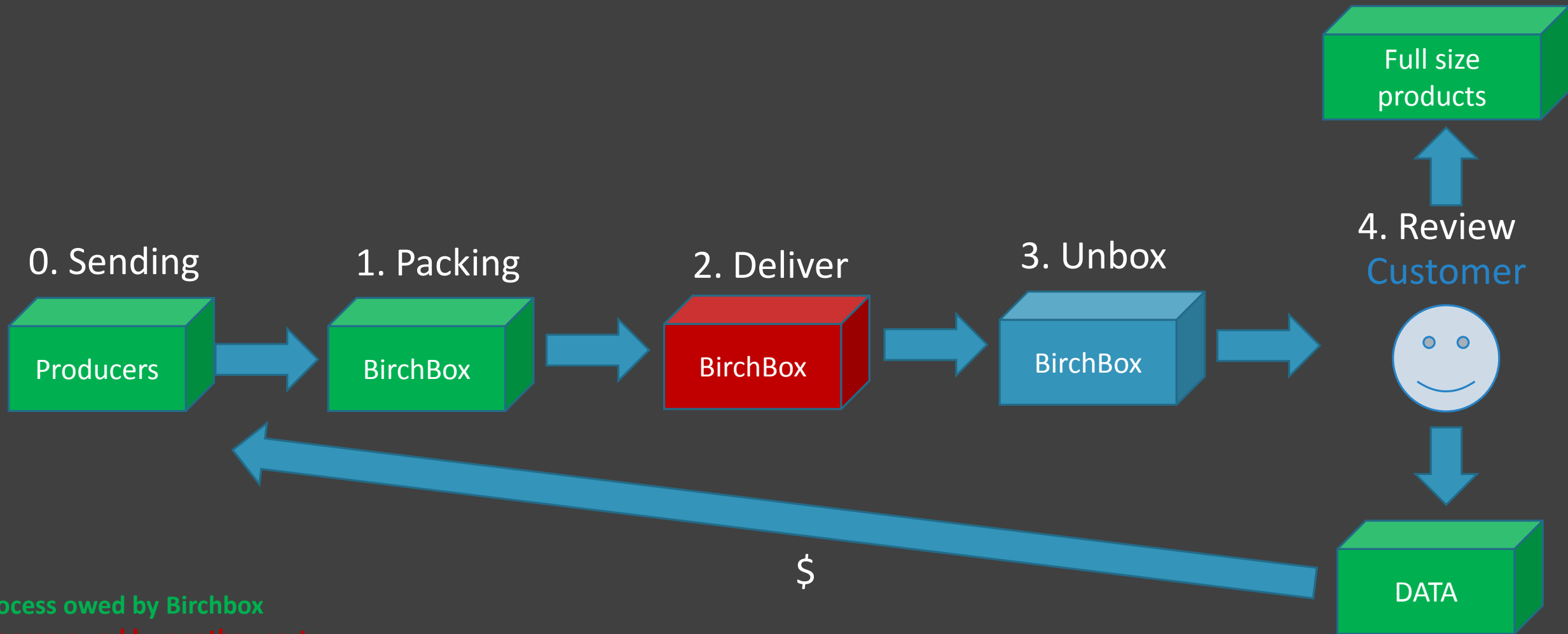
Implementation

Financials

Risks

Conclusion

# Implementation – Refocusing the key revenue model of Birchbox



Process owed by Birchbox  
Process owed by another party  
Process owed by the customer

