

Beauty for All

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Agenda

Introduction

Analysis

Alternatives

Implementation

Financials

Conclusion

Executive Summary

Issue

How can Birchbox sustain growth and profits?

Recommendation

Cater to **multicultural consumers** and restructure offering to **optimize costs**

KPI's

Profit margin to reach 7% in 2021

Growth of revenues to reach 20% in 2021

Industry Analysis

US sales in 2015 of \$90 B

Top multinational players

- Traditional beauty brands
- No customization

Beauty startups

- Innovative brands
- Targeting underserved market
(multicultural consumers, men...)

Niche beauty startups are filling a gap in the market, targeting consumers with specific needs

Industry Analysis

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Birchbox's business model

Monthly subscription

- Based on customer profile
- Allows customers to test samples before buying decision
- Huge predictable cash flows



Full-sized products purchase

- Online or through brick and mortar
- More profitable than subscription

Birchbox offers an omni-channel customer experience, generating revenues from both online and offline channels

Birchbox's strengths

Customization

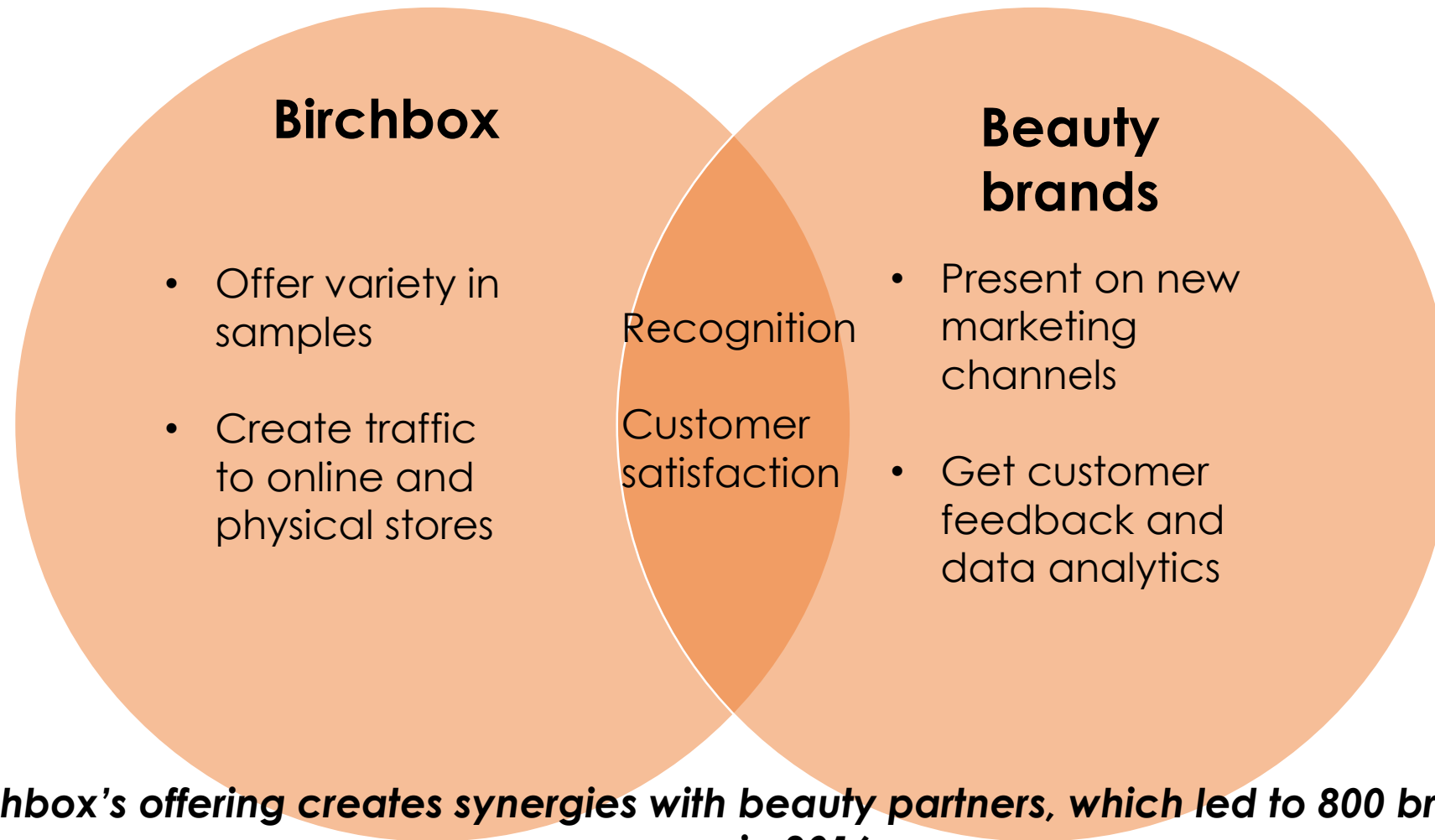
Element of surprise

Strong loyalty program

Content marketing

Birchbox has pioneered a new market by leveraging customer needs and preferences

Birchbox's partnership model



Challenges

Competition

- Low entry barrier allowed clones to proliferate
- Competitors differentiating themselves by focusing on niche markets
- Existing online channels replicating offering

Lack of customer interest

- Dissatisfaction with samples
- Low brand loyalty as customers buy from competitors
- E-consumers preferences don't match with Birchbox's offerings

Logistics

- Customization increasing complexity and cost
