

# Birchbox: Revamping the Business Model

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TEAM MPSTME NMIMS

# Problem Statement

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How will Birchbox revamp their business model to compensate against:

- Increased Competition and Clones
- High Logistical Costs
- Mass Customization v/s Mass Standardization
- Loss Making Subscription Model

# Agenda

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1. Background Analysis
2. Alternatives
3. Recommendation
4. Financials
5. Implementation
6. Conclusion

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# Key Issues

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## **Competition**

- Low barriers to entry
- Clones of Products

## **Logistic Hurdles**

- Parallel Distribution Channels
- Wide Geography
- Cost of Logistics

## **Customer Focus**

- Customer Retention
- Brand Loyalty

Analysis

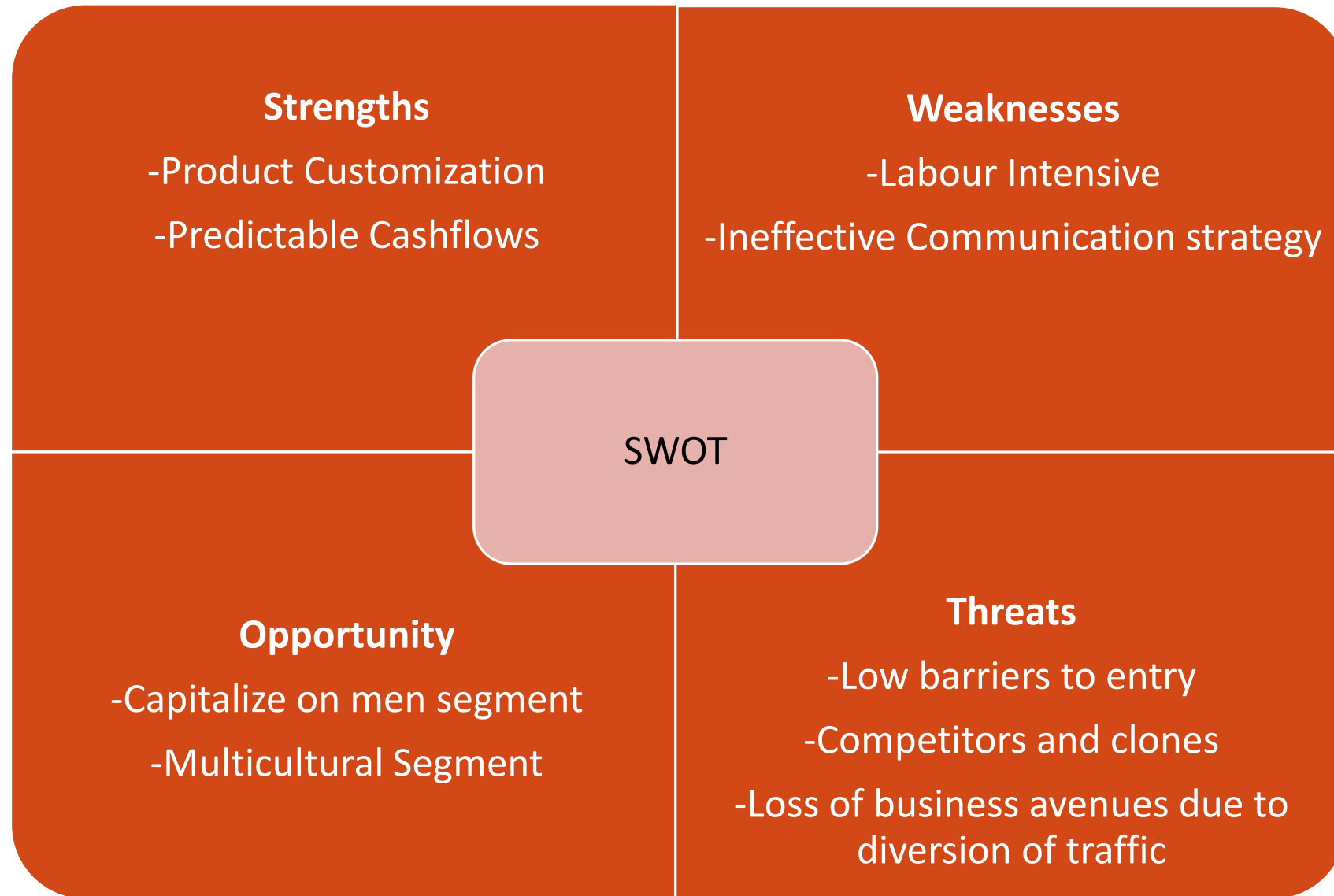
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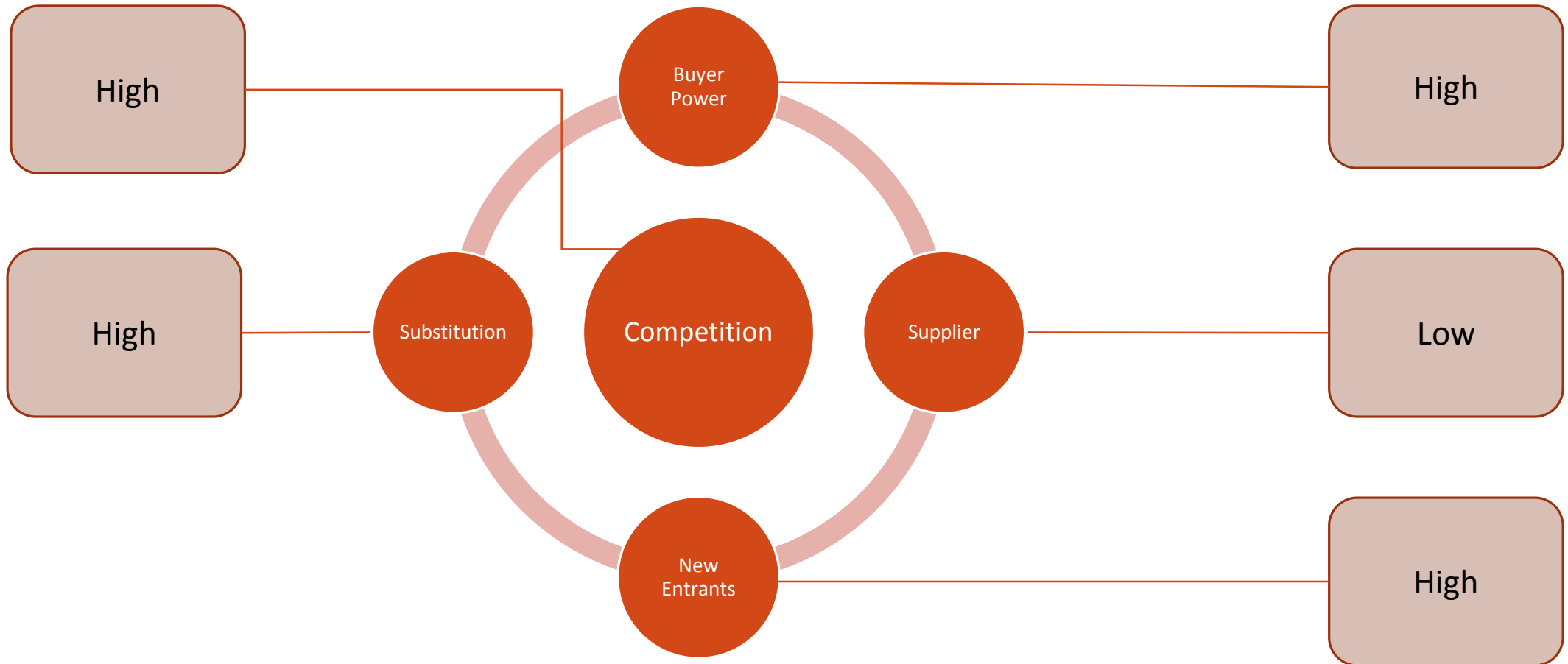
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# 5 Forces Analysis