# Implementation – Creating value in a hybrid business model

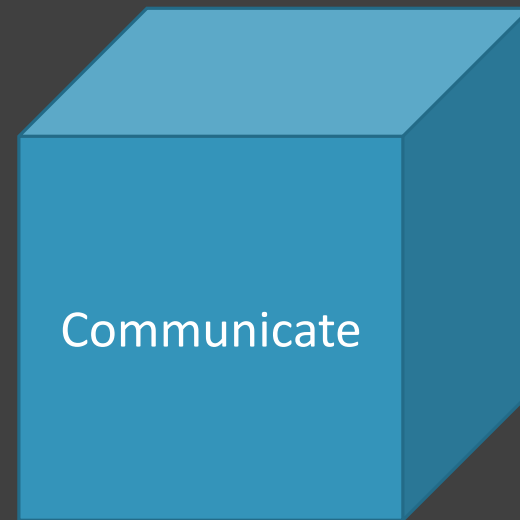
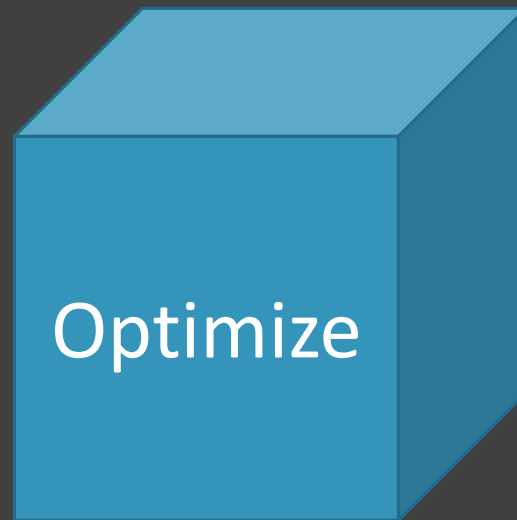
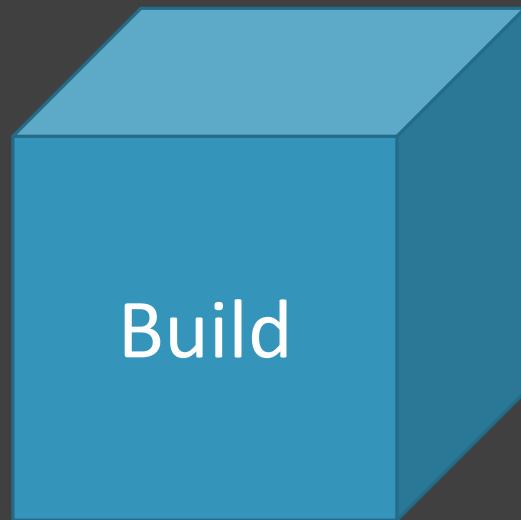
	B2b market	B2c market
For whom	Beauty innovative brands	Passive men and woman who like to come in touch with new products
In the market of	Data sales	Discovery retailing
Promising	High quality customer insight from over customers	3Certainty, inspiration and a continent buying process
Proven by	<ul style="list-style-type: none"><li>• Data reports,</li><li>• number of reviews,</li><li>• social media engagement</li></ul>	<ul style="list-style-type: none"><li>• Monthly surprise box</li><li>• Personalization efforts</li><li>• New pre-release products</li><li>• Growing subscription rate</li></ul>

“The beauty of the concept is capitalizing on a true discover and surprise by experiencing new products first”



## Implementation – Leveraging on the true customer desire, surprise

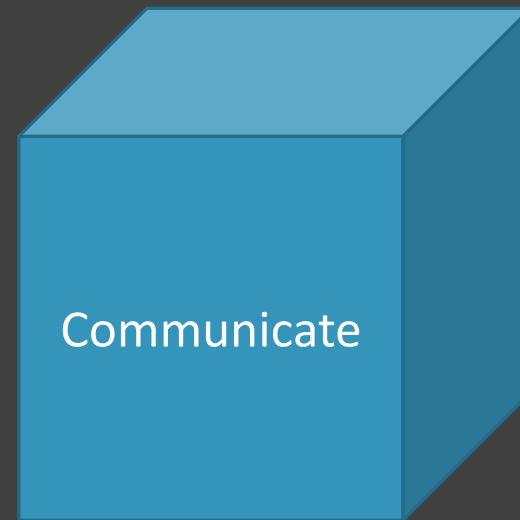
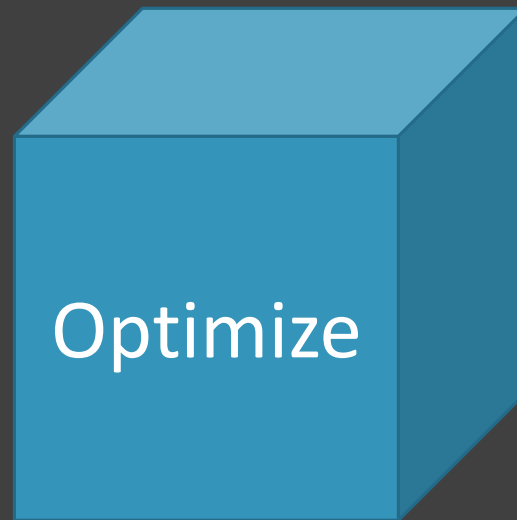
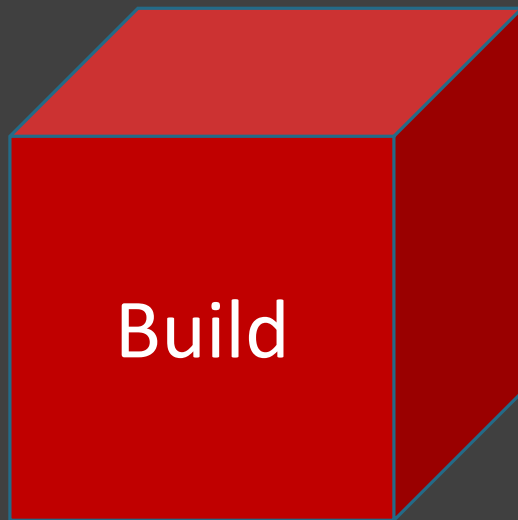
---



