

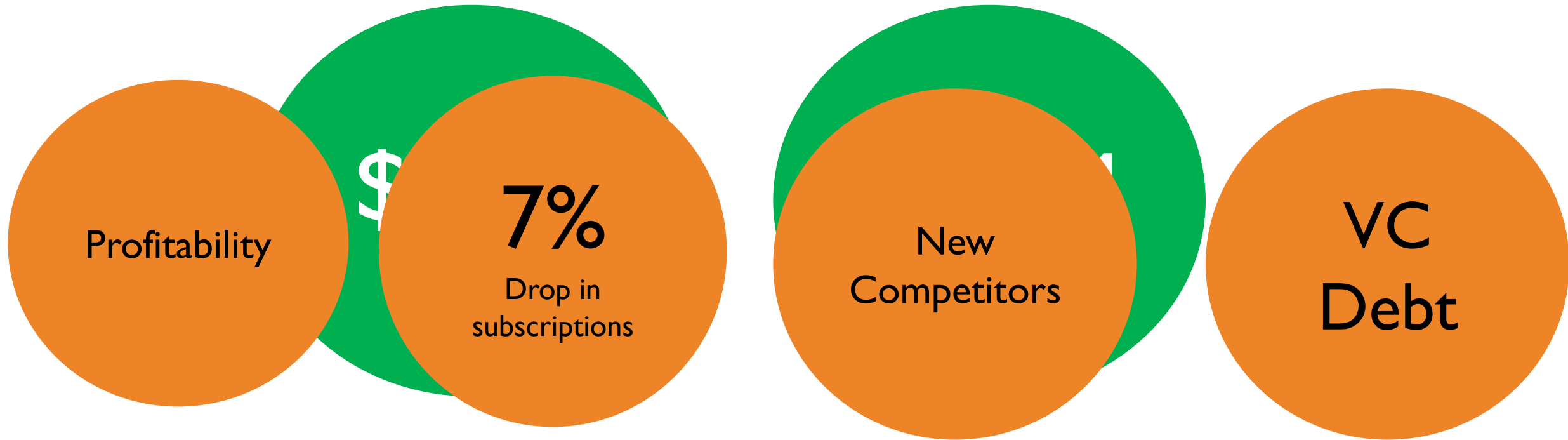


BIRCHBOX

GSB CONSULTING



BIRCHBOX



MANDATE

Integrated strategy to return to profitability through bringing in new investment, optimising the operations model and unlocking more revenue from customers resulting in 6% CAGR in 5 years and Birchbox becoming a major player in the discovery retailing market

