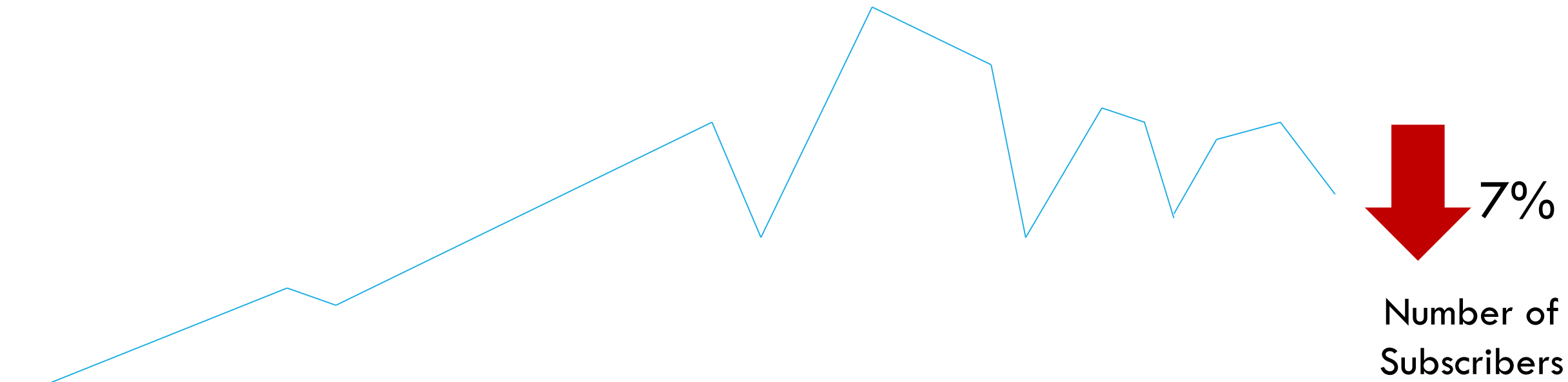Porto
Business
School

Consulting Team

BIRCHBOX — UP THE LADDER

Alexandre Santos

Ana Ferreira

Andreas Salom

Pranjay Yadav

7%

Number of
Subscribers

Number of
Subscribers

How can BirchBox turn around its business?

What are the key issues that BirchBox is facing?

1 Personalization & Product Differentiation

- Cost of Customization
- Product offers

2 Logistics

- Cost of delivery
- Logistics Bottlenecks

3 Customers

- Increase Subscribers base
- Customer preferences

Problem Statement | Analysis | Recommendation | Financials | Implementation & Risks

Analysis

Ana Ferreira

PBS

Who you are and what you do

Startup at the verge of breakeven

Dependent on external funding

Decreasing subscribers

Customization (Curator box content)

