

# Birchbox Inc. Dilemma

## Knight Consulting

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# Executive Summary

- ▶ Issue
- ▶ Recommendations
- ▶ Implementation
- ▶ Alternatives

# Primary Issue: Price Discrimination vs. Differentiation

- ▶ Cost matching with competitors
- ▶ Operational streamlining
- ▶ Provides variety of products
- ▶ Personalizes selection of products

# Proposed Strategy Outline

- ▶ Target smaller brands and new brands
- ▶ Improve personalization
- ▶ Introduce staggered shipping
- ▶ Increase price
- ▶ Decrease loyalty points
- ▶ Divest LOC brand
- ▶ Divest brick and mortar store

# Differentiation Recommendation

- ▶ Change line of products
- ▶ Improve personalization
- ▶ Increase price
- ▶ Decrease loyalty points

# Valuation Increase of Proposed Pricing

	In 1000s	Current Pricing	Proposed Pricing	Total Subscriptions
Women	Monthly	\$ 10	\$ 12	2660.0
	Yearly	\$ 110	\$ 130	96.7
Men	Monthly	\$ 20	\$ 24	1209.1
	Yearly	\$ 220	\$ 260	44.0

\$ 71,093.75      \$ 84,943.18

New Revenue \$ 13,849.43

PV of Increase \$ 112,526.63

# Loyalty Program Savings

## Revenue 2016

Men's Subscription	\$	38,690.48
Women's Subscription	\$	42,559.52
Reorders	\$	43,750.00
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Revenue	\$	125,000.00

## Estimated Cost of Loyalty Program

Assume: 25% Yearly Subscribers

100% Loyalty Point Usage

Men's Yearly Subscription is \$220

47% Female to 53% Males Spending

Rate of Return: 8%

(in 1000's)	Total Subscriptions	Total Sales Lost	PV of Additional Cashflow
Men's Sub	43.97	\$ 857.35	\$ 6,965.93
Women's Sub	96.73	\$ 1,063.99	\$ 8,644.90
Full- Size Purchases	NA	\$ 4,375.00	\$ 35,546.88

# Loyalty Program Savings Recommendation

- ▶ Keep loyalty points for:
  - ▶ Reviews
  - ▶ Referrals
  
- ▶ Stop Points for:
  - ▶ Subscriptions
  - ▶ Re-Orders
  
- ▶ PV Total Savings (Perpetuity): \$51,157,000



# Implementation

Task	Cost/savings	Implementation period
Increase price	+\$13 million in revenue (+\$2 per box)	Immediately
Stagger shipping times	Bulk shipping savings	Immediately
Decrease loyalty points earned	Lost subscription potential	6 months
Hire new data consultants	-\$300,000	12 months
Divest LOC brand	Operations Costs	12-24 months
Divest storefront	Staff and Leasing	12-24 months
Identify new brands to work with	-\$200,000	Ongoing

# Alternatives

- ▶ Merge with strategic partner
  - ▶ Greater SKU
  - ▶ Greater customer base
  - ▶ Increased funding
  - ▶ Larger platform
  - ▶ Economies of scale

# Alternatives

- ▶ Focus on Europe market
  - ▶ New markets
  - ▶ Less competition

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Thank you