KEY ISSUES

1

Lack of funding for future

2

Inefficient Operations Model

3

Shrinking customer base

RECOMMENDATIONS

1

Bring in Strategic Equity Partner

2

BirchboxLuxe

3

Customer Retention and Activation Program



ANALYSIS

SIAN



ASSUMPTIONS

1

Valuation: online subscription organisation Ipsy is comparable

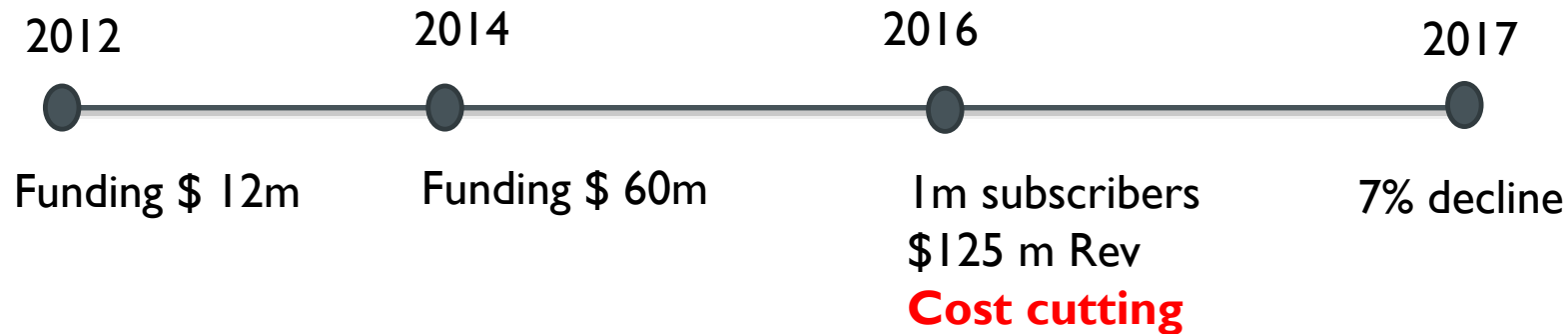
2

Current investors do not have skills need in the organisation

3

Discovery retail market will continue to grow

BIRCHBOX JOURNEY



- 50% month-on-month growth
- Aggressive cost cutting to achieve growth
- Venture debt due in 2018

Need to review how to fund growth and remain profitable

OPERATIONS MODEL

Products:

- 100 combinations
- Mass customisation
- Varied destinations
- 1 m subscribers



Operations:

- Labour intensive
- Cross-training
- Temporary workers
- Short window

Need to review current operations model to improve efficiency and sustain growth

MARKET ANALYSIS

Birchbox core competencies

- Loyalty programme
- Customer data
- Brand partners

Market success factors:

- Brand loyalty
- Understanding buyer behavior
- Understanding buyer preferences

Performance

- Non-match customer preference
- Highly competitive

Need to align competencies to market drivers specifically customer preferences

VALUE PROPOSITION ANALYSIS

Birchbox value proposition

- Personalisation
- Curated box content



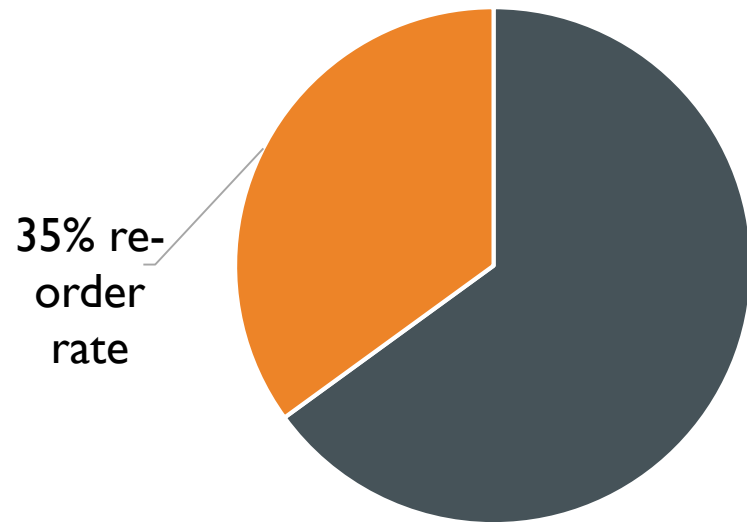
Customer preference:

- Price
- Free shipping and returns
- Site security
- Promotions

Opportunity to further align value proposition to customer preferences

BUSINESS MODEL ANALYSIS

Subscription model



- Customer low cost of switching
- Losses on individual box
- Full-orders are more profitable

Need to focus on customer retention rather than new subscription

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RECOMMENDATIONS

BONGANI



ALTERNATIVES

Alternatives	Funding	Operations Model	Retention	Conversion
Seek more investment from current investors				
Outsource packing to a sophisticated Ops Partner				
Drive LOC Marketing				
Find Strategic Equity Partner				
Birchbox Luxe				
Customer Retention and Activation Program				

BRING IN STRATEGIC EQUITY PARTNER

- Need to ensure that the business remains afloat
- Business remains attractive to potential investors
- Operations and Online skills valuable now and in the future
- KPI: Bring in US\$25M in funding

BIRCHBOX LUXE

- Customization is costly
- Staggering improves efficiency
- Surprise effect not top priority to customer
- Standardisation relies on deep customer insights
- KPI: 3% EBITDA on subscription customers

