

Get Birchbox into profitability for the future

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Key issues

1 Achieve sustainable growth as well as **profitability**

1.1 Investor's pressure

1.2 Competition

1.3 Customer loyalty

Solution Preview

Strategic Actions

Restructure for selling the business:

- Enhance customer orientation
- Add new subscription model
- Attract new customer

Implementation Actions

- Implement strong Data Analytics
- Add subscription model for full-size products
- Marketing Campaign

Agenda

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Move things forward in practice

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At a glance

**Beauty product
subscription**
start-up

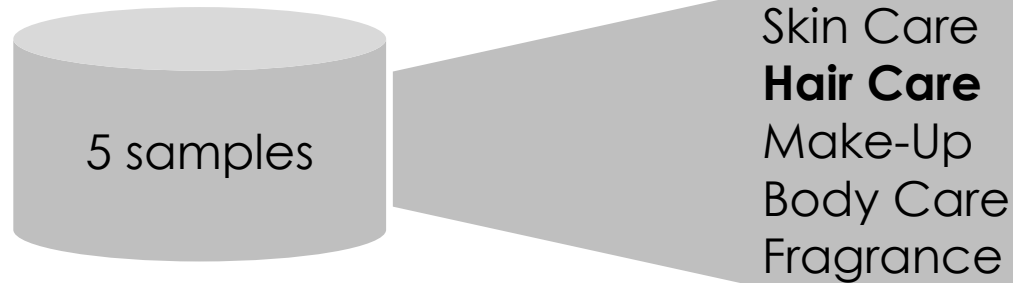
7%
fall in subscriptions

Total funding
\$87 million

Venture debt due in
early 2018
8 months
deadline

Discovery retail as key business of Birchbox

Beauty boxes



→ Products differ in terms of loyalty, and time of consumption

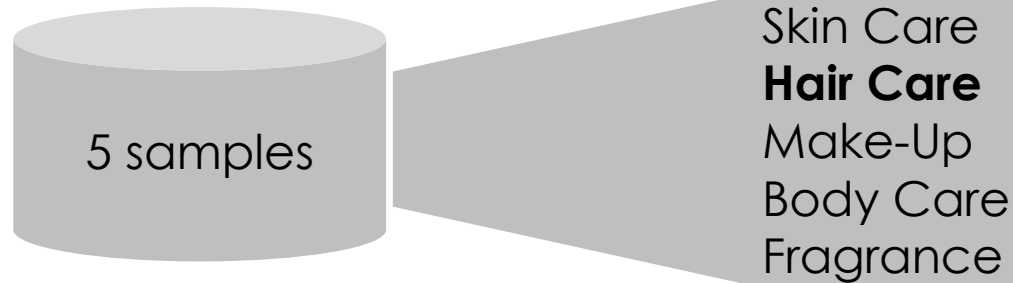
Monthly subscription

\$10 p.m. for **women (65%)**
\$20 p.m. for **men (35%)**

+Full size samples

Discovery retail as key business of Birchbox

Beauty boxes



Monthly subscription

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\$20 p.m. for **men (35%)**

Full size samples

USP's for customer

- Differentiation through personalization
- Discover new products

USP's for partners

- Data Analytics

→ Differentiation lays in personalized sample boxes
→ Analysts say: customers are bored

Understanding the customer is the holy grail

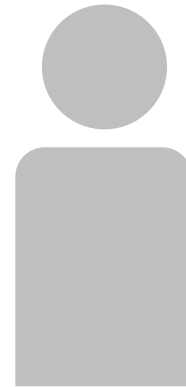


Women (65%)

- 31 years old
- Passive purchasing approach (80% of all women)
- \$80,000 income

Men (35%)

- 30 years old
- Passive purchase (95%)
- Less satisfaction for tying
- 90,000 income



→ Men segment fits better to current product characteristics

Serving both, offline and online channels

Online Marketing

- Influencer
- Youtube
- Newsletter Mails

Distribution Channel

- Webshop
- Pop-Up stores (GAP)
- Retail Store in New York

Customer relationship

- Loyalty points that can use for purchase
- 1 Point = \$1

→ High expenses on marketing and loyalty program while promoting mainly partners

Expenses for operations increase due to complexity of current business model

Key activities

Gather samples from partners

Selling samples (mass customization)

→ 75% of Sales (predictable income)

Give customer feedback

Sell full size products

→ 35% of Sales (unregular income)

→ More profitable

→ High differentiation costs to fulfill current USP

Expenses for operations increase due to complexity of current business model

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Key strengths

- Personalized
- Product recommendation

Weaknesses

- High labour and capital intensive operations
- Limited scalability

High competition from both, start-ups and global players

Start-Ups

- High amount
- Serve niches
(geographic, demopgrahic, ...)

