



Birchbox: Delivering Surprises

EASTERN EDGE CONSULTING

MEMORIAL UNIVERSITY

Agenda

- ▶ Analysis Krista
- ▶ Alternatives Priyank
- ▶ Recommendation
- ▶ Implementation Jeff
- ▶ Financials Chris
- ▶ Risks & Mitigations Krista
- ▶ Conclusion

Problem Statement

How does Birchbox achieve a sustainable market position?

Key Issues

Subscription business model

Increasing competition

Customer satisfaction

Costs

Key Objectives

- Strong, differentiated market position
- Profitable, sustainable business model
- Loyal customer base
- Healthy cash flow

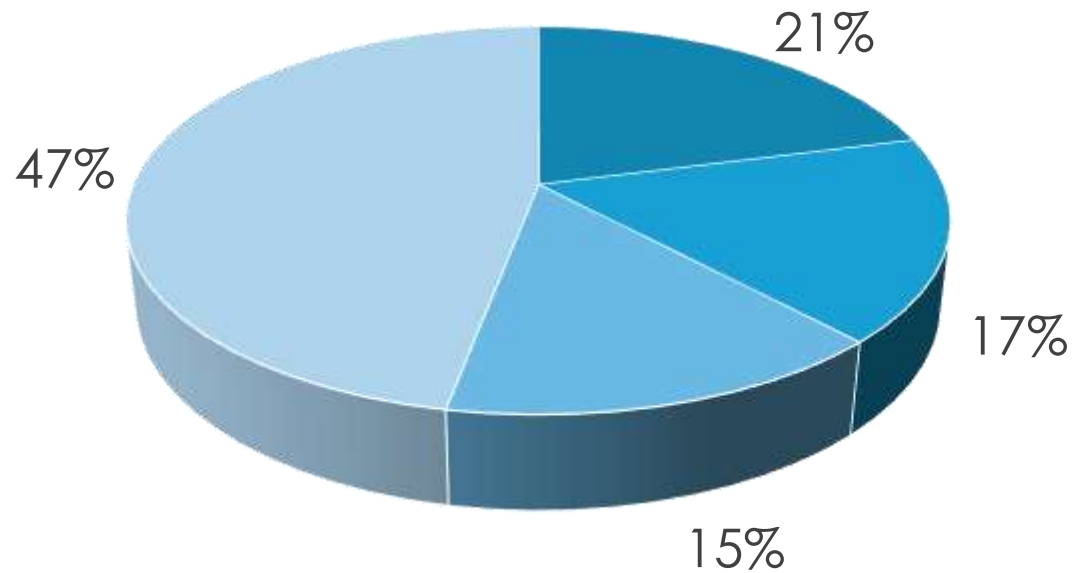
Recommendation

Birchbox can achieve a **sustainable market position** through **vertical integration** and adjusting its **target market**.

Analysis

External Analysis

Online Cosmetic Market size



Market Size (Billion USD)