CUSTOMER RETENTION AND ACTIVATION PROGRAM

- Need to unlock maximum value from present customer base
- Subscriptions is loss making
- Customer acquisition costs more than retention
- KPI: 9% CAGR of full-order revenue



IMPLEMENTATION

CAROLINE



STRATEGIC EQUITY PARTNER

- Approach US based private equity firms
- Offer 5% stake
- \$25 million
- Further 10% investment in 2020



Their Profile

- Online retail experience
- Hands on approach
- US based (international market entry experience)

Cost: \$500 k | KPI: Secure \$25m equity in 2018

BIRCHBOX LUXE

- Design: High gloss gold box
- Analyse data to find the most popular low-cost items
- Include one Love of Colour item

Quarterly planning



Packed in advance



Dispatch 2 days in advance

Cost: \$6 | 3k | KPI: 3% EBITDA of subscriber revenue by 2022

Who would want this box?

- Passive shoppers
- First time users
- Indecisive users

How will we find them?

- Data analytics :
 - Lost subscribers
 - 'Item in cart' users
 - Frequent preference changes
 - Targeted email/social media

April – June
2017
Planning Phase



July 2017
Box contents for
Aug-Oct final



August 2017
First boxes
dispatched

CUSTOMER RETENTION AND ACTIVATION

Loyalty Programme Enhancement

- Upgrade to 3 tiers
 - 1 year > Bronzer 1.2 X
 - 18 months > Shimmer 1.5 X
 - 2 years > Rose Gold 2 X

Refill Reminders

- Email 1 week before full size runs out
 - Discount for 3 month bulk purchase
- Non-purchase results in SMS reminder
 - 10% discount on product
 - OR for non-subscriber, an \$8 box with any purchase

BirchboxBestie

- Identify users with similar tastes
- Cross recommendations
- “Look what your bestie bought”
- “See what your bestie said about this product”

May – Sept 2017
System Upgrade



October 2017
Beta Testing



November 2017
Soft Launch



January
Full launch

Cost: \$8.7m | KPI: 9% full-order revenue CAGR by 2022



FINANCIALS

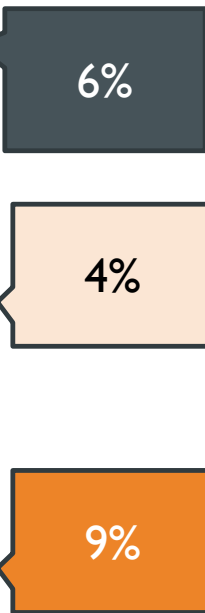
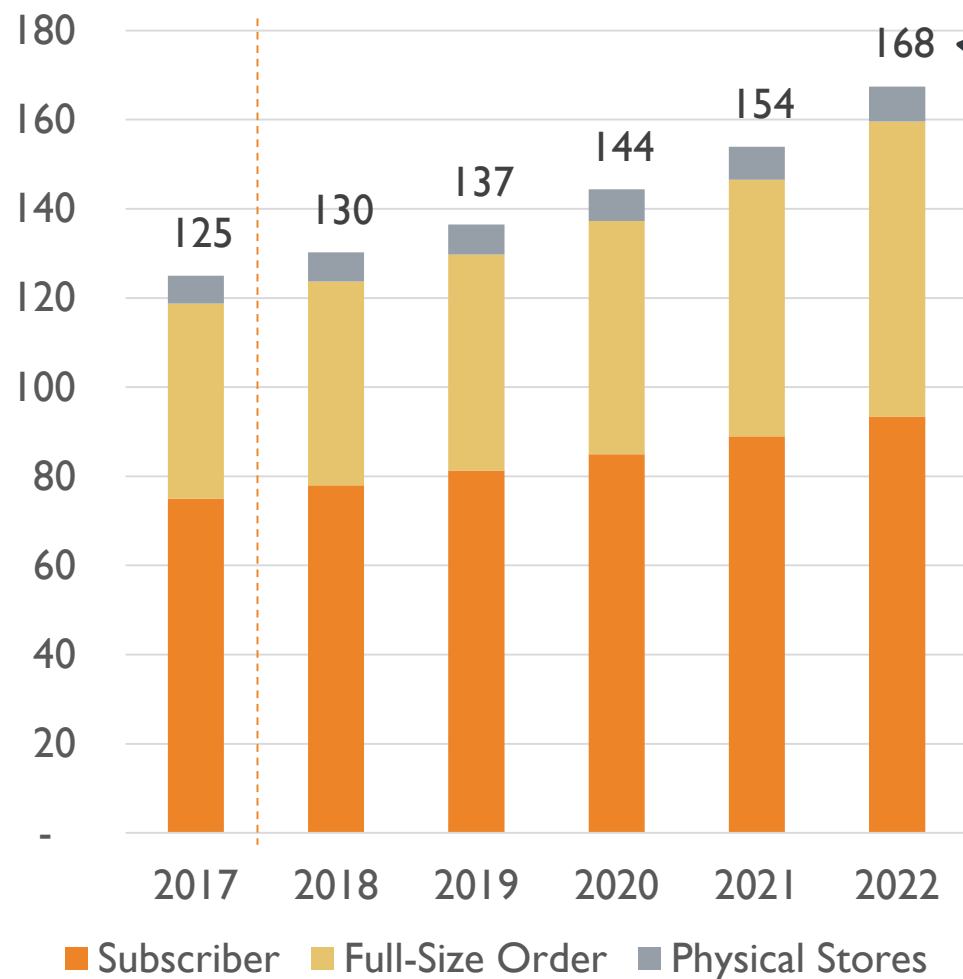
TARRYN