- High volume shipping at end of month limiting efficiency

Birchbox is operating in a highly competitive market where customization is needed but increases costs significantly

Alternatives

New Geographic Segment

Enter **Canada** with **current offerings**

New Products to Existing Segment

Introduce **Nail Care products** to **existing customer base**

New Offerings to New Segment

Target Niche **Multicultural market in US** with **new offerings**

New Geographic Segment - Canada

Advantages

- Access to wide new market
- Cultural similarities

Disadvantages

- Costly : High capital & Legal
- Timely to establish
- Existing competition

New Products – Nail Care

Advantages

- Offering new products to customers

Disadvantages

- High competition (low switching costs)
- Costly (requires new brand suppliers)
- Doesn't address the existing issue

New Offerings – Multicultural Segment

Advantages

- Existing expertise and resources
- Fastest growing segment in the U.S
- Offers new revenue stream

Disadvantages

- Existing competition
- Requires effort (tweaking the products)

Decision Matrix

Entering Canada

Cost & Effort

-

Time

-

Competition

-

New Revenue
Streams

++

Total

-

Decision Matrix

	Entering Canada	Introducing Nail Care
Cost & Effort	-	-
Time	-	-
Competition	-	-
New Revenue Streams	++	+
Total	-	--

Decision Matrix

	Entering Canada	Introducing Nail Care	Target Multicultural Segment
Cost & Effort	-	-	-
Time	-	-	+
Competition	-	-	-
New Revenue Streams	++	+	++
Total	-	--	+

Decision Matrix

	Entering Canada	Introducing Nail Care	Target Multicultural Segment
Cost & Effort	-	-	-
Time	-	-	+
Competition	-	-	-
New Revenue Streams	++	+	++
Total	-	--	+

***Enhance Existing Offerings and Target
Multicultural with New Products***

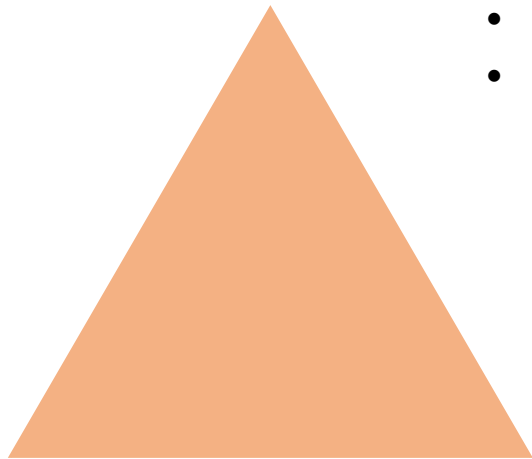
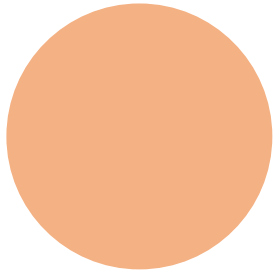
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Multicultural
Consumers