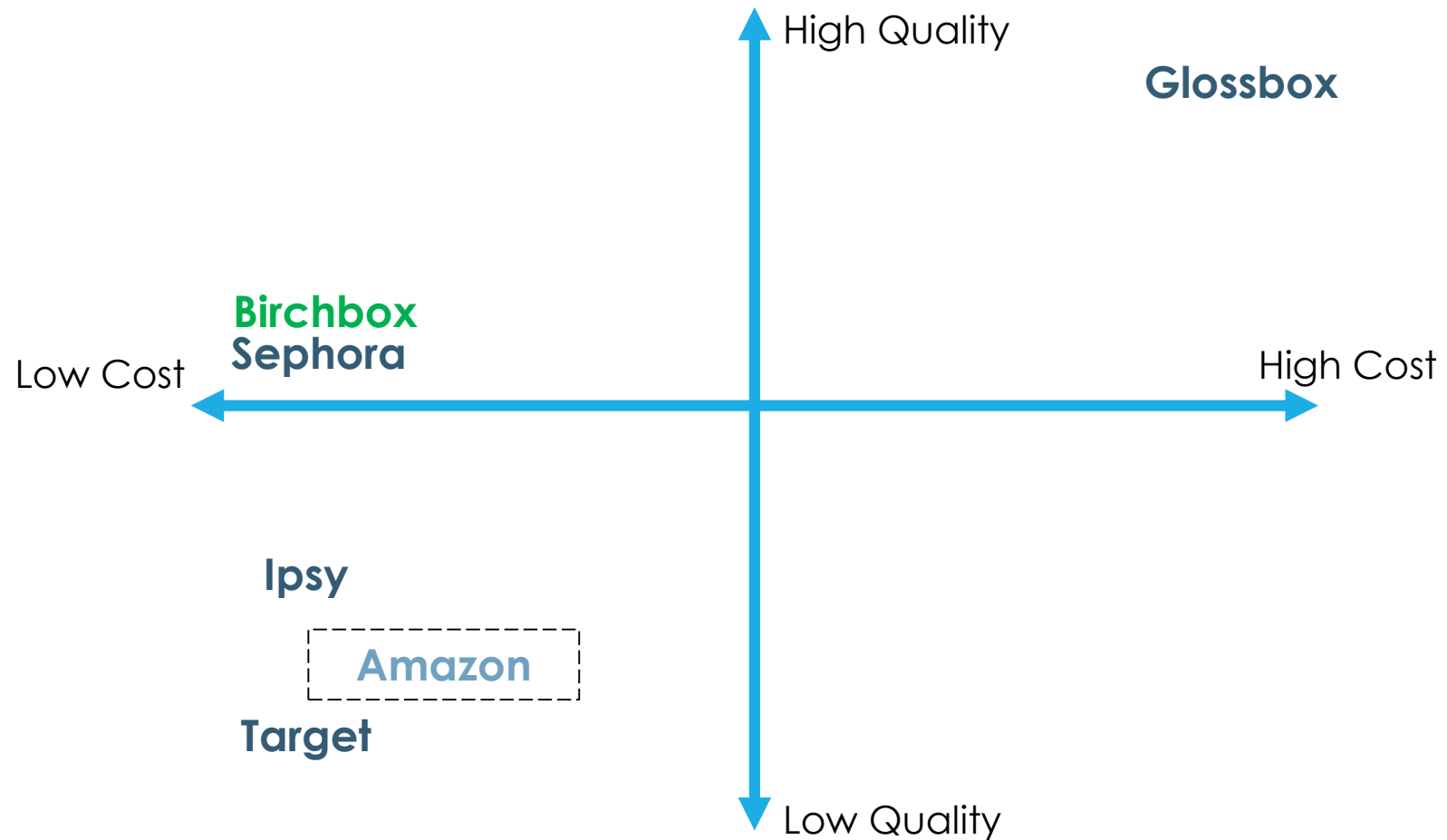
Amazon	1.5
Macy's	1.2
Sephora	1.1
Others	3.4