IMPLEMENTATION BUDGET

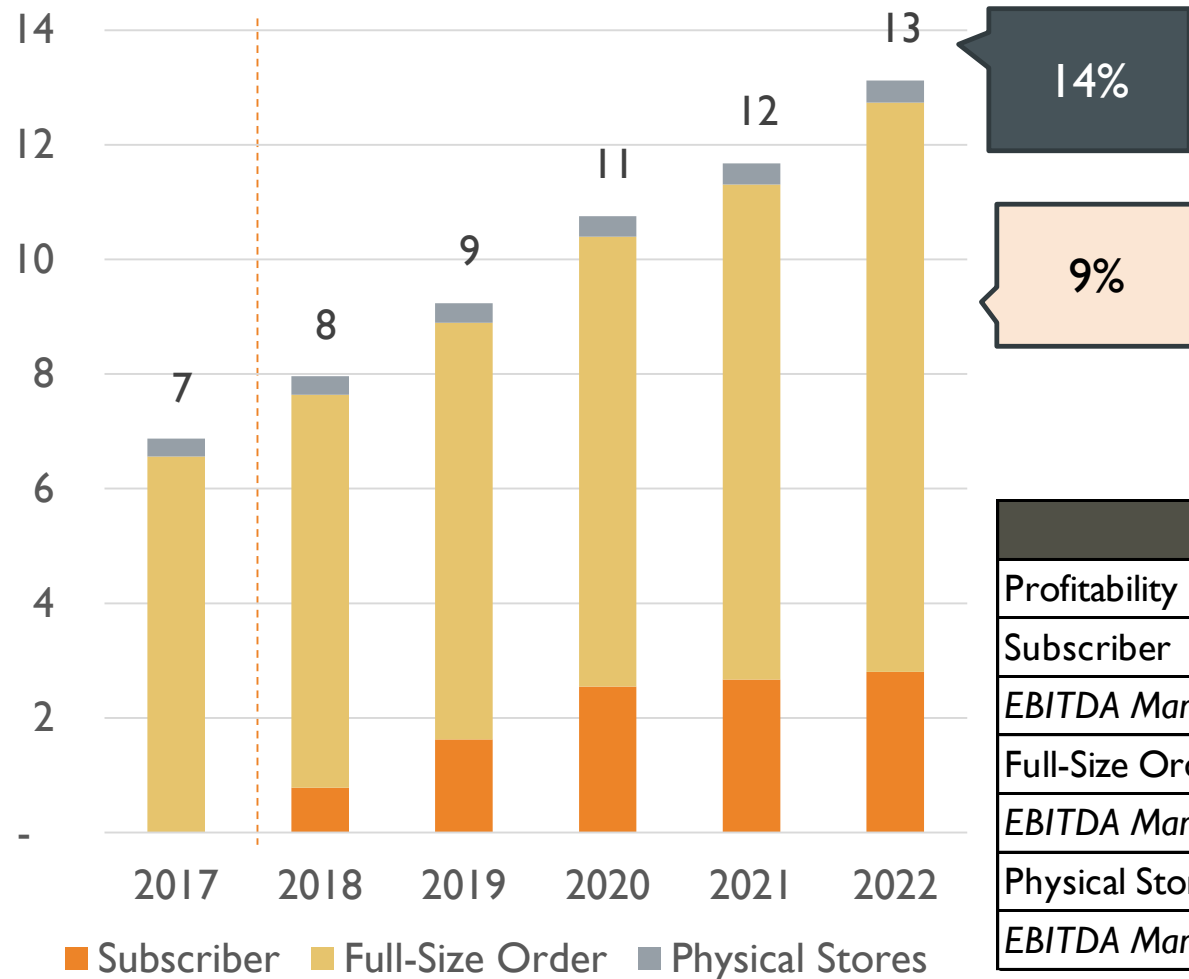
Recommendations	Tactics	2017	2018	2019	2020	2021	KPI
Strategic equity partner	Due dilligence	250					Secure \$25m equity by 2018
	Audit fees	100			150		
	Sub-Total	350	-	-	150	-	
Birchboxlux	Design & Planning	10					3% EBITDA of subscriber revenue by 2022
	Process Upgrades	50					
	Marketing	100	105	110	116	122	
	Sub-Total	160	105	110	116	122	
Customer retention and activation	System Upgrades	2,000	800				6% full-order revenue CAGR by 2022
	Marketing	20	80	84	88	93	
	Additional Incentives		1,200	1,320	1,452	1,597	
	Sub-Total	2,020	2,080	1,404	1,540	1,690	
GRAND TOTAL		2,530	2,185	1,514	1,806	1,811	9,847
EBITDA		7,025	8,123	9,403	10,933	11,856	
% Margin		36%	27%	16%	17%	15%	