Glossbox (\$21)

(high funding)

Ipsy (\$10)

(Common available products)

Multinational players

- L'Oreal
- Unilever
- Procter & Gamble
- Sephora (play!)
(\$10)
- Amazon
- Target

→ Low opportunity to built entry barriers all over the world

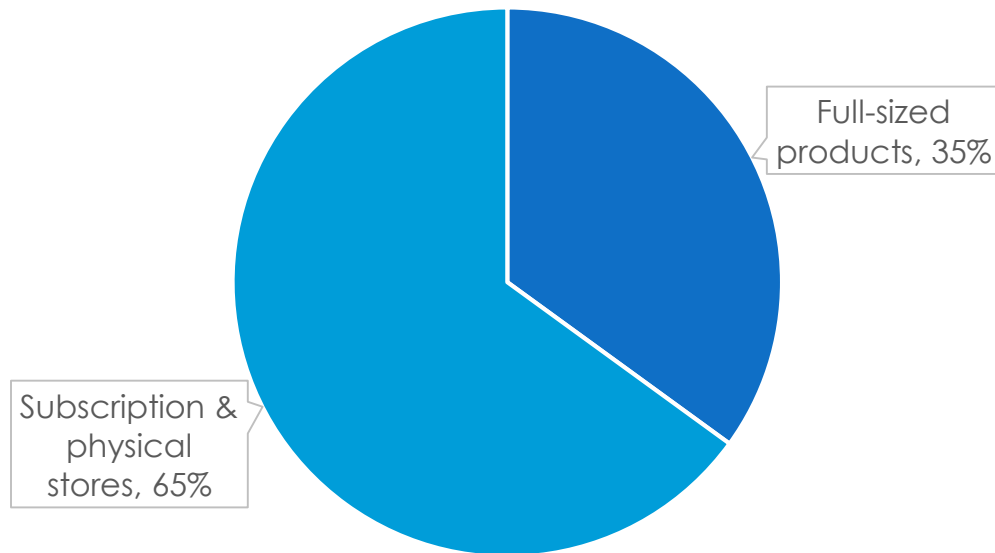
→ Competition focus:
Make-Up

You have a good customer base, sales have to be converted to profits

1 million subscriptions

\$125 million revenue 2016

Sales



- **Full sized products**
 - High profit margin
 - Share should be increased
- **Subscriptions**
 - Not profitable
 - High cost, labor intensive
- **Physical stores**
 - Adventure shop in New York
 - Pop-up stores (GAP)

Operational break even expected

Your financial firepower

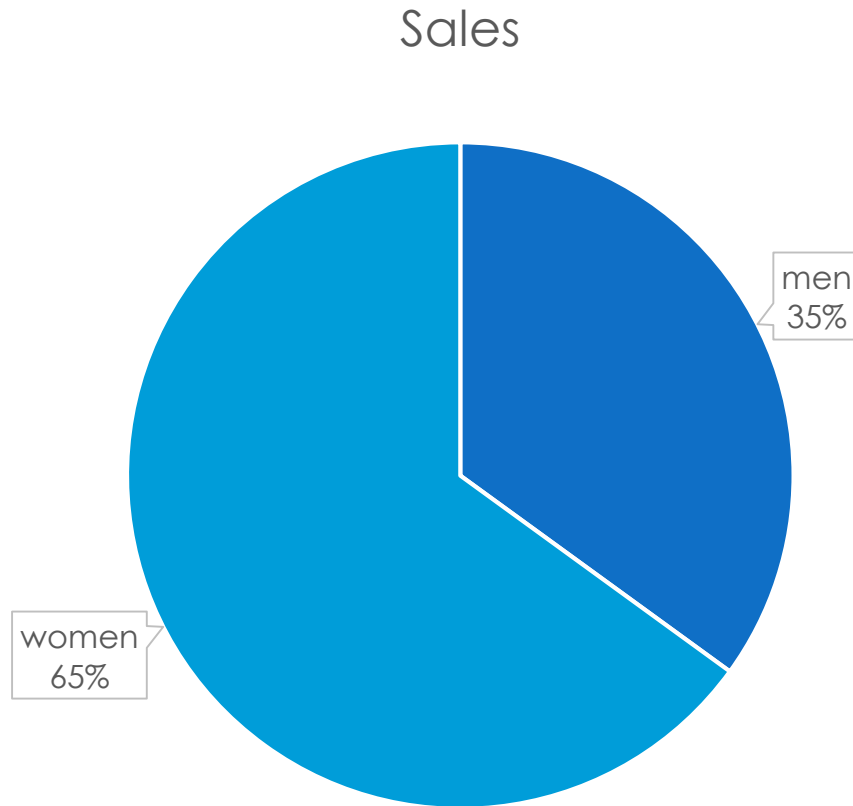
Your funding (in million)