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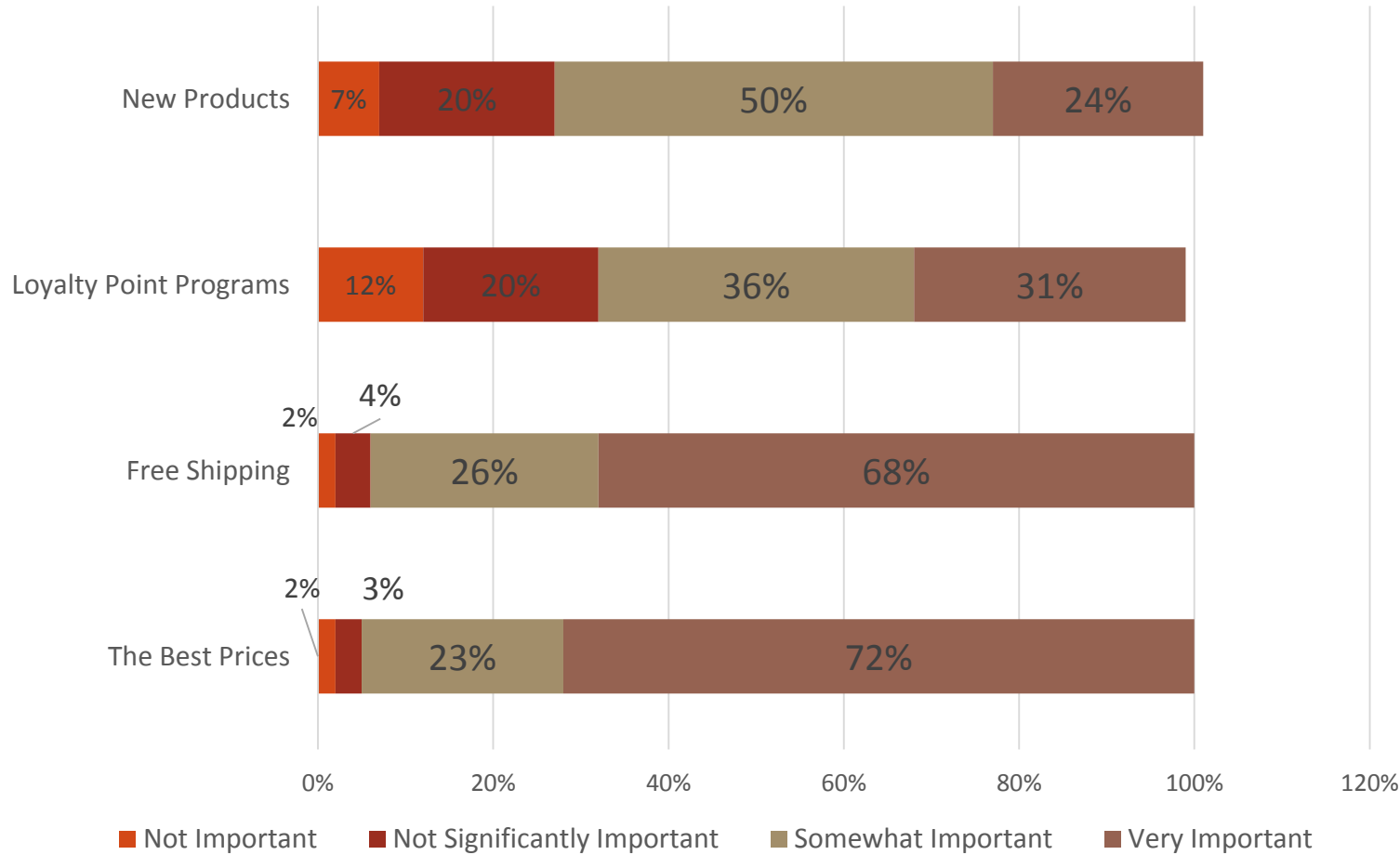
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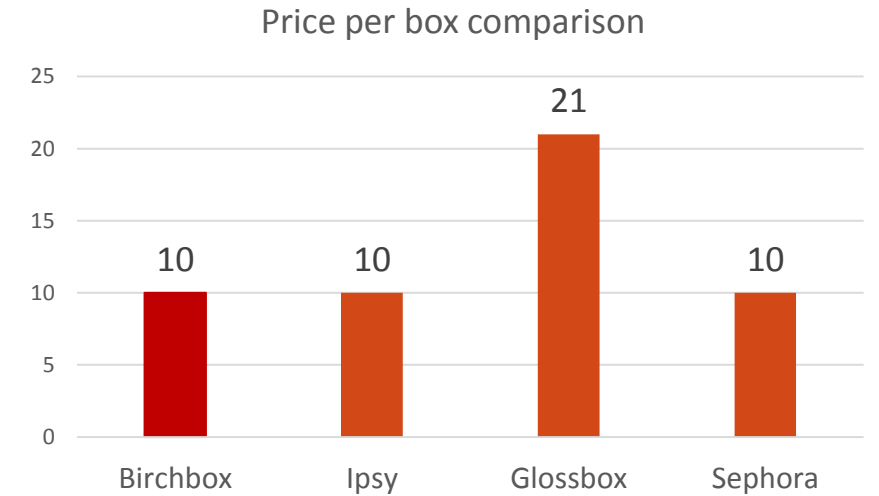
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## Consumer Priorities for beauty and healthcare products