Maintain &
Enhance Existing
Offerings

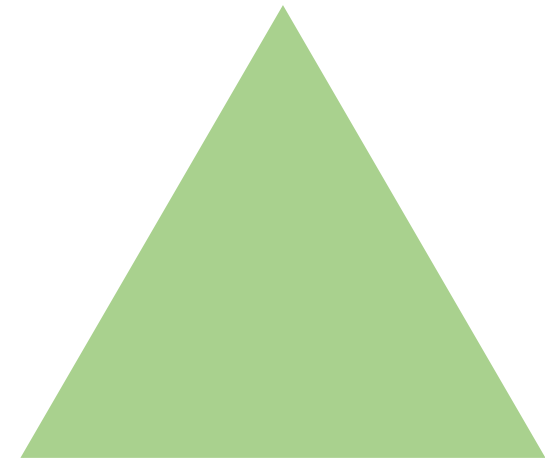
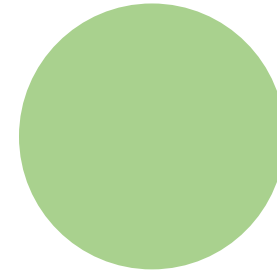
Beauty for All

Carey



- 25 year old
- African American
- Makeup vlogger

Brenda



- 36 year old
- Asian
- Mother of two
- Entrepreneur

Introduce & Partner

Introduce products that **cater** to **multicultural** consumers

In-house products

Develop **Love of Color** (LOC) offering

Foundations, lipstick that suit different skin tones

Top brands

Partner w/ **Fenty by Rihanna**

*Brand that is **recognized** for having offerings that suit different skin tones*

Enhance & Maintain

Enhance subscription model, continue targeting **passive women** and **men**

Subscription Model

Use Birchbox factories

Outsource packaging to a third-party in NY

Conversion to full-size products

Include **promo codes** in surprise boxes

Enhance perceived value of box

Customized 6 samples (i/o 5) including **Color Cosmetics**

*Customized boxes → **shipping throughout the month** to improve efficiency*

Promote & Sell

Promote & sell multicultural offerings

Content Marketing

Buzzfeed

*Featured **articles***

Influencers

Habiba Da Silva

*Lebanese-Brazilian Vlogger
& Make-up Blogger*

Selling Points

Pop-up shops

Website

Brick & Mortar in NY

Sponsorships

TV Shows

*The Voice
Victoria Secret
Fashion Show
NY Fashion Week*

Timeline



Financials

	2017	2018	2019	2020	2021
Baseline Case					
Number of Customers	930,000	837,000	711,450	640,305	608,290
<i>Growth of Customers</i>	-7%	-10%	-15%	-10%	-5%
Baseline Revenues (\$)	116,250,000	104,625,000	88,931,250	80,038,125	76,036,219
Baseline Operating Profits (\$)	581,250	1,046,250	1,778,625	2,401,144	2,281,087
Strategy Impact					
Number of Customers	930,000	930,000	995,100	1,114,512	1,337,414
<i>Growth of Customers</i>	-7%	0%	7%	12%	20%
Revenue per Subscriber (\$)	125	125	130	140	155
Total Revenues	116,250,000	116,250,000	129,363,000	156,031,680	207,299,232
Operating Profits	581,250	2,325,000	5,174,520	10,922,217	14,510,946

Baseline OPM to start at 0.5% and increase to 3%
 Number of customers & Rev/customer are to increase gradually
 Strategy OPM to start at 0.5% and grow to 7%

Financials - Costs

	2017	2018	2019	2020	2021
Incremental Costs					
Data Analytics Specialist	48,000	48,000	48,000	48,000	48,000
Cost of new samples	837,000	837,000	895,590	1,003,061	1,203,673
Product development for LOC products	1,162,500	1,162,500	1,293,630	1,560,317	2,072,992
Marketing (Sponsorships & social Media)	1,162,500	1,162,500	1,293,630	780,158	1,036,496
Total Incremental Costs	3,210,000	3,210,000	3,530,850	3,391,536	4,361,161

1 Data analytics specialist with a salary of \$4,000
1 new sample will cost \$3 & partners will charge for 30% of samples
Product development: 1% of revenues
Additional marketing not included in operating costs: 1% then decrease to 0.5%

Financials - Costs

	2017	2018	2019	2020	2021
Baseline Operating Profits (\$)	581,250	1,046,250	1,778,625	2,401,144	2,281,087
Operating Profits	581,250	2,325,000	5,174,520	10,922,218	14,510,946
Total Incremental Costs	3,210,000	3,210,000	3,530,850	3,391,536	4,361,161
Incremental Operating Profits	- 3,210,000	- 1,931,250	- 134,955	5,129,538	7,868,698