Adjusting business model by capitalizing on customer data for the beauty industr

## Implementation – Implement business model changes

---



Establishing a MVP by negotiating with brands

## Implementation – Build market research know-how and software

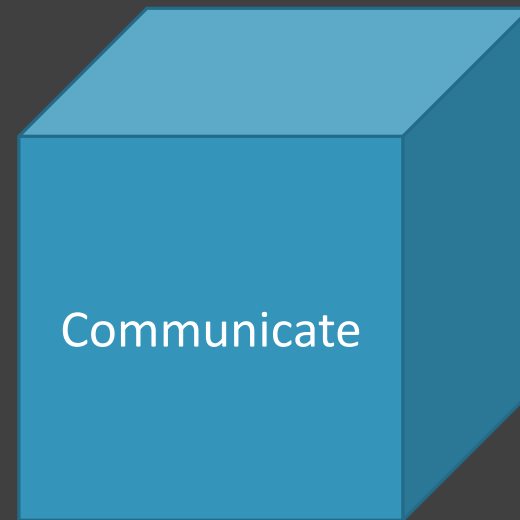
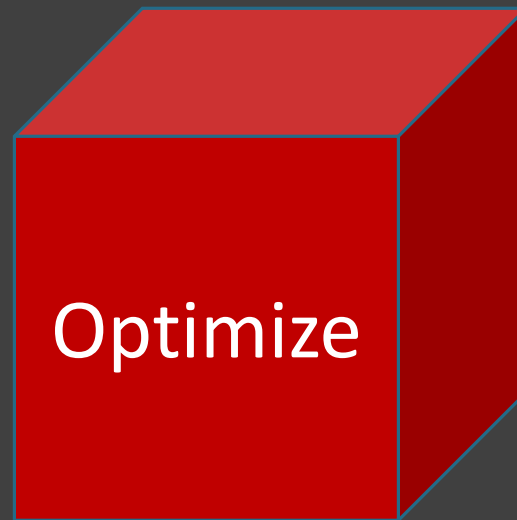
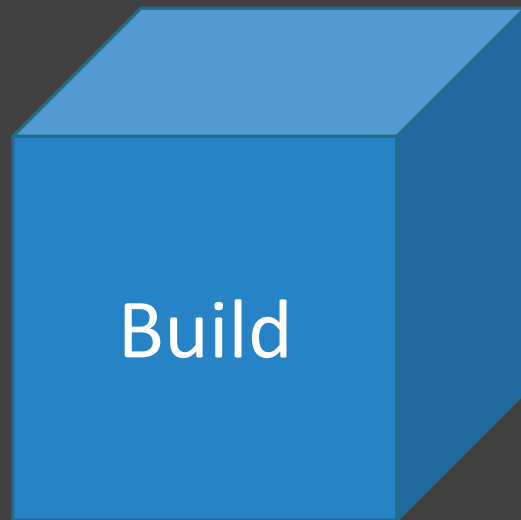
---



Starting with raw data as MVP, working towards market insights

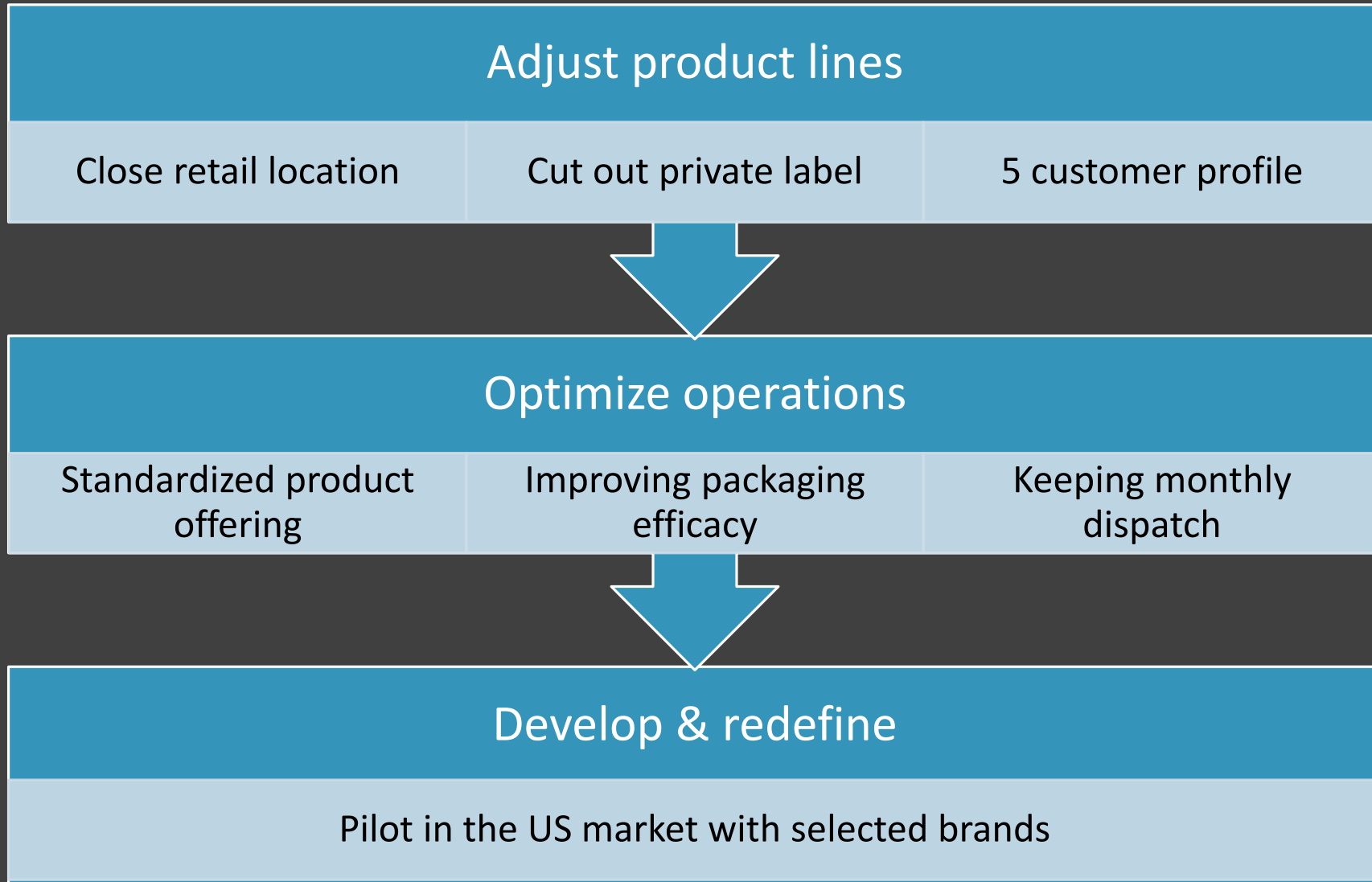
## Implementation – Identifying operational bottlenecks and improve