BIRCHBOX
Try-out and selling of skin care and hair products

Convenience

Surprise

Opportunity

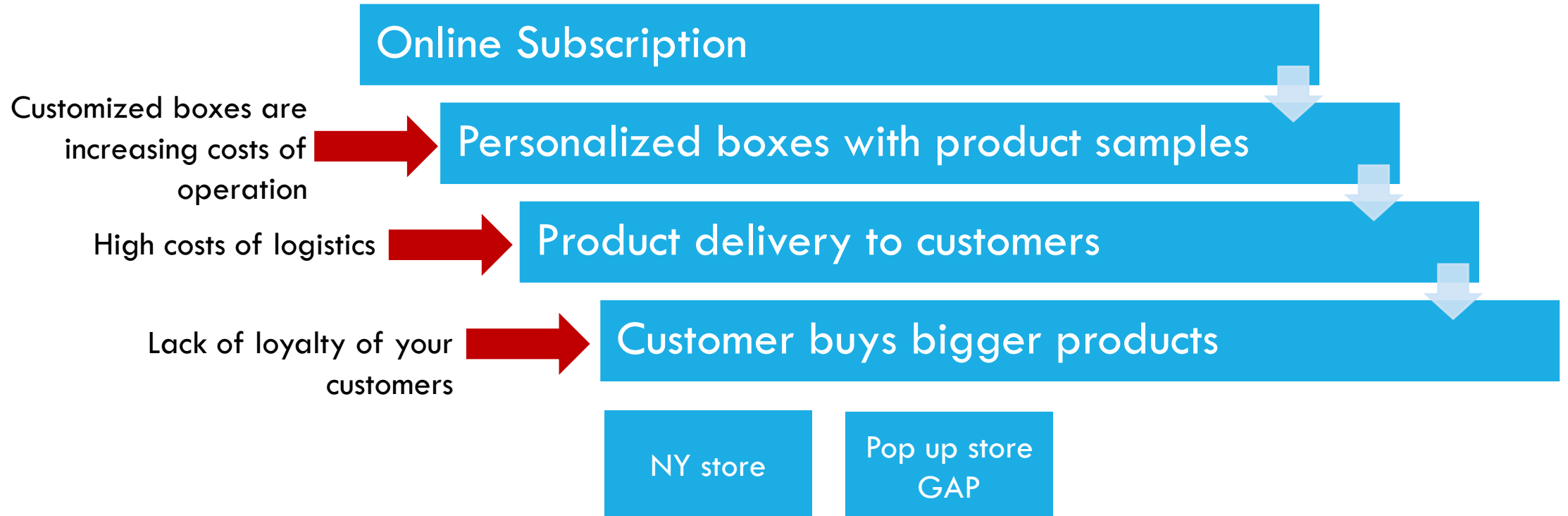# Who you are and what you do

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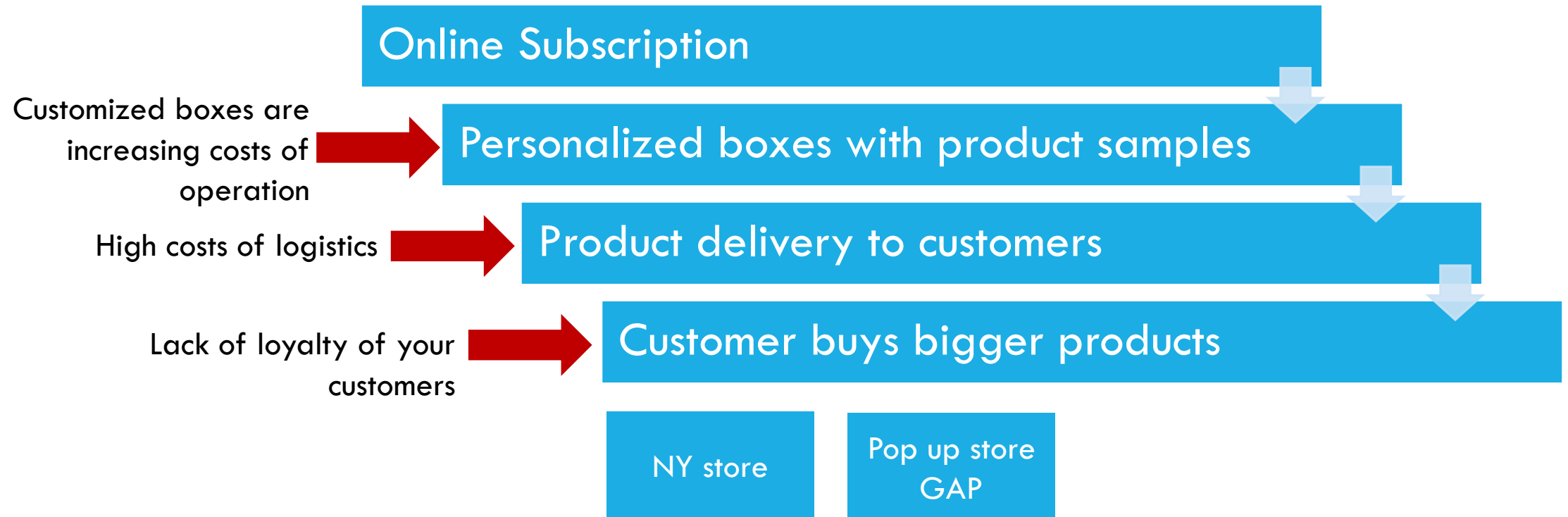To avoid needing more funding, you need to be aggressive strategy to increase your subscribers