## COMPETITION ANALYSIS



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# Alternatives

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Revamp  
Customer  
Profiling

Horizontal  
Merger

Switch to Mass  
Standardization

Backward  
Integration

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# Criteria Matrix

Factors	Weights	Revamp Customer Profiling		Horizontal Merger		Switch to Mass Standardization		Backward Integration	
		Raw Score	Weighted Score	Raw Score	Weighted Score	Raw Score	Weighted Score	Raw Score	Weighted Score
Logistic Advantage	5	2	10	3	15	3	15	2	10
Cost	4	2	8	2	8	2	8	1	4
Synergy	3	3	9	3	9	1	3	2	6
Consumer Data	3	3	9	2	6	1	3	1	3
<b>Total</b>			<b>36</b>		<b>38</b>		<b>29</b>		<b>23</b>

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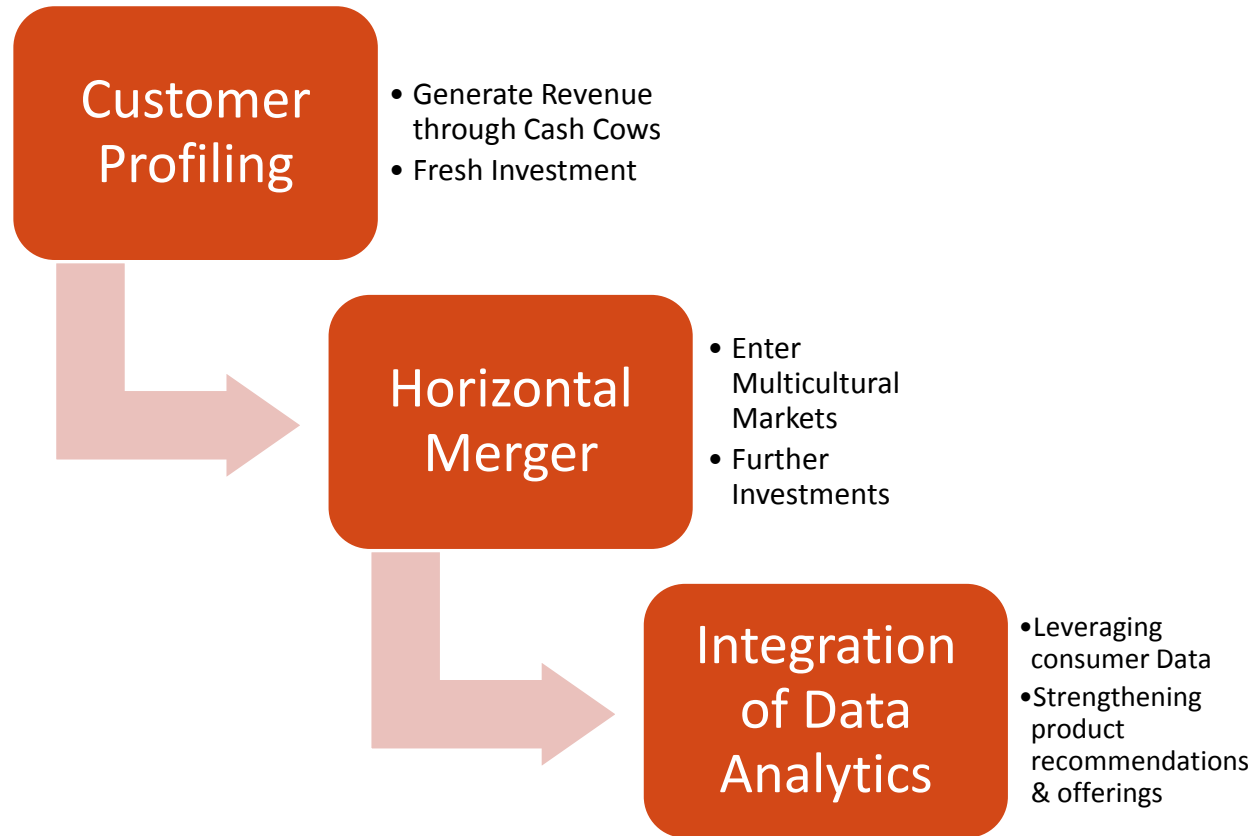
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# Recommendation

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# FINANCIALS: Key Assumptions

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1. Net Revenue adjusted for the costs associated with the horizontal merger
2. Costs associated with the merger assumed to be 30% of 2018's Total Revenue to be paid in phased manner over a period of 1 year
3. Operating Profit to increase at 20% YoY from 2017 onwards

# Break-Even Analysis

Figures in Millions of USD

Income Statement	2016	2017	2018	2019
Revenue	125,000,000.00	128,687,500.00	132,829,687.50	153,696,890.63
Net Revenue Adjusted as a result of Horizontal Merger	125,000,000.00	128,687,500.00	106,263,750.00	153,696,890.63
COGS	50,000,000.00	46,137,500.00	66,769,687.50	84,324,890.63
%Sales	40%	36%	50%	55%
Gross Profit	75,000,000.00	82,550,000.00	66,060,000.00	69,372,000.00
%Sales	60%	64%	50%	45%
Operating Expenses (Higher due to 3rd party logistics cost	75,000,000.00	82,500,000.00	66,000,000.00	69,300,000.00
		10%	20%	5%
Operating Profit	-	50,000.00	60,000.00	72,000.00

- Shift in Operating Expenses from 2017 to 2019 as an aftermath of the merger
- OPEX going down in 2018 by a target rate assumed to be at 20%