1st round	\$12
2nd round	\$60
others	\$15
Total	\$87

- Award for business model (\$10,000)
- **Your investors funded you with \$87 million**
 - Demand profitability
 - Undisclosed amount of venture debt due in early 2018

Become more profitable to satisfy investors

Men are an attractive customer segment that you already serve



- **Sales for men increased tremendously**
 - **Sales increased** by 15 times in 2017
 - The boxes for subscription come at **\$20**
 - Men spend **\$10 more on average**
 - Men grooming sales are increasing over 4% each year in the US market
- 20% of beauty customers outgoing and passionate
 - 80% more practical and less outgoing, including man

Higher spending of men & attractive market growth

You are facing high costs in a difficult market

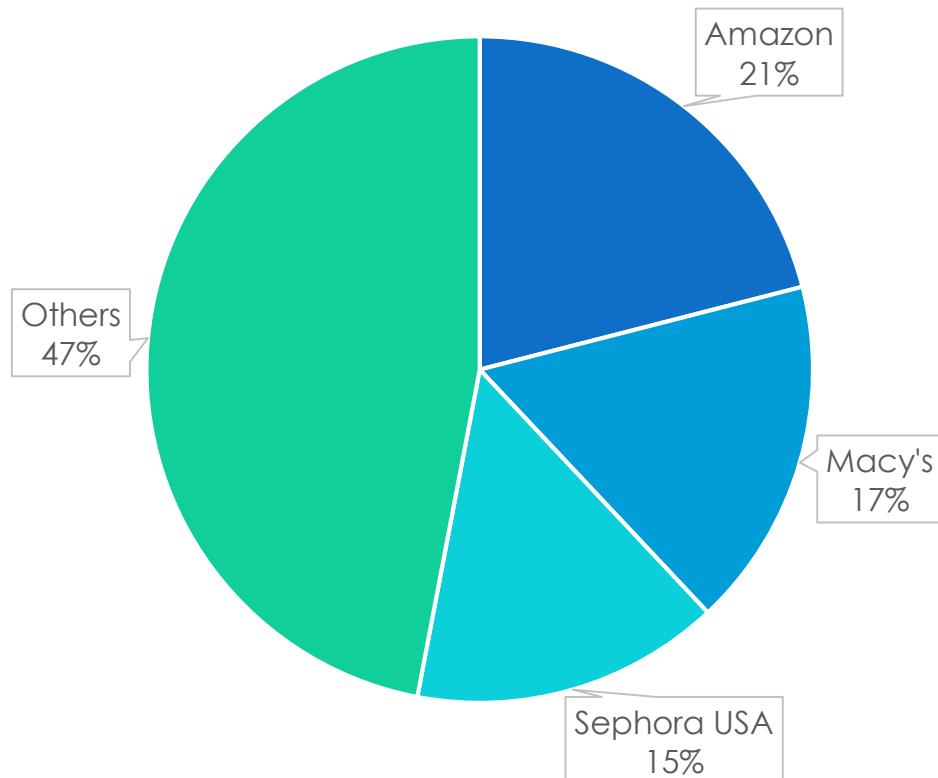
Costs	
Packing of boxes	Labor intensive, not automated, expensive
Shipping	Delivery at the same time everywhere, difficult & expensive
Stock	Predictable, cost efficient
Samples	Free from new brands, costly for established brands

- The subscription business comes at high costs
- **→ not yet profitable**
- **You can lever your profitability through reducing costs**
 - Increase share of samples from emerging brands to get free samples
 - You already had massive cost cutting in 2016

You took good measures. Focus on cost efficient process

The beauty markets are growing. Beauty ecommerce is dominated by giants.