---



Standardize logistic operations by creating 5 customer profiles

# Implementation



Situation

Analysis

Recommendation

Implementation

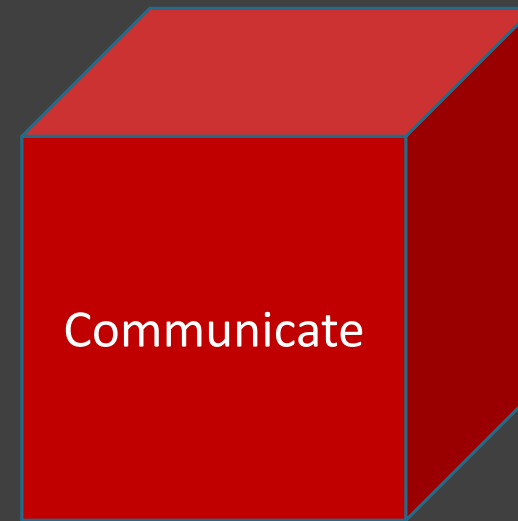
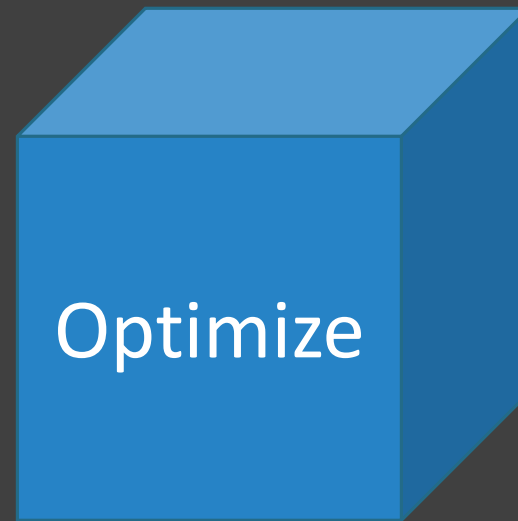
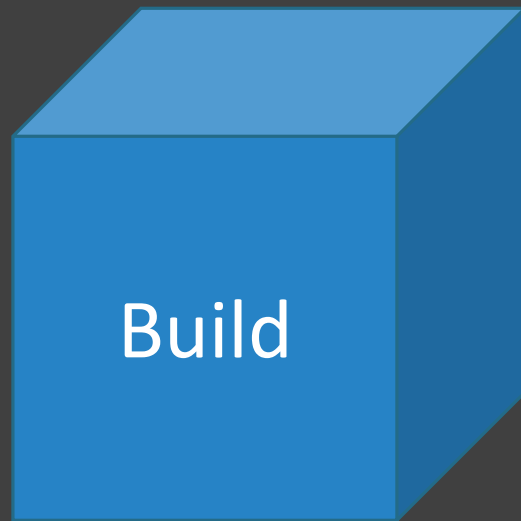
Financials

Risks

Conclusion

## Implementation – Allowing stakeholders to see the beauty of the concept

---



Innovate and attract stakeholders in the new business venture

## Implementation – Engaging all stakeholders

---

### Internally

- Enter a new business
- Same valuable proposition b2c
- Commutating b2b add on
- Expressing market potential

### Externally

- Awarding review loyalty points
- Experiencing pre-launch product testing
- Social media campaign
- Full disclosure on data sharing