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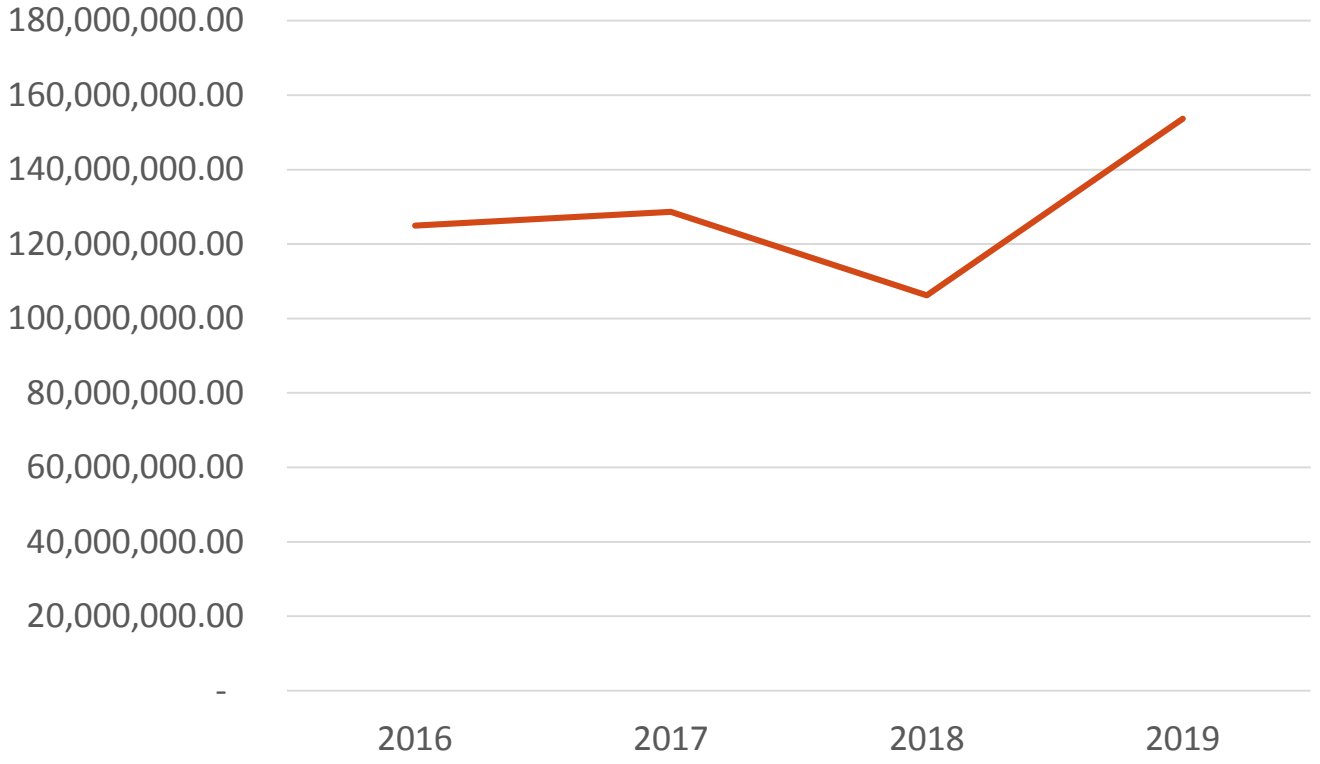
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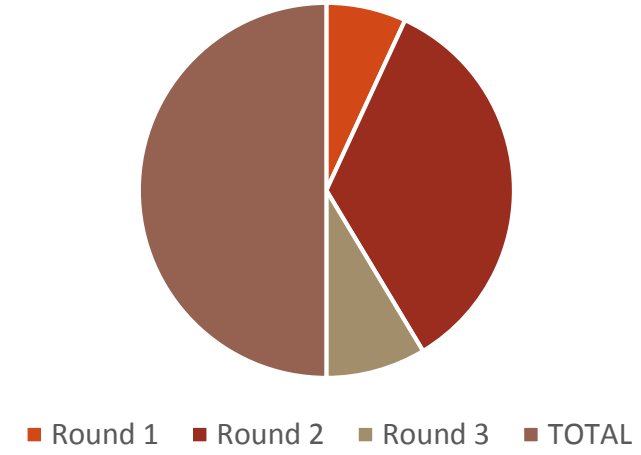
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### Net Revenue



- Revenue CAGR of 5.3%
- 2018 sees the beginning of a horizontal merger and thereby a decline in the Net Revenue

