

# **BIRCHBOX: ACHIEVING GROWTH**

**NANYANG CONSULTING**

**Presented to: Birchbox Board**

**Presented by: Nanyang Business School**

**Leo Tan / Komal Goyal / Lokesh Gupta / Olga Kotenko**

# AGENDA

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1. Introduction
2. Internal and external analysis
3. Recommendations
4. Implementation plan
5. Risks and contingency plan
6. KPIs
7. Financial analysis
8. Timeline
9. Conclusion

# Birchbox has a list of challenges to address to achieve sustainable growth

- How Birchbox can grow?
- How Birchbox should fight its competitors?
- How Birchbox can address high logistics costs?
- How Birchbox can differentiate itself?
- Should Birchbox alter its subscription model?
- How Birchbox retain subscribers?
- Should Birchbox be more aggressive?

**HOW CAN BIRCHBOX REALISE SUSTAINABLE GROWTH AND ACHIEVE PROFITABILITY?**

# Birchbox should follow a comprehensive strategy to fight challenges

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**Personalize the boxes to provide relevant product recommendations**

**Create community of profitable consumers**

**Build back-end assembly of personalized boxes**

# **Internal and External analysis**

# The business model of Birchbox has advantages and risks in it

## STRENGTHS

- Global presence
- High customization
- Own brand to increase differentiation
- Predictable cash flows from subscription
- Conservative financing strategy to avoid risks
- Different channels of sales
- Targets middle class

## WEAKNESSES

- Costly logistics
- Problems with differentiating from competitors
- Unhappy subscribers because of lack of differentiation

**Birchbox should increase value for new subscribers and then convert them to profitable subscribers**

# The market Birchbox operates in a highly saturated market

Customers look for **smart customization** and want products fitting them

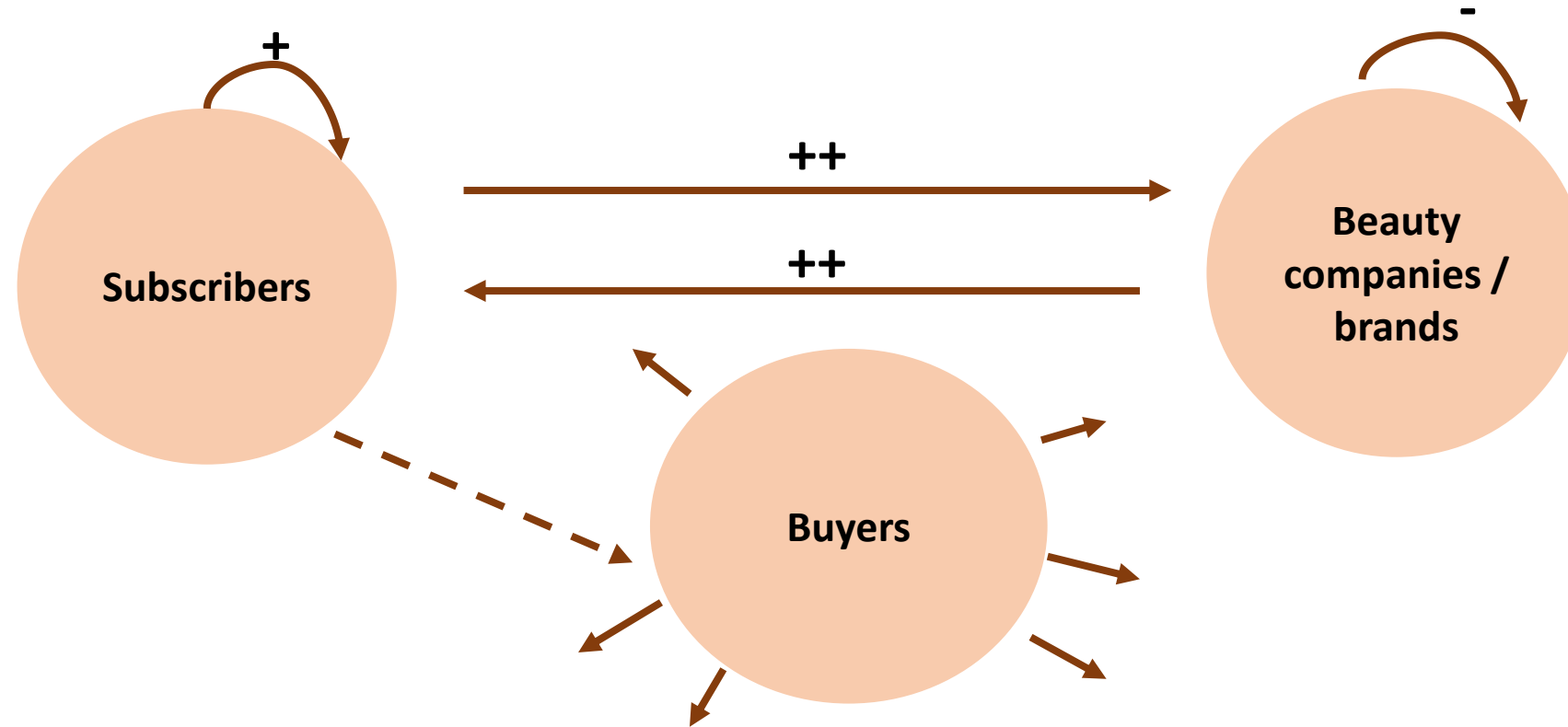
The beauty product market is **highly commoditized** and suffers from lack of differentiation