Customization (Curator box content)

BIRCHBOX
Try-out and selling of skin care and hair products

Convenience

Surprise

Opportunity

How you do business

Online Subscription

Customized boxes are increasing costs of operation → Personalized boxes with product samples

High costs of logistics → Product delivery to customers

Lack of loyalty of your customers → Customer buys bigger products

NY store

Pop up store GAP

How you do business

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NY store

Pop up store GAP

To reduce the costs of your business you need to tackle the very high costs of customization and delivery, while increasing customer loyalty

Who are your customers

Millennials
- 31 old women with high income
- Fast makeup and no cheap products

Coloured women
- Lack of product offer in this market segment
- Market is in high demand, but there are lack of tutorial videos

Young men
- 35% of your revenues (high cost products)
- Men tend to have more loyalty due valued convenience

All your customers depend highly in product feedback from vloggers or bloggers before buying
TRUST&LOYALTY

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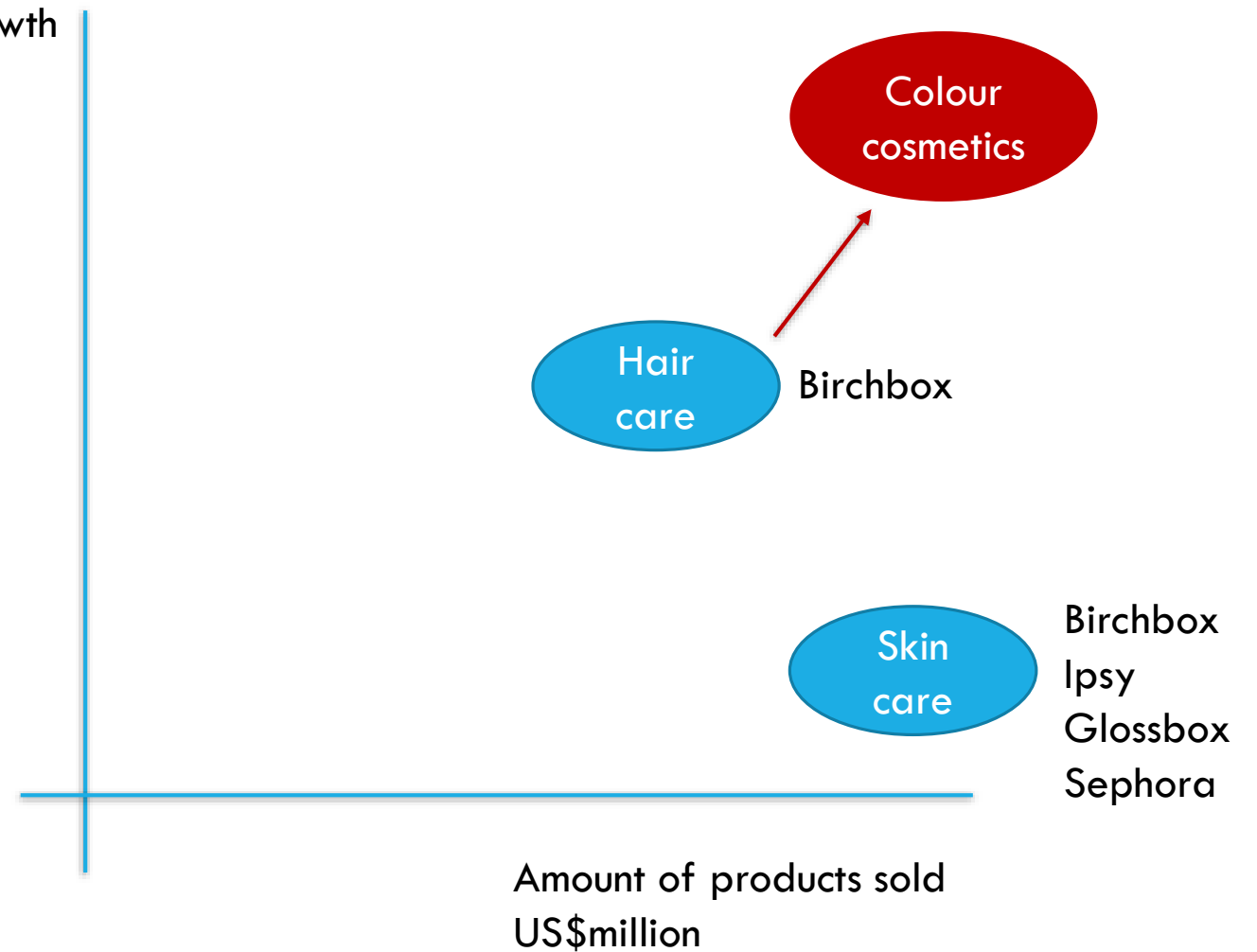- Market is in high demand, but there are lack of tutorial videos

