

Schulich School of Business

Prepared for the Executive Team of Birchbox Inc.

Prepared By: Akram, Harris, Kirthika & Leon

Context

- The beauty industry in the United States alone is \$90 billion.
- Birchbox Inc. provides customers the ability to experience new beauty products in a fun and efficient way through a monthly subscription.
- In 2016, there were close to 300 subscription beauty services competing with Birchbox.



Core Issue

Birchbox Inc. is not satisfying the needs of the target customer base as they are not providing customized products that satisfy the dynamic needs of such consumers.



Recommendation

- 1) Upgrade analytical capacity
- 2) Update product offerings
- 3) Incentivize the purchase of full size products through additional points system
- 4) Reduce cost by leveraging data assets collected from consumers

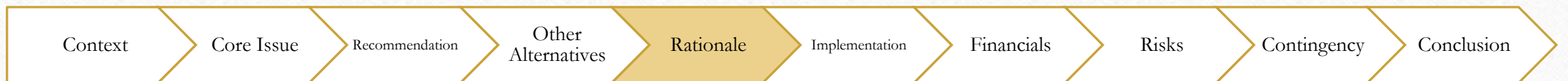
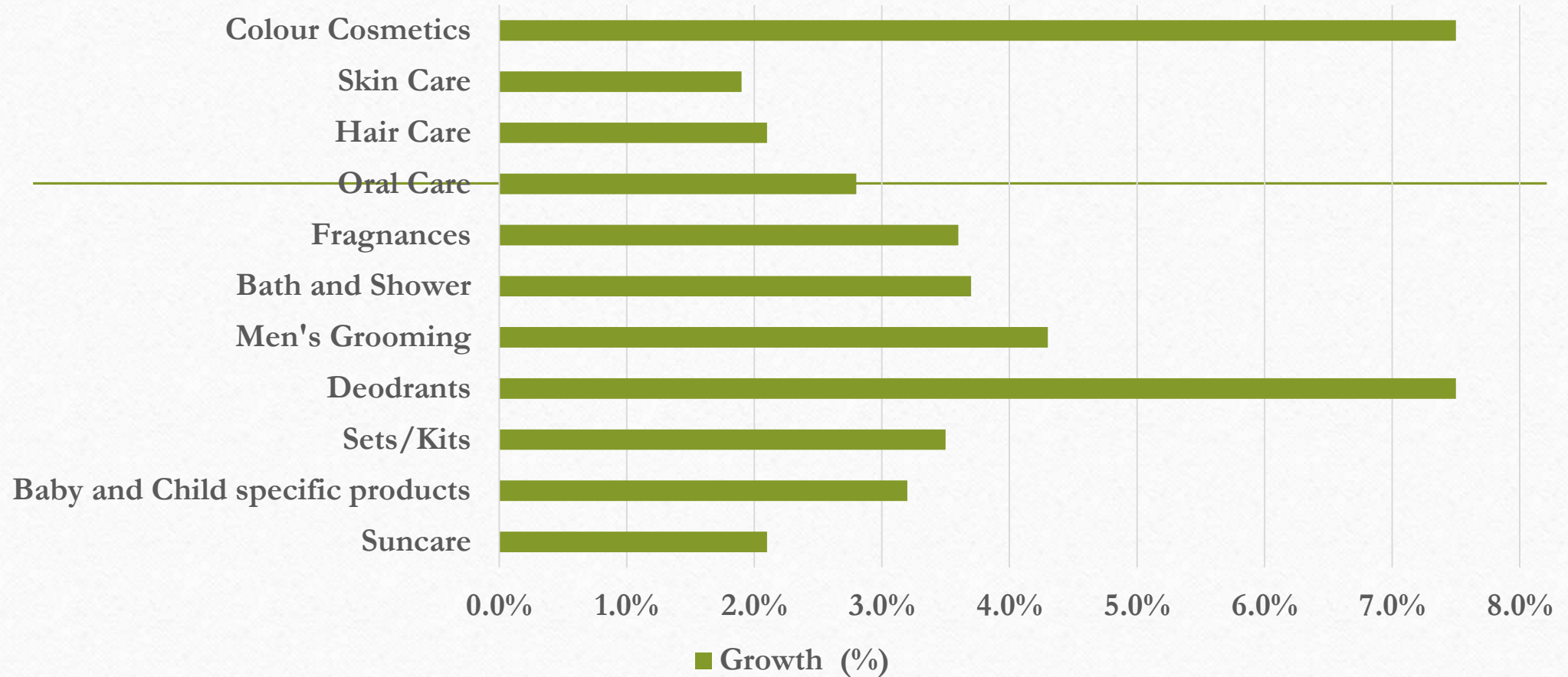