Tackling the privacy issue head on: full disclosure

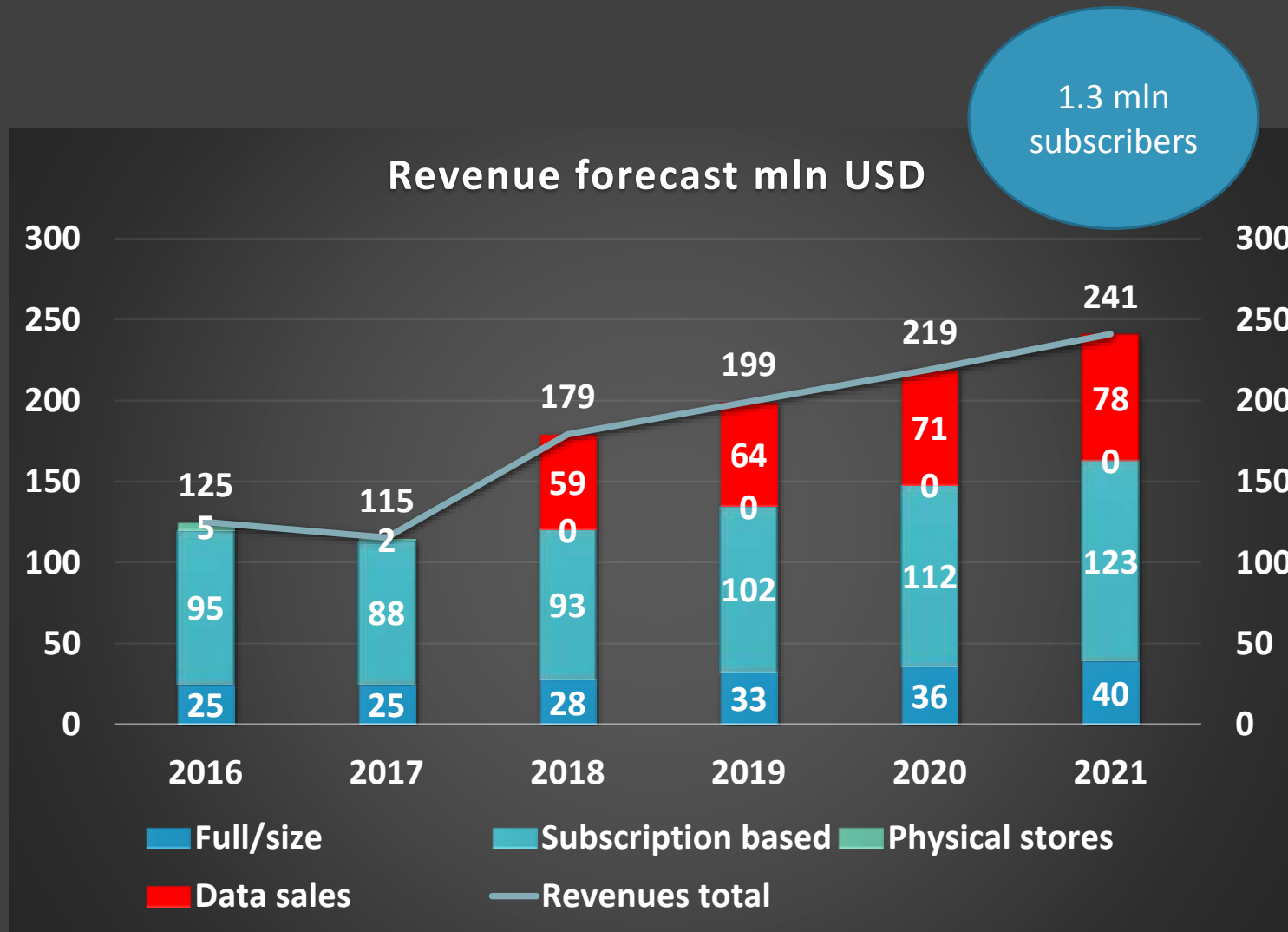
# Implementation – Double revenues by 2020

	2017	2018	2019	2020
Negotiate with brands				
Close retail & private label				
Adjust product offering				
Set up data collection				
Standardize operations				
Change loyalty program				
Refining data collection				
Pilot USA				
Commutation				

Provisioning one-off operational costs of 1-2 million USD



# Financials



Revenues growing 2x by 2020:

- Assuming ca **10% subscription base** growth annually
- Pricing models unchanged
- **Cutting out physical stores**
- Introducing **data sales** to partners (ca **30%** of revenues)

# Financials

Profitability (provisional)	2016	2017	2018	2019	2020	2021
Full size sales		25%	25%	25%	25%	25%
Subscription sales		-5%	-3%	-1%	0%	0%
Physical stores		20%	20%	20%	20%	20%
Data sales			50%	60%	60%	60%
<b>Gross margin %</b>		<b>1.9%</b>	<b>18.7%</b>	<b>23.0%</b>	<b>23.5%</b>	<b>23.5%</b>
CoS		2.2	33.5	45.8	51.5	56.7
S&A and general costs		5.0	15.6	21.9	18.7	20.5
<b>EBITDA</b>	<b>0</b>	<b>-3</b>	<b>18</b>	<b>24</b>	<b>33</b>	<b>36</b>
EBITDA	0%	-2%	10%	12%	15%	15%