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All your customers depend highly in product feedback from vloggers or bloggers before buying TRUST&LOYALTY

You need to focus on the segment that are in need and leading you to success, while betting on a strong product support service to increase loyalty
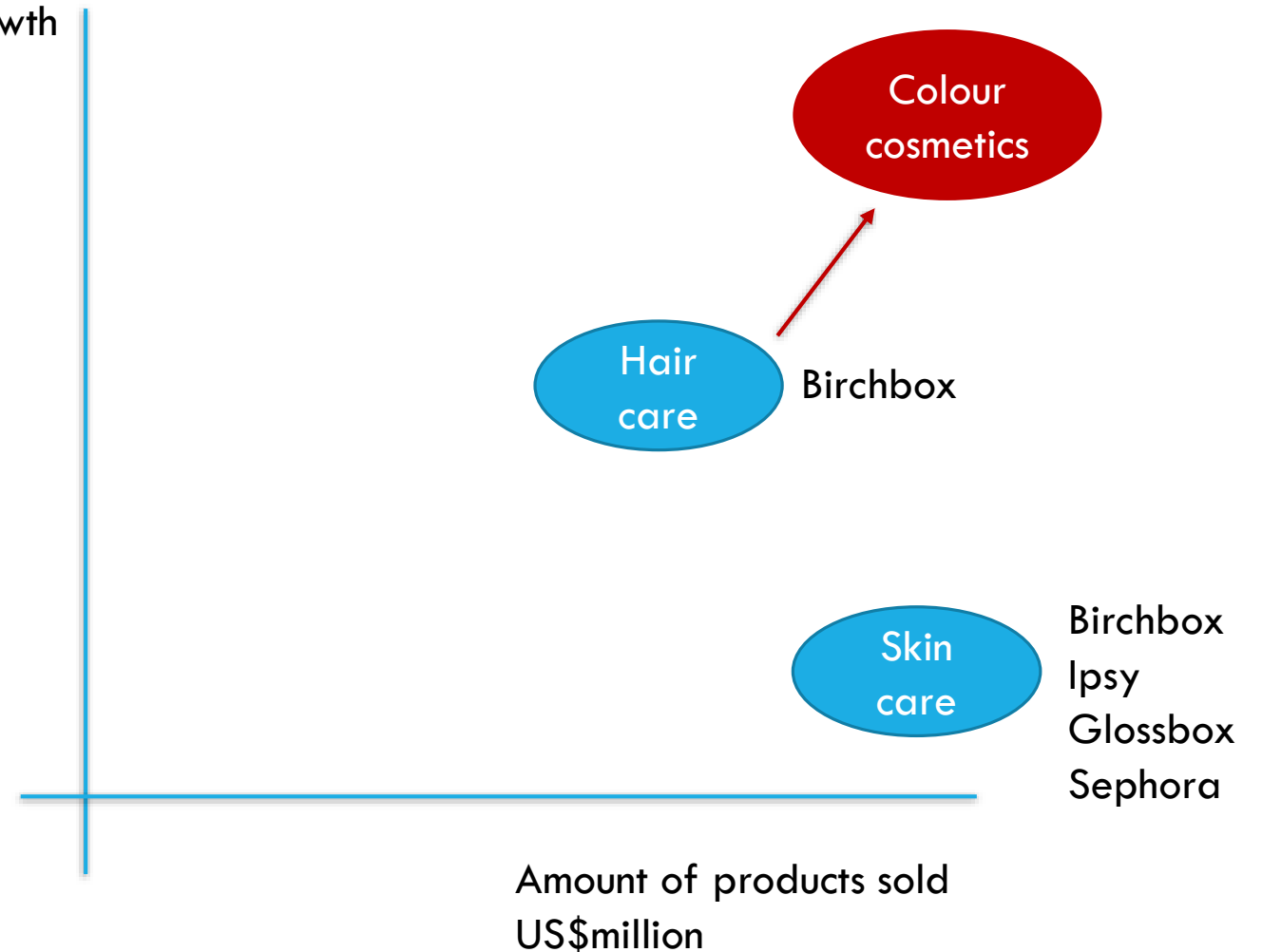
Who are your competitors