REVENUE FORECASTING (\$ MN)



Revenue Mix		2017	2018	2019	2020	2021	2022	CAGR	Revenue Mix
	Revenue (\$ mn)	125	130	137	144	154	168	6%	
60%	Subscriber	75	78	81	85	89	93	4%	56%
	Growth Rate		4.0%	4.2%	4.5%	4.8%	5.0%		
35%	Full-Size Order	44	46	48	52	58	66	9%	40%
	Growth Rate		4.5%	6.0%	8.0%	10.0%	15.0%		
5%	Physical Stores	6	7	7	7	7	8	4%	5%
	Growth Rate		4.0%	4.2%	4.5%	4.8%	5.0%		

PROFITABILITY FORECASTING (\$ MN)



	2017	2018	2019	2020	2021	2022	CAGR
Profitability (\$ mn)	7	8	9	11	12	13	14%
Subscriber	0	1	2	3	3	3	
EBITDA Margins	0	1.0%	2.0%	3.0%	3.0%	3.0%	
Full-Size Order	7	7	7	8	9	10	9%
EBITDA Margins	0.15	15.0%	15.0%	15.0%	15.0%	15.0%	
Physical Stores	0	0	0	0	0	0	4%
EBITDA Margins	0.05	5.0%	5.0%	5.0%	5.0%	5.0%	

CRITICAL SUCCESS FACTORS

	Factors	Impact	Contingency Plan
1	Identify an appropriate VC that has the requisite skill set and culture, given the proportion of business willing to sell		Be negotiable regarding the proportion of business to sell to the VC
2	Standard box matches the consumer needs		Invest additional capital into market research to further tailor the standard box offering
3	Consumer responds to the gamification mechanism of points system		Engage with consumers and be open to amending the rule parameters



CONCLUSION

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CONCLUSION