Profitability can be increased through:

1. Cutting private label
2. Cutting physical stores
3. Reducing variety of boxes
4. Data sales carry high margin



**Targeting EBITDA % in range of 12-15%**

## What about investment costs?

With 15% EBITDA allowing ca 10 mln extra in 2018 on contingency costs and one-off OPEX and CAPEX items

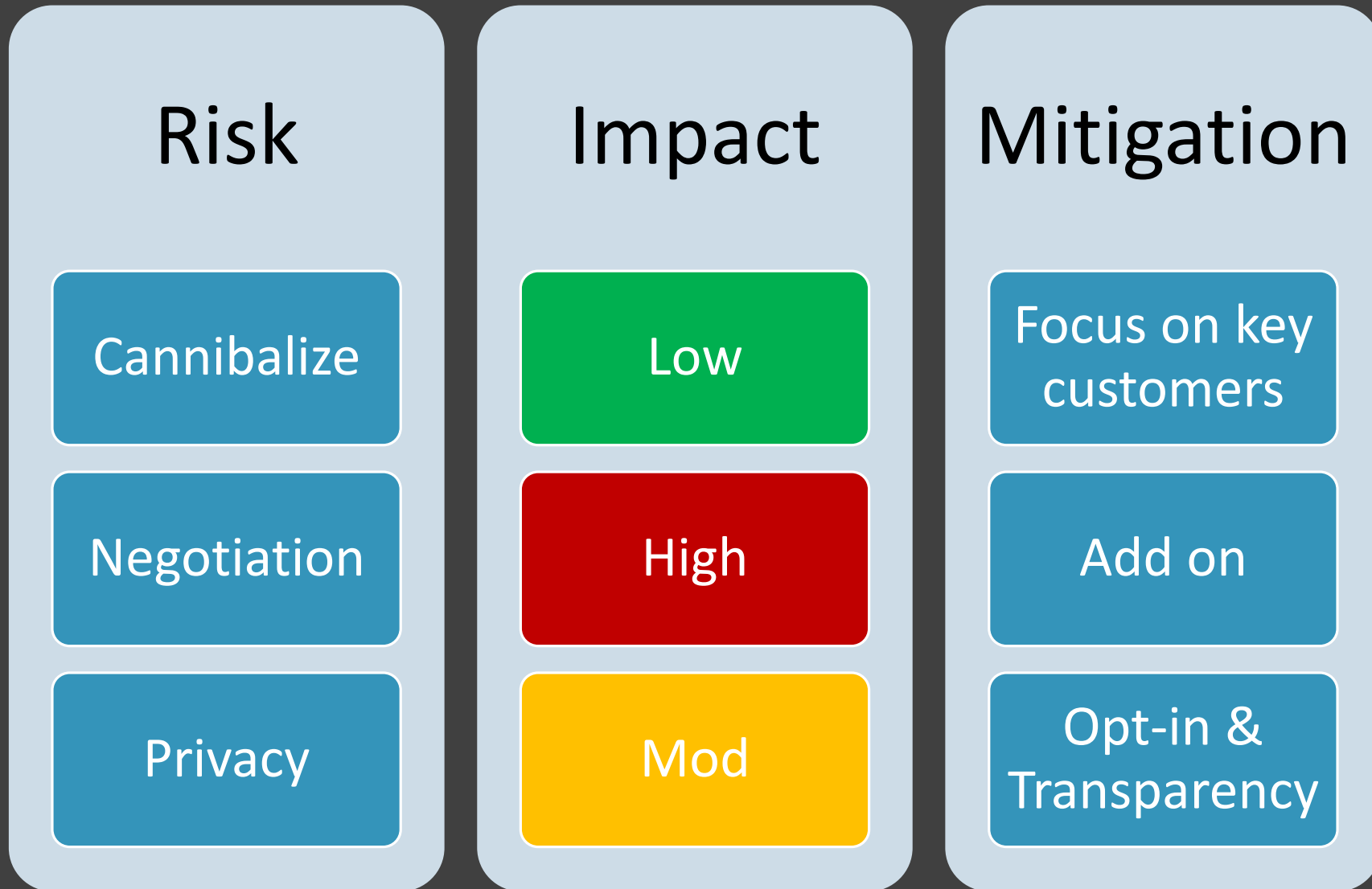
## What about funding?