Other Alternatives













- 1) Outsource fulfilment of all products by Amazon.
- 2) Increase low-cost, high-volume product inventory.



Beauty Market Growth by Type (%)



Rationale

Alternatives	Criteria			
	Consumer Retention	Brand Management	Sustainable Profits	Logistical Efficiency
Our Recommendation				
Alternative I				
Alternative II				



Likelihood of meeting criteria is high



Likelihood of meeting criteria is low



Implementation

Stage I (Year 2017)

- Adjust data collection based on relevant information gathered from manufacturers and customers (expense of approx. \$300 000 per year).
- Modify loyalty system by eliminating points redemption on samples.



Implementation

Stage II (2017)

- Modify business model by utilizing information assets (qualitative data gathered from consumers) in exchange for samples from well established brands (savings of approx. \$10 million per month).
- Increasing the capacity of the supply chain (expense of approx. \$2 million per month).



Implementation

Stage III (Year 2018)

- Update product offerings reflective of consumer customization.



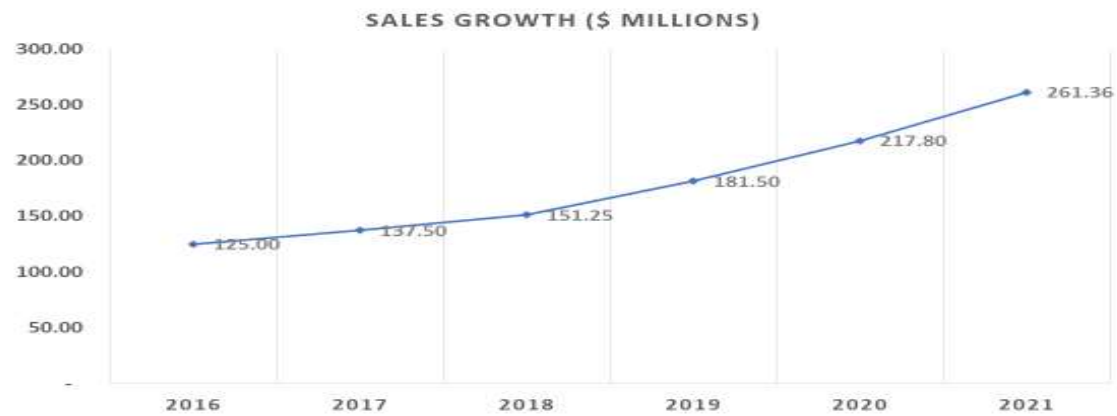
Implementation

Stage IV (Year 2019)

- Expand to Canadian market.



Financial Analysis



Context

Core Issue

Recommendation

Other
Alternatives

Rationale

Implementation

Financials

Risks

Contingency

Conclusion

Financial Analysis

		Sales Growth					
		2016	2017	2018	2019	2020	2021
		Actual	Projections				
Growth expected (Customer Base)			10%	10%	20%	20%	20%
Subscribers (millions)		1.00	1.10	1.21	1.45	1.74	2.09
Total Sales	Millions	125.00	137.50	151.25	181.50	217.80	261.36



Financial Analysis

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Financial Analysis

DISCOUNTED CASH FLOWS ANALYSIS							
		Now	2017	2018	2019	2020	2021
Free Cash Flows			152.50	166.25	196.50	232.80	276.36
Discounted Cash flow at 15% Rate	-	87.00	132.61	125.71	129.20	133.10	137.40
NPV		571.02					



Risks

Risk I

Managing the logistics of highly customized subscriptions

Risk II

Upgraded analytical system may not capture the complexity the physical world into digital format.