**Online sales channels** grow in importance

**New products** appear every day: customers look for more

**Birchbox should invest into differentiation from other brands and increase its offering**

# Market ecosystem for Birchbox



How to increase subscribers?  
How to convert them into buyers?  
How to be cost efficient while doing it?

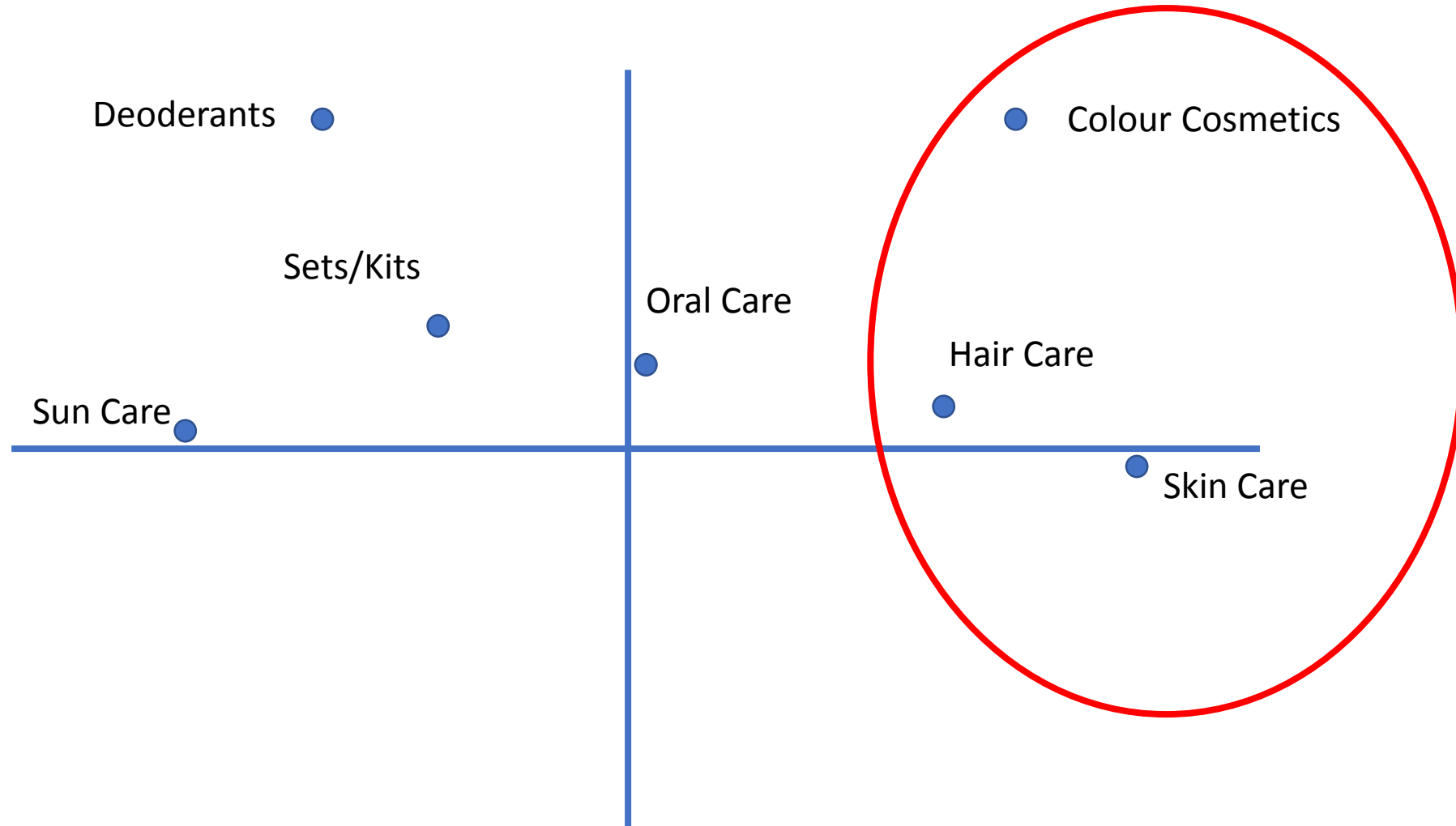


# Alternatives

# Birchbox has a number of options to address the challenges

OPTION	STRATEGIC FIT	FINANCIAL BENEFIT	COST	COMPETITIVENESS	TOTAL
<b>HOW DO WE INCREASE SUBSCRIPTION BASE?</b>					
Increase the customization via data analytics algorithms	●	●	●	●	●
Reduce customization to address costs	●	●	●	●	●
<b>HOW DO WE RETAIN CUSTOMERS AND COVERT THEM INTO PROFITABLE?</b>					
Introduce “value for money” options	●	●	●	●	●
Open beauty salons	●	●	●	●	●
Create the community around the products	●	●	●	●	●

# Positioning of Birchbox



# Strategy will help Birchbox to achieve its goals

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**Personalize the boxes to provide relevant product recommendations**

**Create community of profitable consumers**

**Build back-end assembly of personalized boxes**

# Implementation

# Implementation (1/3): Personalization

**WHAT?**

**Personalize the boxes to provide relevant product recommendations**

**WHY?**

- **Enhance value proposition to the subscribers**
- **Attract new subscribers**
- **Develop potential for future upstream integration**
- **Position Birchbox to participate in a two-sided market and provide data insights to beauty companies**

# Implementation (1/3): Personalization

HOW?

- Collect **more data** points from subscribers
  - Preferences
  - Quizzes
  - Community forums
- Build **data analytics** capability
  - Set up on analytics hub
  - Acquire talent and resources

Provide micro targeted suggestions

Provide virtualized make-up services on the web-site

# Implementation (2/3): Creating community

**WHAT?**

**Create a community of profitable customers**

**WHY?**

- **Develop brand loyalty and stickiness (increase switching costs)**
- **Full product sales drive profitability**



# Implementation (2/3): Creating community

HOW?