Colour cosmetic market growing at **8%** per year

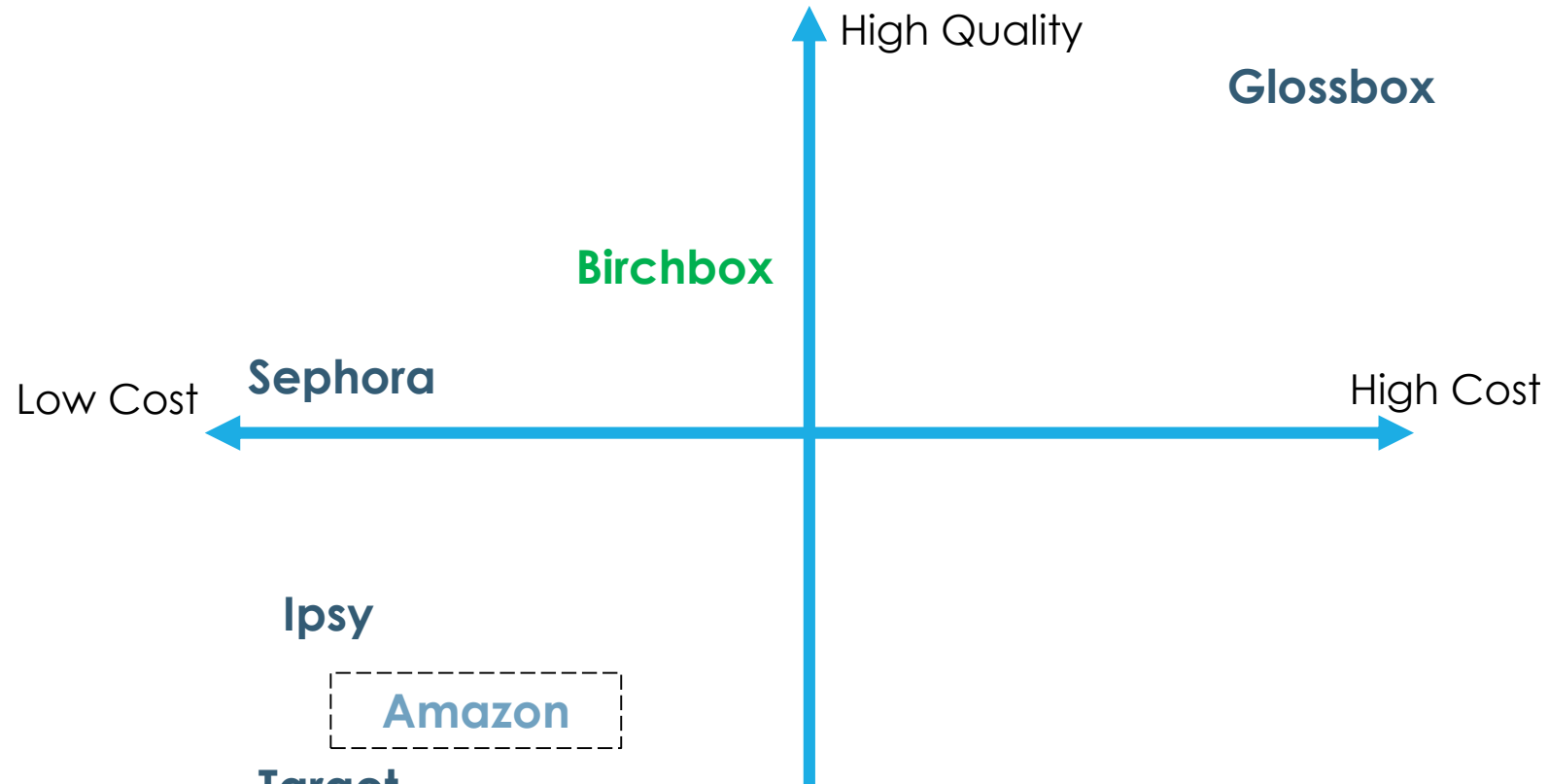
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Promising, but fragmented market

External Analysis



External Analysis



Gap in the market for Birchbox to fill

Internal Analysis

Subscription Business model

- Unproven?
- Sustainable?