Market growth

Colour cosmetics

Hair care

Birchbox

Skin care

Birchbox
Ipsy
Glossbox
Sephora

Amount of products sold
US$million

Who are your competitors

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Although you have strong competitors, you should fill the niche of providing colour skin care cosmetic products

Skin care

Birchbox
Ipsy
Glossbox
Sephora

Amount of products sold US$million

What products are you selling

Hair care

Skin care

Makeup

→ Your competitors are offering makeup, but you have here the opportunity to explore skin care cosmetic products – Healthy makeup

What are the future trends in the market

Apps are being used to provide trustworthy skin care advise

Increasing in skin care awareness among all customer segments

Customers want to look younger while assuring they are buying products that are good for their health

Increasing demand for healthier coloured skin products

Vloggers and Bloggers are increasing influencers in the skin care and beauty market

Summing up

S
- Product customization
- Promoting healthier products

W
- Low online subscription
- Low customer loyalty
- Costly logistics

O
- Growth in demand for men and coloured women skin beauty and care products
- Awareness for healthier skin products

T
- Easy entry market
- Clones already taking over

Recommendation

PBS

Alexandre Santos

What are the alternatives that BirchBox could follow for logistics?

Alternatives				
Expand through brick-and-mortar				
Setup local logistics centers (EU and US)				
Automatize center logistics in US				

What are the alternatives that BirchBox could follow for logistics?

Alternatives	Cost of Implem.	Ease of Implem.	Profitability	Total
Expand through brick-and-mortar	1	4	2	7
Setup local logistics centers (EU and US)	4	3	4	11
Automatize center logistics in US	2	2	5	9

1 – Low/Bad
5 – High/Good

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What are the alternatives that BirchBox could follow for customization?

Alternatives	Customer Exper.	Profitability	Product Diversity	Total
Create of an Application for product customization	4	5	3	12
Increase product range (SKUs) offers and new product developments	3	2	4	9

1 – Low/Bad
5 – High/Good

What are the alternatives that BirchBox could follow for increase customer base?

Alternatives	Risk	Growth Potential	Cost of Implem.	Total
Expand Internationally	2	5	2	9
Expand offers in market segments (Coloured, Men)	5	3	4	12

1 – Low/Bad
5 – High/Good

The three pillars of our strategy

Logistics

Product
Customization

Customers

The three pillars of our strategy

Logistics

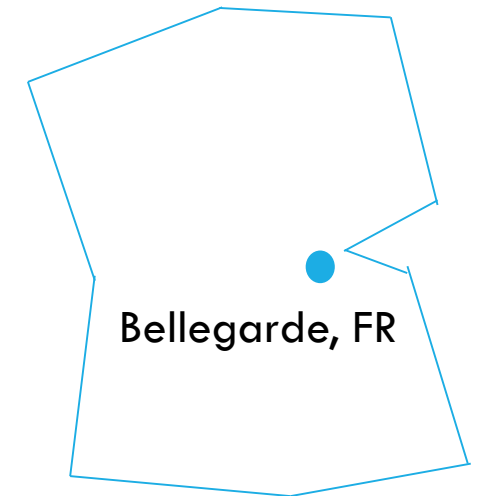Product Customization

Customers

What is the logistics strategy?