- Create an online social networking community forums to help people connect
  - Product category – eye/ brows/ foundations
  - Skin profile – color, condition
  - Occasion – travel sets
- Invite people to roadshows

On-going styling in malls

Register each profile

Upload makeover story on IG

- Limit the use of reward points only to full product services
  - Bundle products with services (free) in stores and partners
  - Surprise and delight customers – involve their friends and partners on birthdays / events
- Target young female population
  - Open for experimentation
  - Young different influences (tips, roadshows)

# Implementation (3/3): Back-end operations

**WHAT?**

**Build back-end assembly of personalized boxes in Spain**

**WHY?**

- **Reduce labor costs**
- **Proximity of 3 out of 4 countries of operation**
- **Help to position the company for future expansion in Europe**

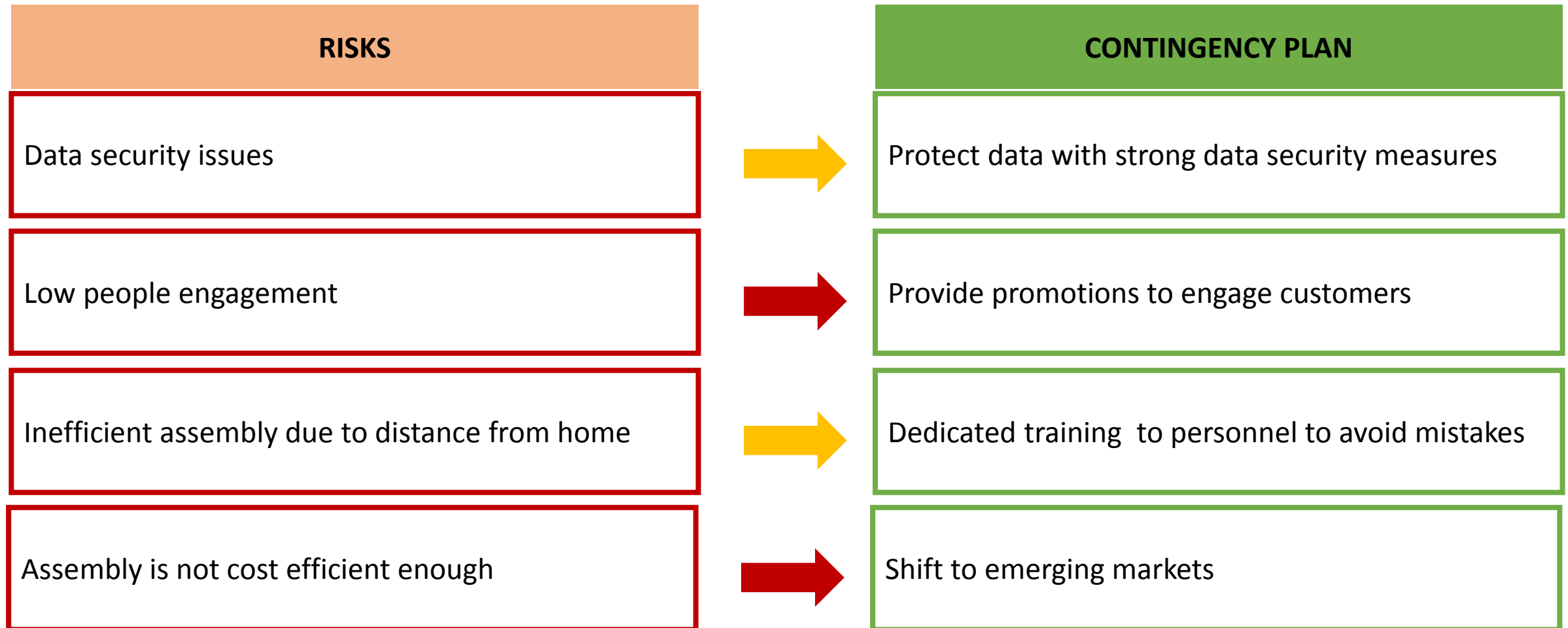
# Implementation (3/3): Back-end operations

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**HOW?**

- Acquire recourses and talent in Spain
- Hire dedicated supply chain manager with relevant job experience (in retail industry)
- Provide transfer opportunities to existing workforce
- Phase out operations from US and shift to Spain

# The proposed strategy has several risks



# Birchbox can evaluate the success of the new strategy by the following KPI's

## Personalization

**Amount of data on customers**  
**Feedback on recommendations**  
**Increase in client base**

## Community

- **Number of people on the forum**
- **Number of new clients through roadshows**
- **Increase in full product sales**