### Rounds of Funding

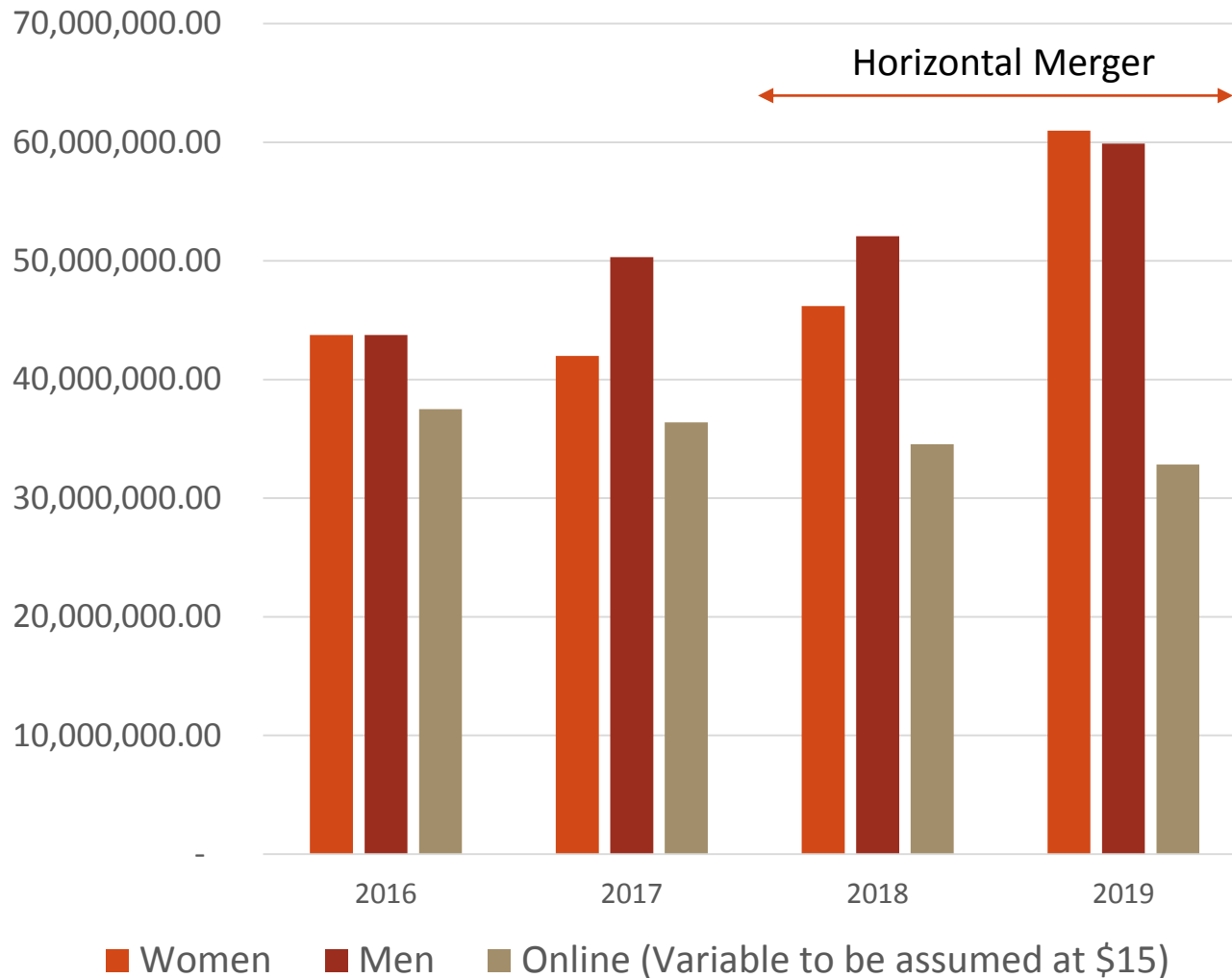


Rounds of funding	Millions of USD
Round 1	12
Round 2	60
Round 3	15
TOTAL	87

### Funding Cycle



## Segment Wise Revenue



- Growth in the men’s sector is constant and growing at steady rate:  
The price per box from 2016-17 is constant at \$20 while from 2018-19 the price per box has been dropped to \$18 to increase the segment size and attract more consumers
- Online channels **apart** from their own website trending to decline at a slow steady rate
- Women’s sector growth declines 2016-17 but revives it’s growth from 2018 onwards with price per box remaining constant at \$10 and then increasing it to \$12 to meet the breakeven goals

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# Financial Implications of the Loyalty Program and the Points/Amount spent

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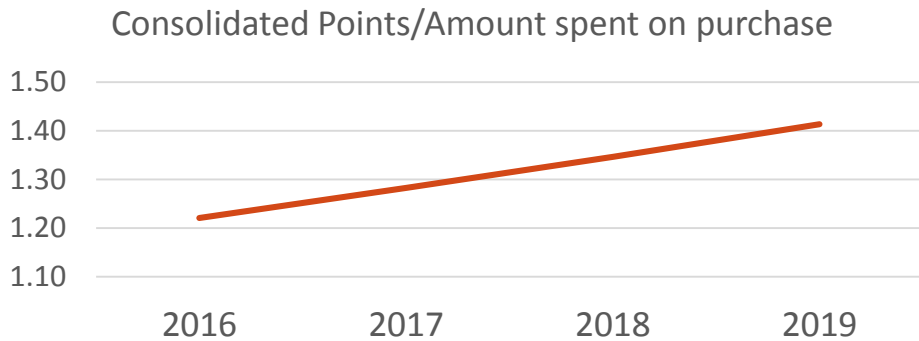
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Existing Loyalty Program Structure		
	Amount	Points
Purchase	\$ 10.00	10
Women Signup	\$ 110.00	110
Men Signup	\$ 220.00	195
Writing Review	\$ -	50
Referral	\$ -	50
TOTAL	\$ 340.00	415
Consolidated Points/Amount spent		1.22

Revamped Structure		
	Amount	Points
Purchase	\$ 10.00	12.5
Women Signup	\$ 100.00	110
Men Signup	\$ 200.00	195
Writing Review	\$ -	30
Referral	\$ -	50
TOTAL	\$ 310.00	397.5
Consolidated Points/Amount spent		1.28