87 mln equity raised so far

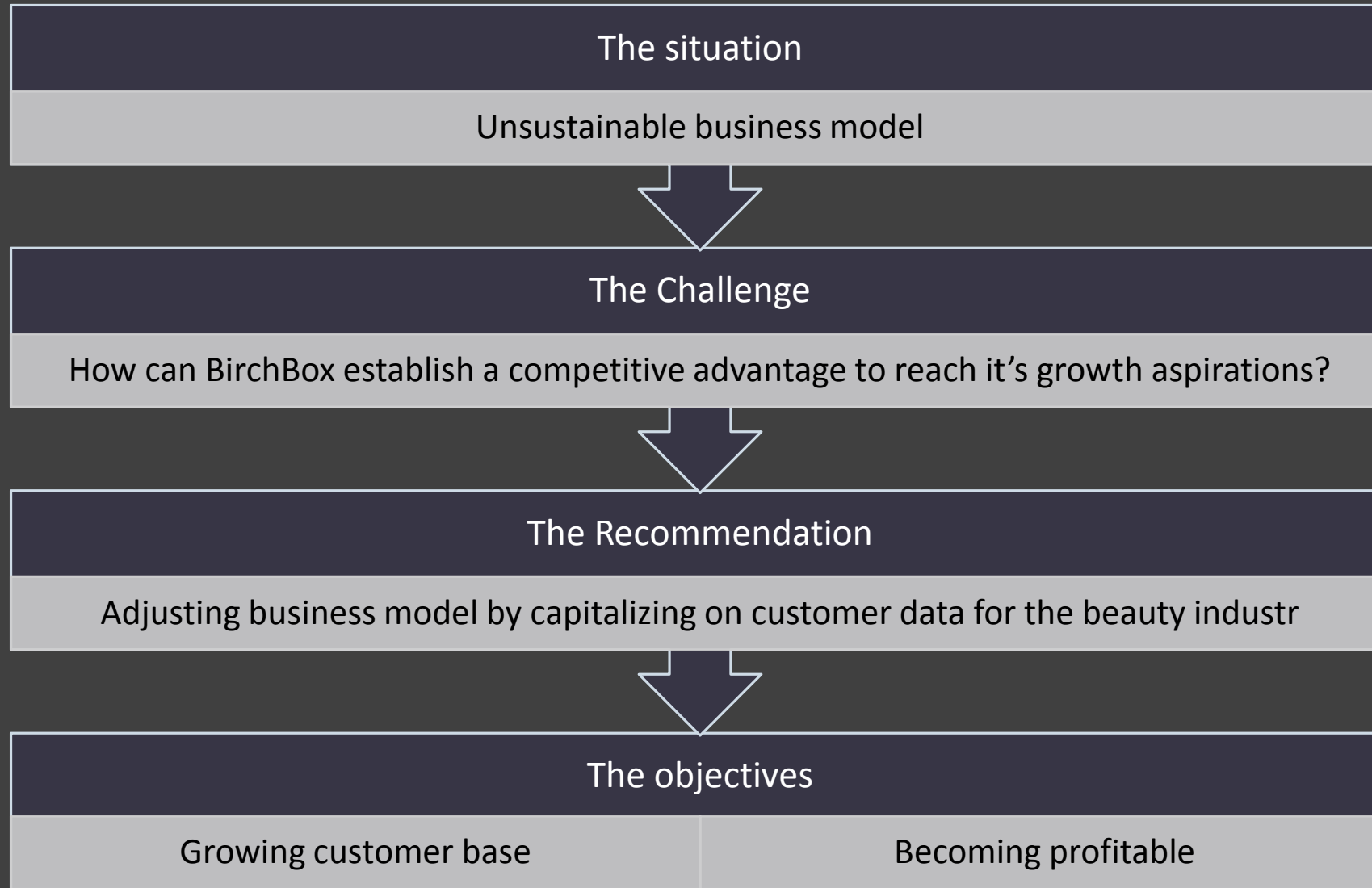
⇒ Profitability is being secured

⇒ Secure short term financing, refinance venture debt

# Risks – There are risks with various impact but they can all be mitigated



## Conclusion – Executive summary summarizing the presentation



Situation

Analysis

Recommendation

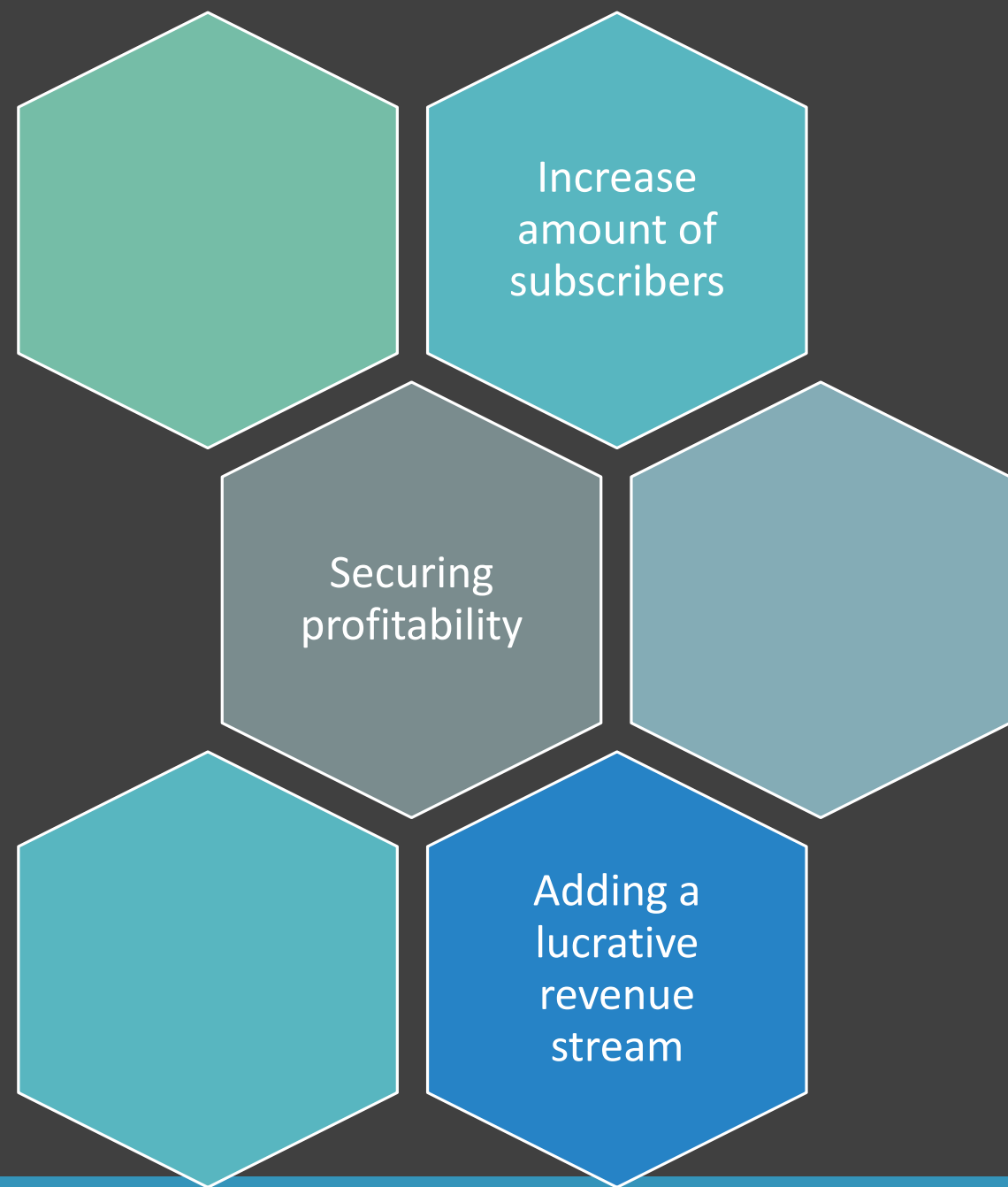
Implementation

Financials

Risks

Conclusion

Imagine this future for Birchbox...



## Back - up Market size projections

mIn USD		2015	2016	2017	2018	2019	2020	2021
Total		90000	95220	100809	106326	111851	117668	123791
Online		7200	8280	9522	10474	11207	11992	12831
Physical retail		82800	86940	91287	95851	100644	105676	110960
% online		8%	9%	9%	10%	10%	10%	10%
% physical retail		92%	91%	91%	90%	90%	90%	90%
Growth total			5.8%	5.9%	5.5%	5.2%	5.2%	5.2%
Online			15.0%	15.0%	10.0%	7.0%	7.0%	7.0%
Physical retail			5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Birchbox targeting % of online sales			1.5%	1.2%	1.2%	1.2%	1.2%	1.3%

## Back – Birchbox revenue assumptions

	2015	2016	2017	2018	2019	2020	2021