## Back-end operations

- **Reduction in costs**
- **Number of employees**
- **Accuracy and efficiency of assembly operations**

# **Financial feasibility**

# Financials – Some budgeting to consider

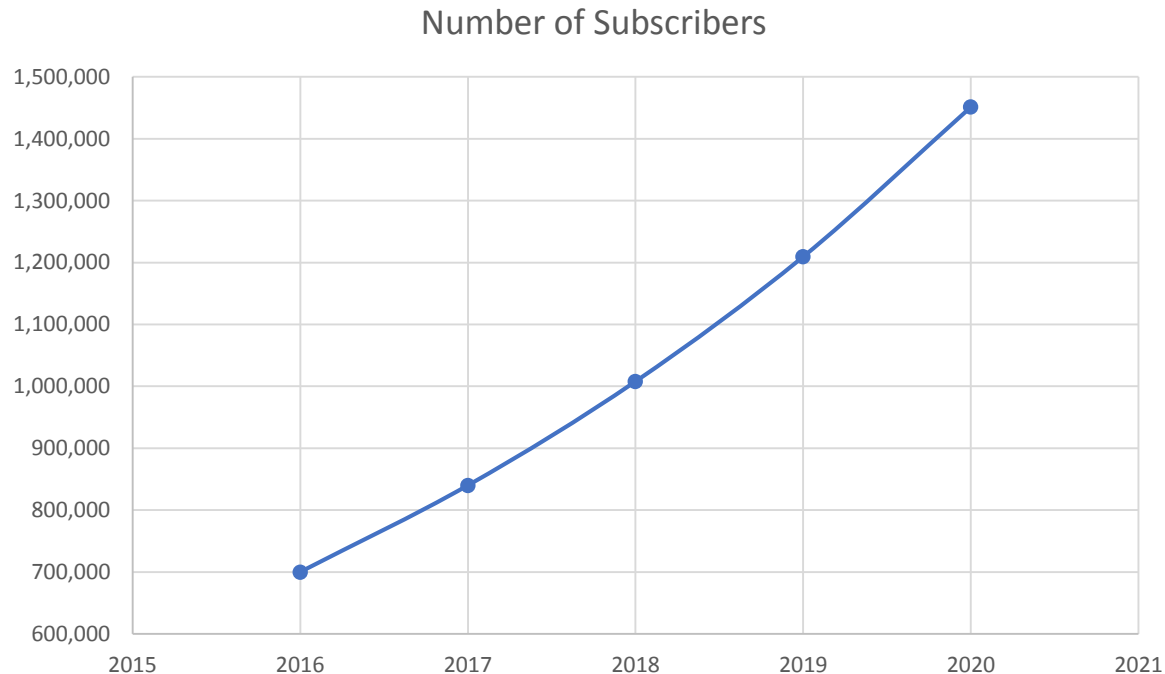
Budgets	Budgeted Expense
<b><u>Personalization</u></b>	
Talent and resources for data analytics	\$ 1,500,000
<b><u>Creating Communities</u></b>	
Roadshows	\$ 200,000
Recruitment of young influencers	\$ 200,000
Creation of online community	\$ 100,000
<b><u>Backend Operations</u></b>	
Facility Expansion	\$ 500,000
Hiring more workers	\$ 500,000
Transfer of personnel from US to Spain	\$ 500,000
<b>Total Additional Expense</b>	<b>\$ 3,500,000</b>

Total budgeted additional expense will be **USD 3.5 million.**

# Financials – Projected growth in subscriber base

## Assumptions:

- 1) 10% annual increase in re-orders, e-commerce and other revenue (e.g. subscription revenue)
- 2) 5% annual increase in re-orders from subscribers