Risk III

Expansion of high-end cosmetics competitors in North America, such as Glossbox.

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Contingency Plan

Mitigation Strategy I

Increasing the supply costs by investing such as additional warehouse staff the savings from sample purchases from the brands Birchbox offers.

Mitigation Strategy II

Software development will be informed by collecting information from manufacturers and ensuring accuracy, richness and efficiency on the user's end.

Mitigation Strategy III

Develop strong brand name, customer loyalty, and competitive pricing.



Conclusion

Core Issue: Birchbox Inc. is not satisfying the needs of the target customer base as they are not providing customized products that satisfy the dynamic needs of such consumers.

Regain strong competitive position by providing unique value to consumers through high quality to consumers and serving marketing needs of the cosmetic manufacturers



Appendix - 1
SALES MIX & PROJECTIONS

		2016	2017	2018	2019	2020	2021
		Actual	Projections				
Growth expected (Customer Base)			10%	10%	20%	20%	20%
Subscribers (millions)		1.00	1.10	1.21	1.45	1.74	2.09
Sales Distribution:							
Subscription revenue	Major Sales	56.25	61.88	68.06	81.68	98.01	117.61
Re-orders (50% from Subscribers)	35% of Sales	43.75	48.13	52.94	63.53	76.23	91.48
E- Commerce :							
- Subscribers (85% of 25m)	85% of E Commerce	21.25	23.38	25.71	30.86	37.03	44.43
- Non Subscribers (15% of 25m)	15% of E Commerce	3.75	4.13	4.54	5.45	6.53	7.84
Total Sales	Millions	125.00	137.50	151.25	181.50	217.80	261.36

Appendix - 2
FINANCIAL PROJECTIONS

		2016	2017	2018	2019	2020	2021
		Actual	Projections				
		\$ in millions					
Sales		125.00	137.50	151.25	181.50	217.80	261.36
Less:							
Variable Cost of Sales (80% as of 2016)	-	100.00					
Variable Cost of Sales (40% as of 2017 onwards)			- 55.00	- 60.50	- 72.60	- 87.12	- 104.54
Contribution Margin		25.00	82.50	90.75	108.90	130.68	156.82
Less: Fixed Cost (20% as of 2016)	-	25.00					
Less: Fixed Cost (60% as of 2017 onwards)			- 75.00	- 75.00	- 75.00	- 75.00	- 75.00
Net Profit		-	7.50	15.75	33.90	55.68	81.82

Appendix – 3
DISCOUNTED CASH FLOWS

		Now	2017	2018	2019	2020	2021
		\$ in millions					
Net Profit			137.50	151.25	181.50	217.80	261.36
Fixed Cost – Depreciation			15.00	15.00	15.00	15.00	15.00
Free Cash Flows			152.50	166.25	196.50	232.80	276.36
Investment		- 87.00					
Cash Flows		- 87.00	152.50	166.25	196.50	232.80	276.36
Discounted Cash flow at (15%)		- 87.00	132.61	125.71	129.20	133.10	137.40
NPV		571.02					

Appendix - 4
MARKET GROWTH FOR BEAUTY PRODUCTS

Beauty Market Type	Growth (%)	Retail Selling Price (US Million)	Weights (%)
Suncare	2.1%	2,000	0.05%
Baby and Child specific products	3.2%	3,000	0.11%
Sets/Kits	3.5%	6,000	0.23%
Deodrants	7.5%	4,500	0.38%
Men's Grooming	4.3%	8,500	0.41%
Bath and Shower	3.7%	7,800	0.32%
Fragrances	3.6%	7,900	0.32%
Oral Care	2.8%	8,200	0.26%
Hair Care	2.1%	12,000	0.28%
Skin Care	1.9%	15,500	0.33%
Colour Cosmetics	7.5%	14,200	1.19%
Total Beauty Market		89,600	
Weighted Average Growth			3.87%