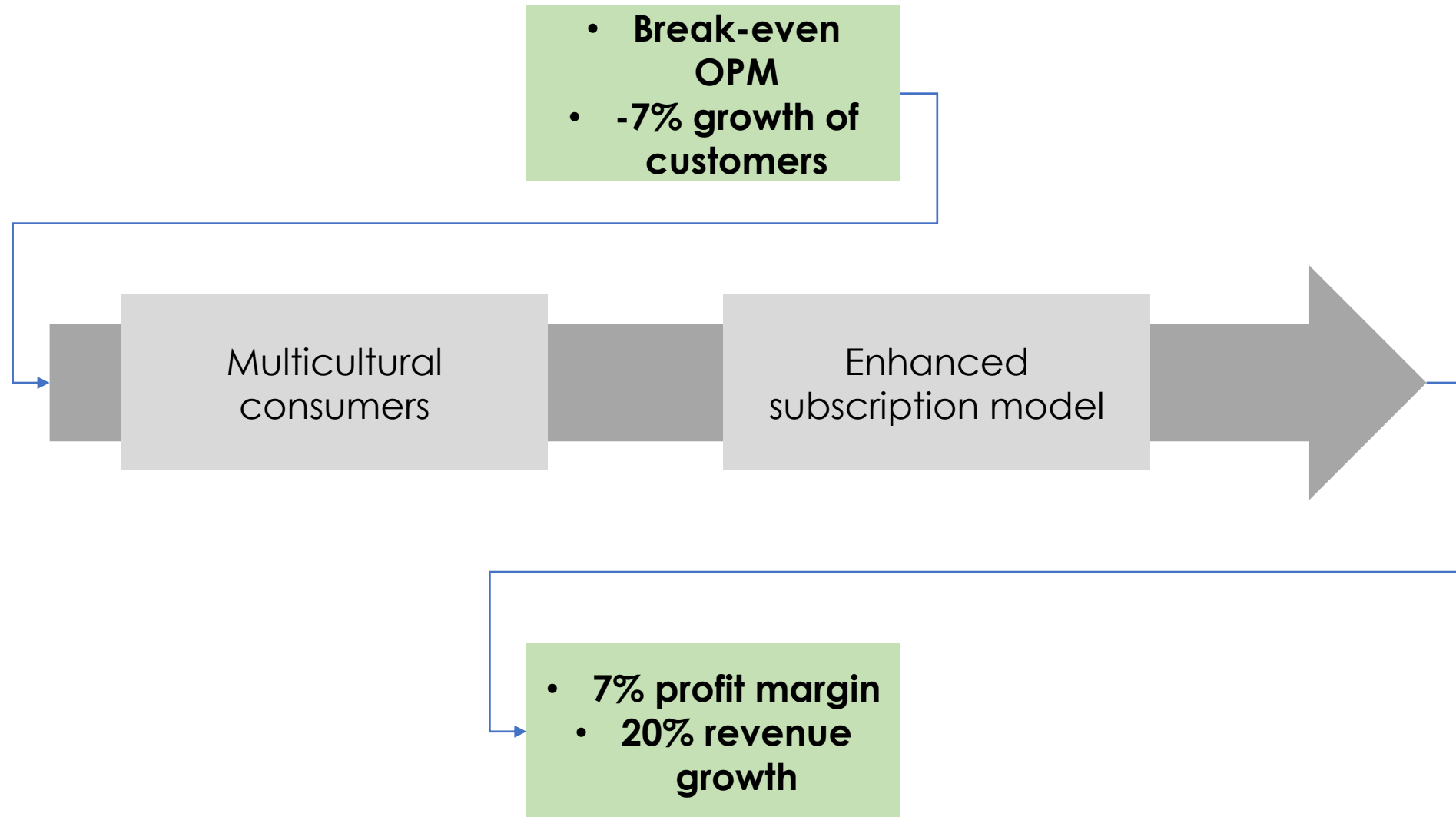
NPV = \$ 3.7 Mill

IRR = 33%







Modified Growth of Customers

	120%	110%	100%	80%	60%
6%	5,082,605	5,082,605	5,082,605	5,082,605	5,082,605
8%	4,390,578	4,390,578	4,390,578	4,390,578	4,390,578
10%	3,773,736	3,773,736	3,773,736	3,773,736	3,773,736
12%	3,223,114	3,223,114	3,223,114	3,223,114	3,223,114
14%	2,730,939	2,730,939	2,730,939	2,730,939	2,730,939

Conclusion



Risks and Mitigation

Risks	Probability	Impact	Mitigation
Competition entering same niche market			Focus on loyalty programs to increase switching costs
Reluctance from new partners			Clearly communicate benefits from joining platform
Problems arising from outsourcing packaging			Continuously communicate with 3 rd party and monitor