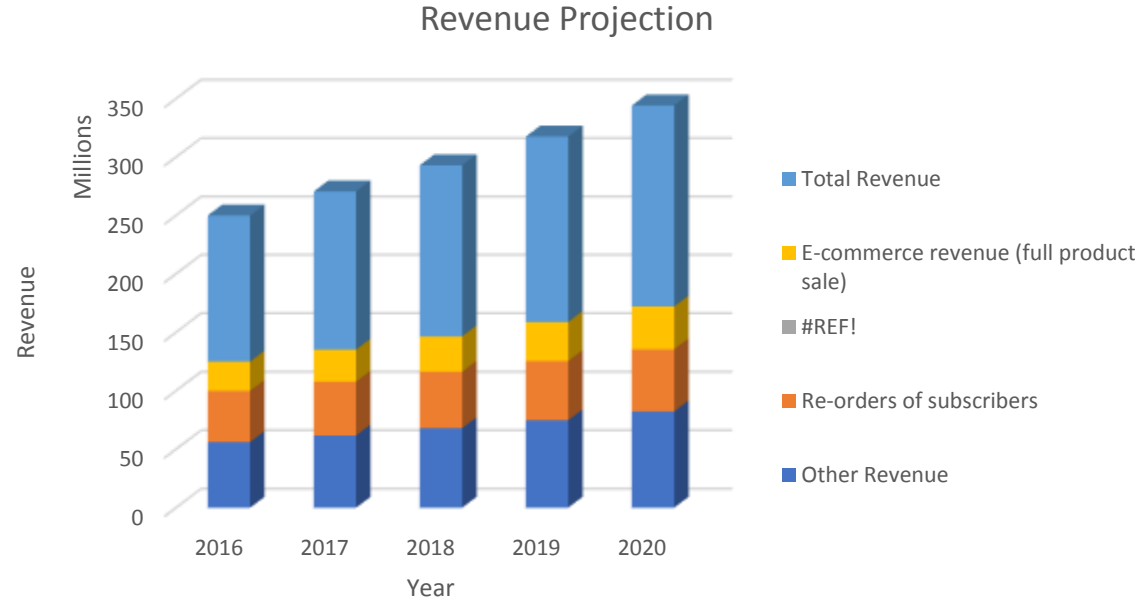
Projected to see increase in subscribers to about **1.5 million by 2020.**



# Financials – Financial Projections

## Assumptions:

- 1) 5% annual increase in re-orders of subscribers
- 2) 10% annual increase in e-commerce and other revenues



To be able to achieve a revenue of **\$172 million by 2020.**

This comes to an **CAGR of 8.32% per annum until 2020.**

	2016	2017	2018	2019	2020
Re-orders of subscribers	43,750,000	45,937,500	48,234,375	50,646,094	53,178,398
E-commerce revenue (full product sale)	25,000,000	27,500,000	30,250,000	33,275,000	36,602,500
Other Revenue	56,250,000	61,875,000	68,062,500	74,868,750	82,355,625
<b>Total Revenue</b>	<b>125,000,000</b>	<b>135,312,500</b>	<b>146,546,875</b>	<b>158,789,844</b>	<b>172,136,523</b>

# Implementation timeline

# Implementation Timeline

	2017		2018		2019		2020	
	H1	H2	H1	H2	H1	H2	H1	H2
<b><u>Personalization</u></b>								
Increase data collection	█	█	█	█	█	█	█	█
Acquire analytic capabilities	█							
Provide more personal sample		█	█	█	█	█	█	█
provide virtual testing		█	█	█	█	█	█	█
<b><u>Creating communities</u></b>								
Create online community forum	█							
Conduct roadshows		█		█		█		█
Recruit young influencers		█	█	█	█	█	█	█
<b><u>Back-end operation movement</u></b>								
Acquire resources and talent in Spain	█							
Provide transfer opportunities		█						
Phased shifting of ops		█	█	█				

# Conclusion

# Birchbox will become a smart beauty company of the 21<sup>st</sup> century

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Enhanced customization will help to retain existing and attract new subscribers:  
**growth in customer base**

Creating community around Birchbox will help to **convert subscribers into profitable clients**

Re-organizing back-end operations will reduce the costs and **drive profitability**

**New strategy will allow Birchbox to utilize its value proposition, achieve growth and successfully differentiate from competitors by utilizing modern technologies**

**THANK YOU!**

# Appendix