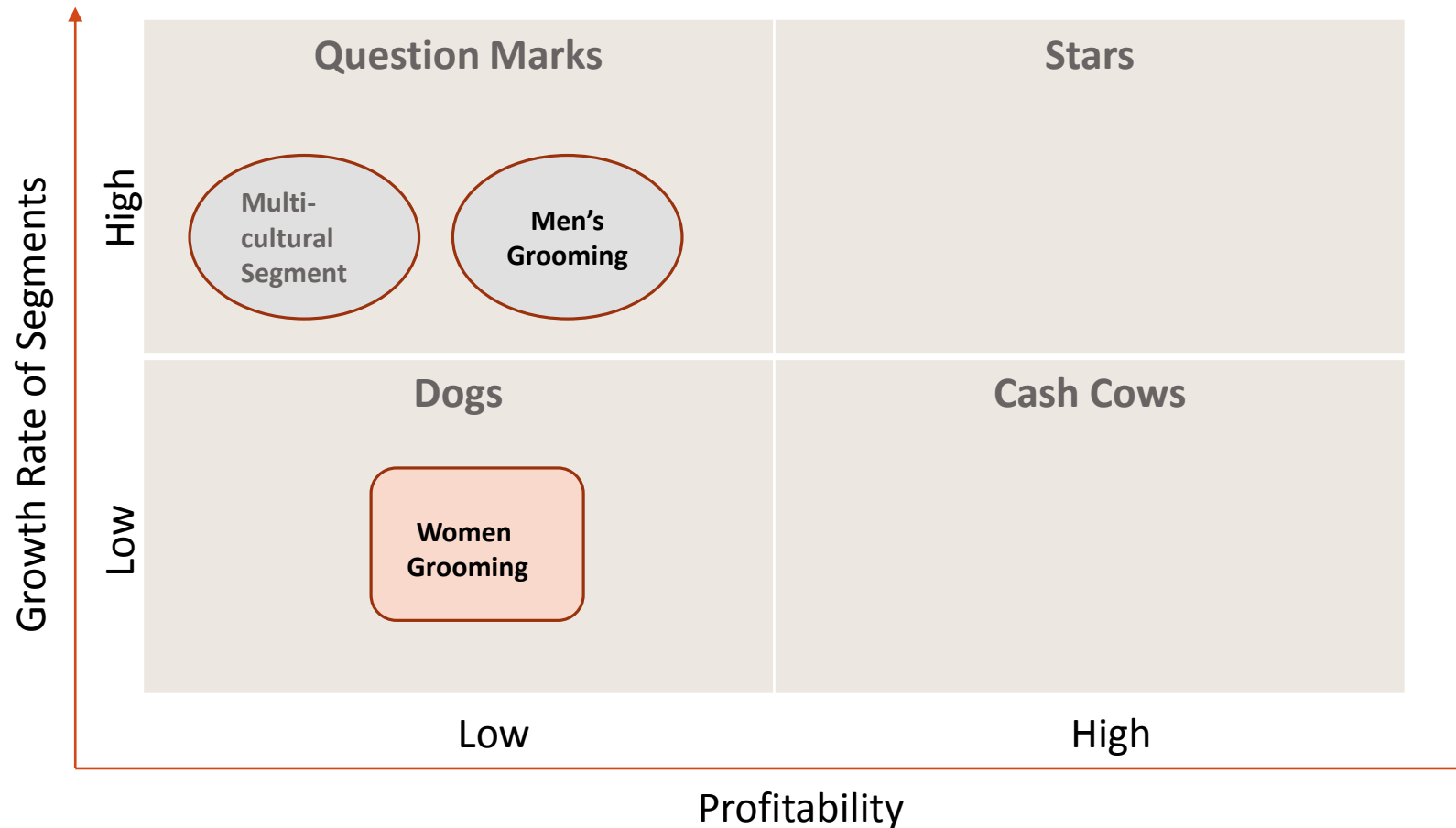


Metric Devised: **Consolidated Points/Amount spent on purchased**

Tracking the success of the loyalty program keeping in line with the breakeven targets and high dollar value created per point



# Implementation: Revamping Customer Profiles



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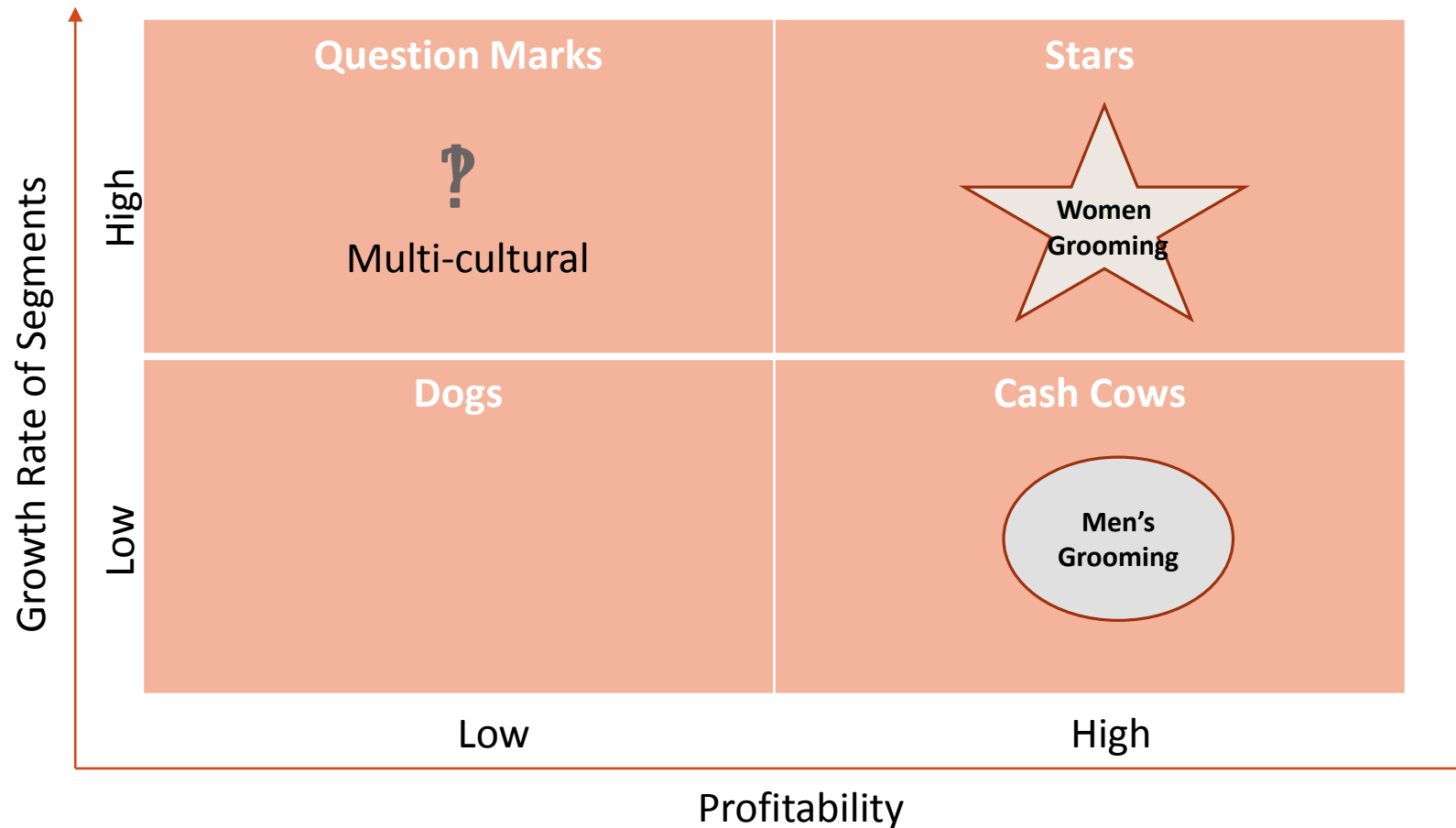
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# Implementation: Revamping Customer Profiles



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# Implementation: Horizontal Merger