Expensive

- Labour intensive
- Shipping restrictions
- Product variety

Can be successful with right target market

Internal Analysis

Product offering

- Subscription box
- Full sized products
- Physical store
- Private label

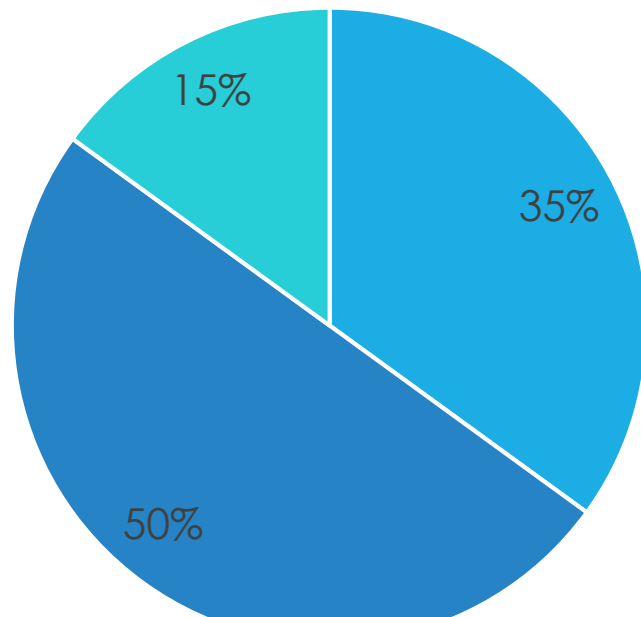
Current Customers

- Passive
- Uninvolved purchases
- Disloyal
- Low switching costs

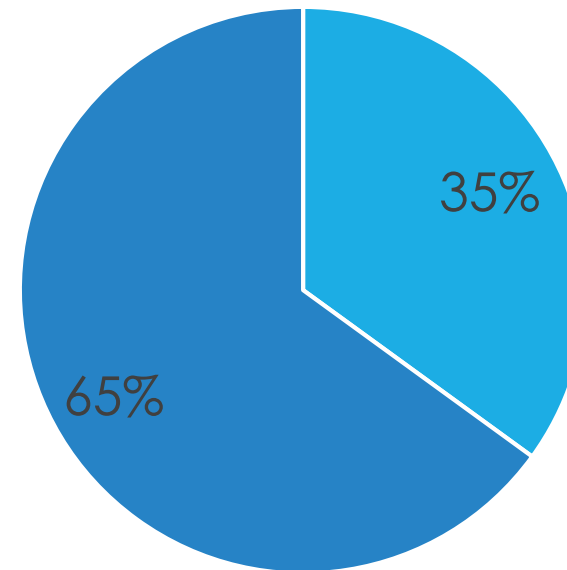
Profitable target market is key

Internal Analysis

Revenue Streams



- Subscribers who purchased full-sized products
- Subscribers
- Others streams



- Men's Business
- Women's Business

Emphasize the profitable segments

Assumptions

- ▶ Can raise financial capital to purchase producer
- ▶ Producers available to purchase

Alternatives

Alternatives

- Sell Birchbox
- Horizontal Integration
- Vertical Integration


Sell Birchbox




- Increasing competition
- Potential acquirers

- Not best time to sell
- Not aligned with expectations of the investors
- Effort in convincing the acquiring company
- Available potential in market

Horizontal Integration

- 
- Existing customer base
 - Similarity in business model
 - Increases variety and product lines in the boxes

- 
- Challenges of customer profiling and personality insights with increased product lines
 - Increasing costs with increasing economies of scale
 - Expensive & cost intensive

Vertical Integration



- Lower costs for private label products
- Adds unique product lines
- Increases customer loyalty
- Increased variety with ability to manufacture at lower costs

- Requires money to be raised
- Difficulty finding target



Decision Matrix

	Sell Birchbox	Horizontal Integration	Vertical Integration
Strong, differentiated market position	X	✓	✓
Profitable, sustainable business model	X	X	✓
Loyal customer base	X	✓	✓
Healthy cash flow	✓	X	✓



Recommendation

Recommendation

Birchbox can achieve a **sustainable market position** through **vertical integration** and **adjusting its target market.**

Implementation

Implementation - Summary

<6 months

- Identify customer
- Update pricing and loyalty system

< 1 year

- Raise capital
- Identify/acquire cosmetics producer

>2 years

- Launch marketing plan
- Focus on customer experience

Customer Identification

<6 months

Current Customer

- Passive
- Uninvolved purchases
- Disloyal
- Low switching costs

Updated Target Customer

- Knowledgeable
- Passion for high quality/interesting products
- Selective

Pivot to upscale customer target

Pricing

<6 months

Current Pricing

- Women's Subscription: \$10/month
- Men's Subscription: \$20/month

Updated Pricing

- Women's Subscription: \$20/month
- Men's Subscription: \$20/month

Update subscription pricing to reflect customer

Loyalty System

<6 months

Current System

- 10 Points = \$1
- \$10 Purchase = 10 pts
- 1 Review = 10 pts
- Referral = 50 pts

Updated System

- 10 Points = \$1
- \$10 Purchase = 15 pts
- 1 Review = 5 pts
- Referral = 50 pts

Increased focus on purchases

Identify Target

<6 months

Producer of color
cosmetics

Established
design/production
capabilities

Existing high-
quality brands

Financial fit

Complementary
work culture

Producer of appealing products

Target Integration

6 months –
1 year

Retain acquired
brands

Integrate staff
into existing
organizational
structure

No expected
layoffs

Focus on stability

Marketing Plan

<1 year

Online

- Brand Ambassador: Emma Watson
- Vlogger Relationships
- Social Media: Instagram, Snapchat, Facebook

Pop Up Shops

- Banana Republic
- White House Black Market

Fashion Magazines

- GQ
- Vogue

Continued Innovation

1+ years

Product

- Customization
- Packaging enhancements
- Expanded product lines
- Leverage reviews

Technology

- Website improvements
- Personality insights algorithm
- Robotic box assembly

Continue to focus on improving experience

Financial Analysis

Birchbox Valuation

Consideration:

- ▶ Number of regular subscribers: 500,000
- ▶ Value per customer: $\$20 \times 12$: \$240

Value of the company: 120 Million

Historical Valuation: ~90 Million

- ▶ Number of regular subscribers: 700,000
- ▶ Value per customer: $\$10 \times 10$

Capacity to borrow: 30 Million

Allocation of Capital

▶ Source of Funds:

Venture Capital and Bank Borrowing

▶ Use of Funds:

▶ Vertical integration-
Purchase of target: 20
Million

▶ Marketing: 10 Million

Marketing	Million USD
Brand Ambassador	1
Online Marketing	5
Pop-up stores	3
Other Marketing Efforts(Fashion Magazines)	1
Total	10

Revenue Growth

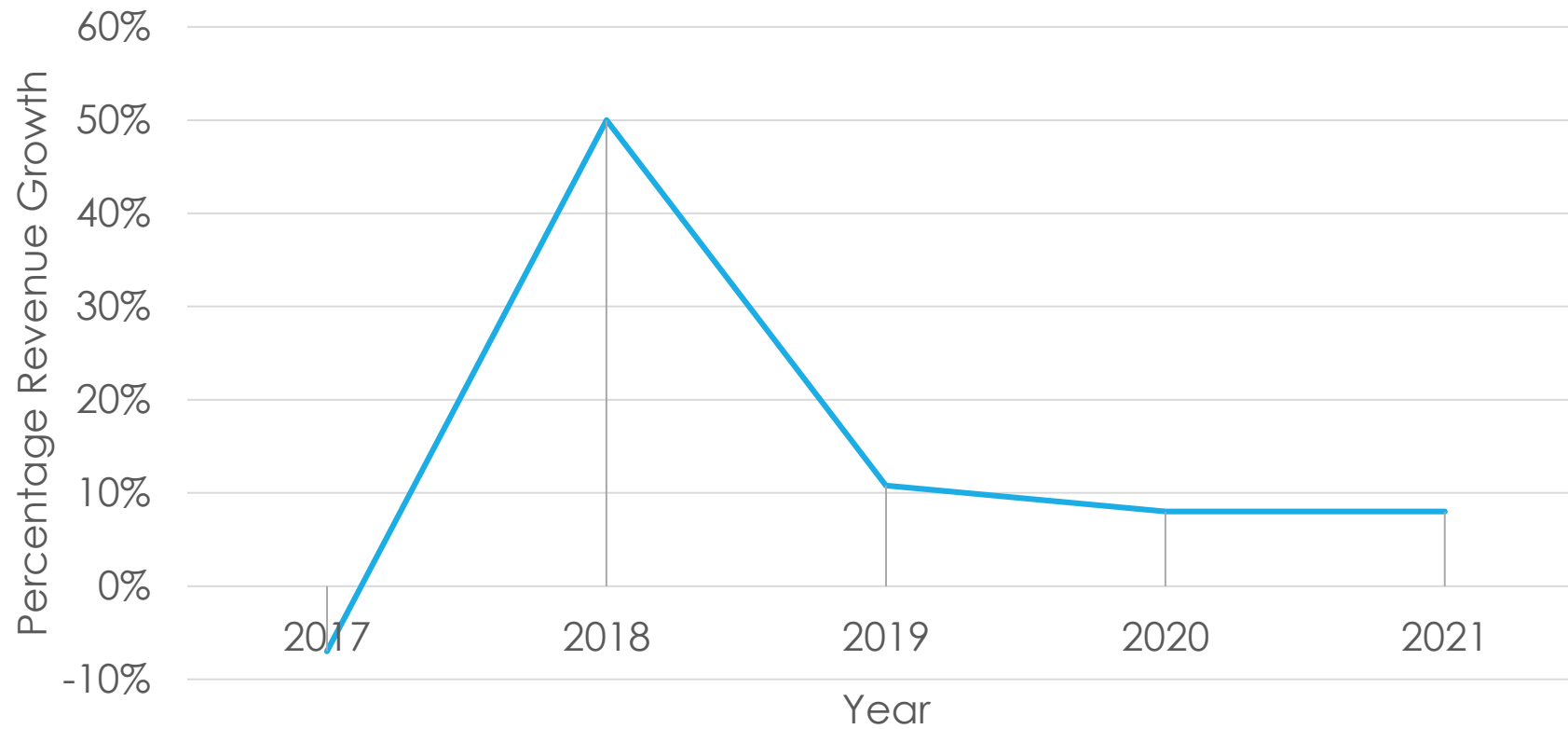
Revenue	2016	2017	2018	2019	2020	2021
Subscribers	\$ 62.5	\$ 58.1	\$ 116.3	\$ 125.6	\$ 135.6	\$ 146.4
Full-product purchase	\$ 43.8	\$ 40.7	\$ 40.7	\$ 48.8	\$ 52.7	\$ 56.9
Others	\$ 18.8	\$ 17.4	\$ 17.4	\$ 18.8	\$ 20.3	\$ 22.0
Total	\$ 125.0	\$ 116.3	\$ 174.4	\$ 193.2	\$ 208.7	\$ 225.4