Subscription base growth			-7%	5%	10%	10%	10%
revenue per subscriber USD		95	95	95	95	95	95
Full/size % of subscriptions		26%	28%	30%	32%	32%	32%
Price per review sold USD			2	2	2	2	2
# of data reviews mln per year			27.9	29.3	32.2	35.4	39.0
Products reviewed yearly			60	60	60	60	60
Completion rate			50%	50%	50%	50%	50%
% of revenues							
Full/size		20%	22%	16%	16%	16%	16%
Subscription based		76%	77%	52%	51%	51%	51%
Physical stores		4%	2%	0%	0%	0%	0%
Data sales		0%	0%	33%	32%	32%	32%



## Back – Birchbox revenue forecast

	2016	2017	2018	2019	2020	2021
# of subscribers mln	1.0	0.9	1.0	1.1	1.2	1.3
Full/size	25	25	28	33	36	40
Subscription based	95	88	93	102	112	123
Physical stores	5	2	0	0	0	0
Data sales			59	64	71	78
Revenues total	125	115	179	199	219	241
Gross margin % (provisional)	2016	2017	2018	2019	2020	2021
Full size sales		25%	25%	25%	25%	25%
Subscription sales		-5%	-3%	-1%	0%	0%
Physical stores		20%	20%	20%	20%	20%
Data sales			50%	60%	60%	60%
Gross margin %		1.9%	18.7%	23.0%	23.5%	23.5%
CoS		2.2	33.5	45.8	51.5	56.7
S&A and general costs		5.0	15.6	21.9	18.7	20.5
EBITDA		-3	18	24	33	36
EBITDA		-2%	10%	12%	15%	15%