**Ansoff's Matrix**

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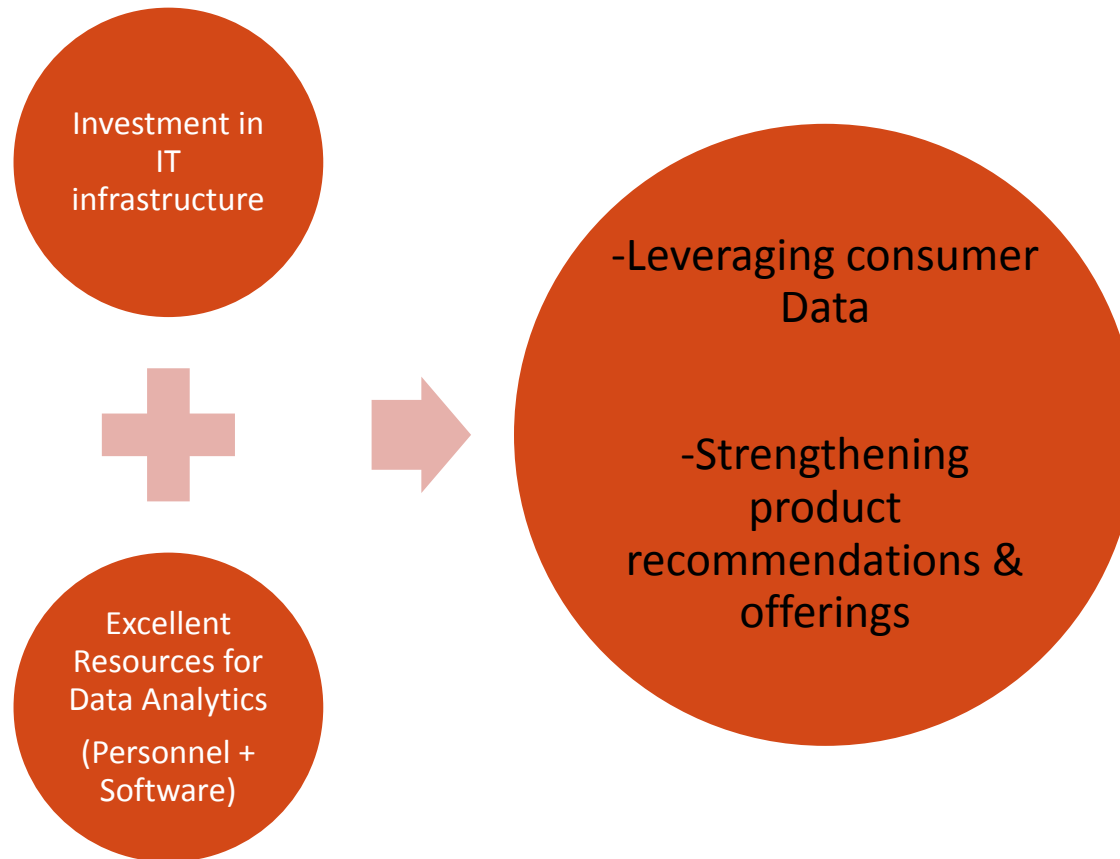
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# Implementation: Integration of Data Analytics

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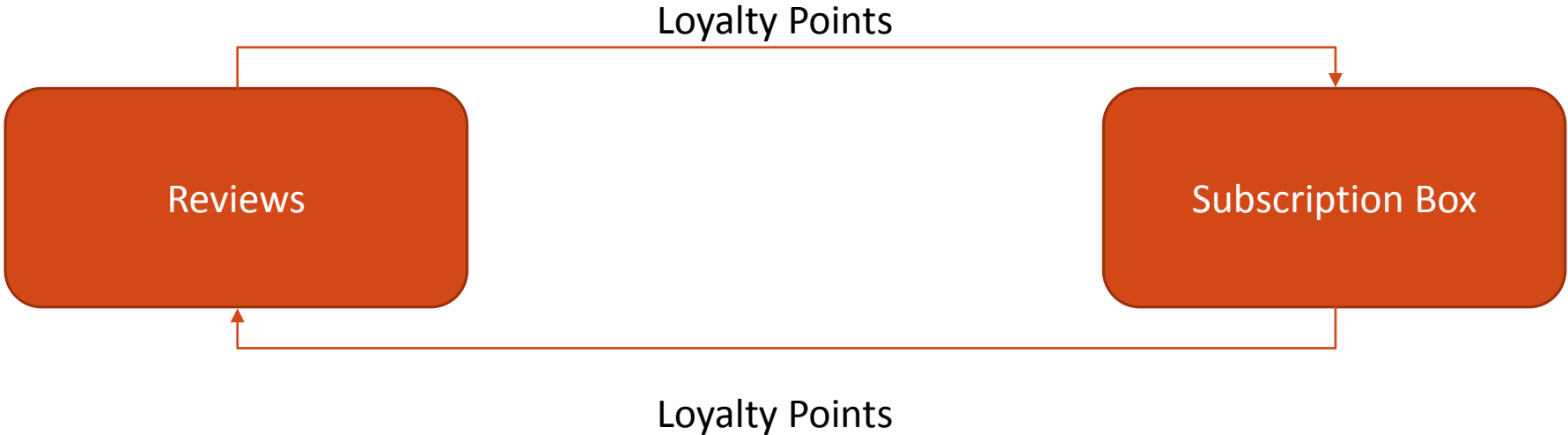
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# Implementation: Building Brand Loyalty

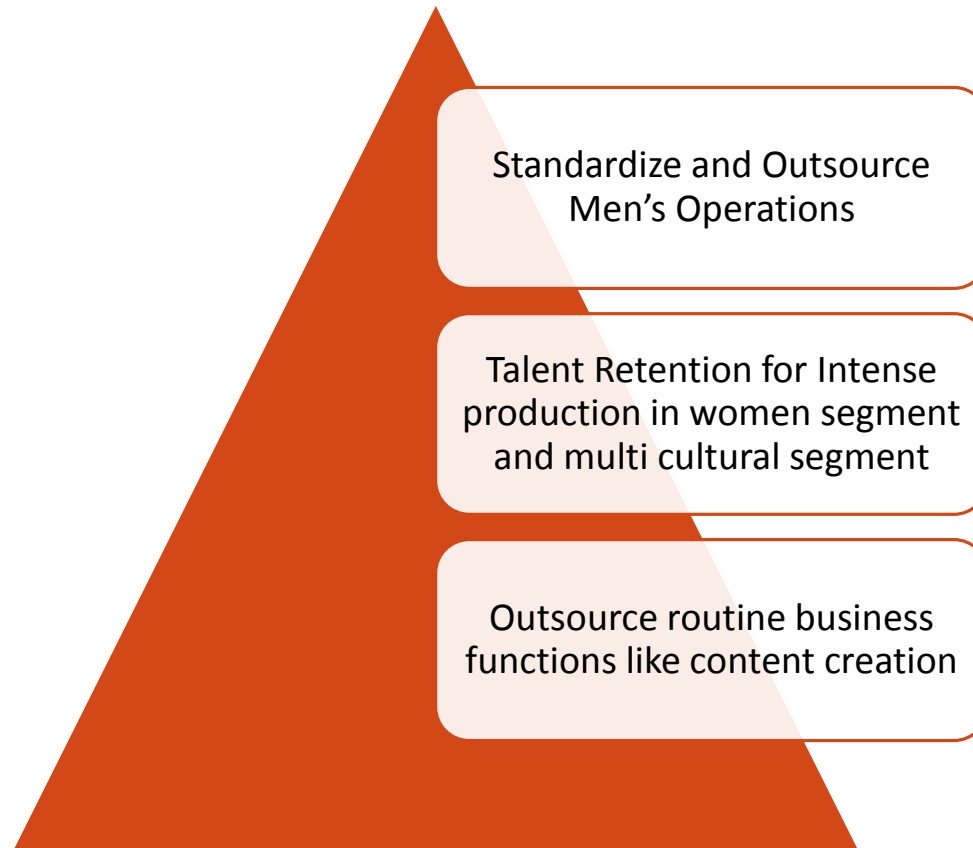
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# HR Implementation