Impact of doubling subscription charge: 2018

Impact of vertical integration: 20% increase in full-product purchase in 2019

Stable growth rate: 8%

Revenue Growth



After Tax Operating Profit

Million USD	2018	2019	2020	2021	
Revenue	\$ 174.4	\$ 193.2	\$ 208.7	\$ 225.4	
Gross Profit	\$ 104.6	\$ 115.9	\$ 125.2	\$ 135.2	60%
Administrative	\$ 17.4	\$ 19.3	\$ 20.9	\$ 22.5	10%
Marketing, Selling and Distribution	\$ 34.9	\$ 38.6	\$ 41.7	\$ 45.1	20%
EBIT	\$ 52.3	\$ 58.0	\$ 62.6	\$ 67.6	10%
NOPAT	\$ 39.2	\$ 43.5	\$ 46.9	\$ 50.7	25%

Return on Invested Capital: 32%
Consideration: \$120 Million in invested capital



Risks and Mitigation

Risks & Mitigations

Risk	Rank	Mitigation
Competition	High	<ul style="list-style-type: none">• Cater to Birchbox's niche• Quality
Customer loyalty	Medium	<ul style="list-style-type: none">• Modify algorithm as necessary• Targeting marketing• New and exciting products
Labor costs	Medium	<ul style="list-style-type: none">• Monitor changing technology
Unable to get investors	Low	<ul style="list-style-type: none">• Use earnings• Choose a more affordable target

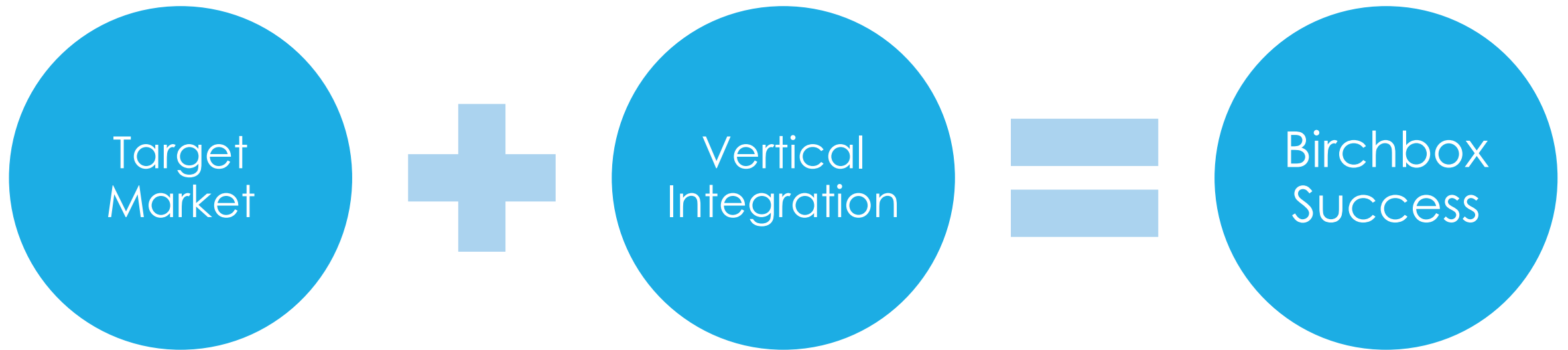


Conclusion

What Good Looks Like

- ✓ Strong, differentiated market position
- ✓ Profitable, sustainable business model
- ✓ Loyal customer base
- ✓ Healthy cash flow

Conclusion







Thank You

▶ Questions?

Plan B: Horizontal Integration

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- Existing customer base
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