| Delivery Costs | Logistics of Orders |

Setup logistics center in France (Bellegarde) to cover
deliveries in France, Spain and UK.
  - Central Europe
  - Logistics center with key shippers partners centers (TNT, Seur)
  - Lower costs of coverage area and lowering political risks (Brexit,
Catalunha)
  - Possible expansion to other regions in Central EU (Germany, Italy)

Using current logistics center in US to cover deliveries in US and Puerto Rico
  - Possible expansion to other regions in North America (Canada, Mexico)

Bellegarde, FR

What is the logistics strategy?

Delivery Costs	Logistics of Orders

- Spread the orders across the month (across the 4 weeks of the month) - based on customer birth date;

- Reducing the product range which will reduce logistics complexity

What is the product customization strategy?

Logistics

Product Customization

Customers

What is the product customization strategy?

Customization	Product offers

Reduce product customization by offering pre-set offers:

- Pre-set kits (Urban, Glamour, Shine, etc…). Customer can change every month
- Every Quarter offer the surprise set based on customer preference

What is the product customization strategy?

<table>
<tr><td>Customization</td><td>Product offers</td></tr>
</table>

Develop of Application BirchApp as front-end for customer orders and brand beauty products support contents:

- Skin care Diagnosis. Uploading photo using smartphone will allow the diagnosis of skin-care type and possible skin problems
- Recommendation of products based on customer preference and skin-type
- Promotion of Trend/Preference products;
- Videos of products support (product application, usage tips)
- Pre-set kits (Urban, Glamour, Shine, etc…). Customer can change every month
- Every Quarter offer the surprise set based on customer preference

Product offer:
- Offer make-up products;
- Focus on colored women skin care product
- New products for Men (fragrances)

What is the customers strategy?

Logistics

Product Customization

Customers

What is the customers strategy?

Increase of Subscribers & Customer Preferences

Video channels from Vloggers and Bloggers to engage millennium generation customers (high focus on colored women and men)

- Create brand awareness

- Production of product support contents

- Usage of influencers to promote product

- Increase trust in products to promote loyalty

Financials

Pranjay Yadav

PBS

Financial Impact

Assumptions	
WACC	15%
Revenue Growth	25%
COGS	70%
Changing in Working Capital	10%
Corporate Tax	20%
Logistics Expense(Out of Revenues)	5%
Operational Expense	10%

Investment Assumptions	Thousand $
Development Of Applicaton	200
Logistics centre in Europe	1000
Marketing and Promotion	1000

Financial Impact

Projected profit:

	2018	2019	2020	2021
Revenues	141.0	176.3	220.3	275.4
COGS	98.7	123.4	154.2	192.8
Gross Margin	42.3	52.9	66.1	82.6
Net Profit	16.8	22.8	30.5	40.6
Discount Factor	1.00	1.15	1.32	1.52
Free Cash Flow	1.7	4.6	8.1	12.8
NPV	52.4			

Implementation & Risks

Andreas Salom

	Activities	2018				2019				2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Logistics strategy	Setup logistics center in France			▓	▓												
	Expansion to other regions in North America	▓															
Product Customization	Research on products	▓				▓					▓						
	Development of strandardized boxes to offer	▓															
	Develop of Application BirchApp in partnership			▓													
	Product development for man and coloured women			▓				▓	▓			▓					
Customers	Create brand awareness team	▓	▓														
	Promotion and Marketing		▓			▓			▓			▓			▓		
	Partnership with vloggers and bloggers	▓	▓														

Risks

#	Risk	Mitigation Action
1	Customer preference and Locality	Increase the awareness and use customer influences and locality program (Increase they products in box)
2	Big Data	Partnership with the certified data analysis company and compliance with regulation
3	Competition	Diversified the products and produce product based on the customers
4	Brand damage	Distribute the product
5	Financial dependence	Restructure the company strategy and reduce logistic costs with new

Summing Up

PBS

Number of Subscribers

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