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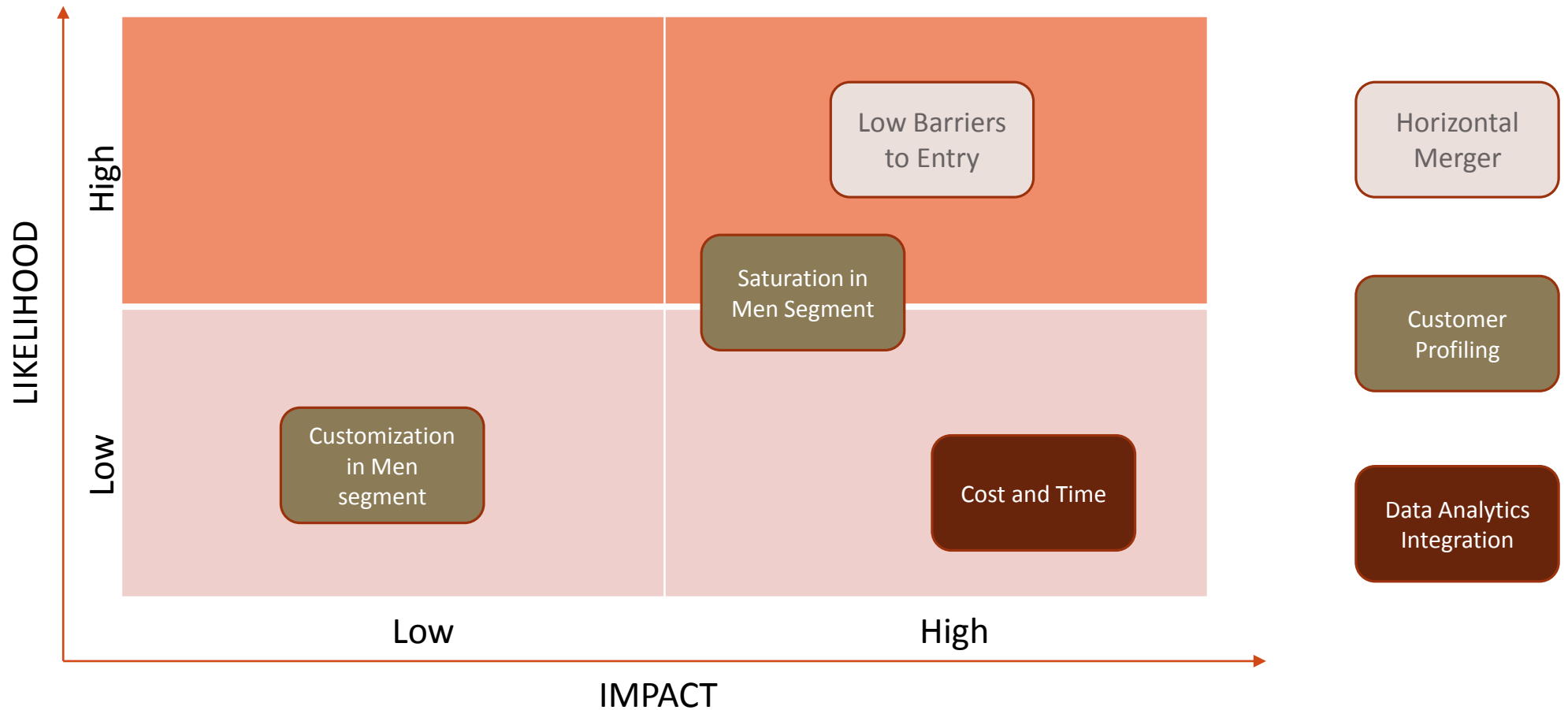
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# Risk Mitigation



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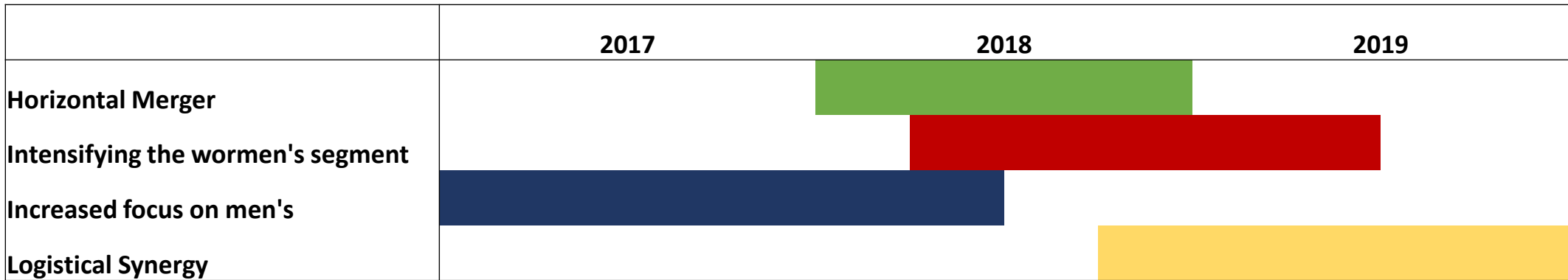
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# Gantt Chart: TimeLine

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# Conclusion

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We recommend milking the cash cows, i.e. the men's segment for reinvestment into the original business

- This will create surplus cash to combat the upcoming competition

- Leads to a healthy cash flow which will attract more funding and potential suitors

- Customization according to customer preference is the backbone of Birchbox's business model:

Focus on Data Analytics will strengthen and solidify our core offering to maximize value proposition