\$ 90 billion US Beauty Market, 8% online



- You are big in the US market which is growing
- \$7.2 billion are in ecommerce
 - Amazon, Macy's and Sephora have the largest market share
- You are also in other markets as UK,

Attractive partners would increase awareness, retail giants dominant

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Success Driver

B2B

Provide marketing and sales channel

Providing Customer Data

Sales

B2C

Providing new products for tryout

Providing a monthly subscription model

Customer satisfaction





There are three options to consider

Business as usual

New Investment

Sell Business

Short term tasks

	Business as usual
Cost structure	
Scalability	
Attractivness	
Risks	

Short Term need for restructuring!

	Business as usual
Cost structure	●
Scalability	●
Attractivness	●
Risks	●

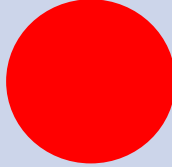


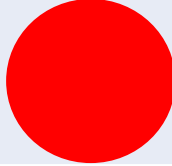
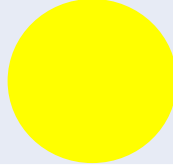





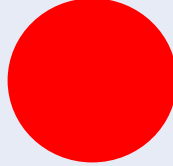



Need for restructure!

Midterm actions

	No more venture capital	Additional venture capital	Sale
Scalability			
Building market entrys			
Growth opportunities			
Risks			

Look for an buyer

	No more venture capital	Additional venture capital	Sale
Scalability			
Building market entrys			
Growth opportunities			
Risks			

Look for an buyer

What to sell:

- 1 million subscriptions
- 125 million in sales
- Market know how
- brand
- Management Team



What get:

- Keep minority shares
- Reduce of risks
- Strong partner with money and operational power

Who is the best owner of your assets

Amazon

Target

GAP

Sephora

Risks and mitigation

Risks

Arrival of new competitors

Mitigations

- Team up with strong partner with financial power

Lack of interest to buy Birchbox

- Restructuring to attractive to buyers

Liquidation through liquidity problems

- Short term actions for immediate improvements

Overview about your strategic actions

- Add more value through more services
- Improve knowledge about customer through data analytics
- Sell to “a better owner of your assets
- Stay the best manager of your assets

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3 Steps for your future development

3 Contact future investors and negotiate a deal for you and your employees

2 Push your fast growing men's segment with advertising

1 Prepare your company for a ramp up and building a base for the future

Building up the groundwork for finding the holy grail

1

DATA ANALYTICS

WHAT

- build a team for deep learning and data analytics
- Build infrastructure for better analysis

HOW

- Employ Appr. 5 new Data Analytics experts
- Use browser cookies, customer data and purchase behaviour

BENEFIT

- Coming closer to the holy grail of understanding the customer
- Targeting the right products for more reorders

New feature - Pop Up after Feedback

Thank you for your feedback to this product!

Since you liked that product, we would recommend to reorder it right now, or to make a monthly subscription!

ORDER

SUBSCRIBE

No thanks!

Add new subscription model for full size products with high loyalty

1

“You ran out of shampoo again – why not ordering once and never think about it again!”

HAIR CARE

WHAT

- Subscription for monthly delivery of hair care products
- Delivery on same day with birchboxes

HOW

- Marketing on website, Facebook and Instagram
- Monthly subscriptions for standard products
- Full size products

BENEFIT

- Increasing the amount of full size reorders
- Constant demand
- Good planning and foresight
- Appr. 25\$ per order
- Targeting 20%

Men's products are your stars

2

ADVERTISING MEN'S BOXES

WHAT

- Advertising on social media
- Facebook, Instagram videos and pictures

HOW

- Existing marketing team
- Huge know how
- No vloggers needed because of different target group
- Add. Ads on sports sites

BENEFIT

- Increase the amount of male subscriptions
- Continue fast growth
- Utilize fast conversion with feedback ad and shaving products

Prepare for changes and building the war-chest

3

SEARCHING FOR STRATEGIC PARTNER/BUYER

WHAT

- Search for a new partner who will accept you as subsidiary
- Get into a company with a lot more power in sales channels

MUST HAVES

- Huge sales channels
- Interests in cosmetic products
- Interests in men's products
- Staying with existing brand
- Keeping the team

BENEFIT

- WIN-WIN Situation
- Use own subscription base to make more revenues
- Create a war-chest
- Utilize synergies

Your check box to understand the fit

The buying company has interests into utilizing the existing subscription base

The buying company understands your abilities in social media and influencer marketing and values it

The buying company has huge sales power and is a big brand, which is widely known

The current brand of birchbox stays alive and is able to work on his own

The current team stays as it is and is guaranteed for next 5 years

Your for the next months roadmap

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
new subscription		█									
adoption of proccess	█										
new employees		█									
IT infrastructure			█	█							
Advertising women		█	█	█	█	█	█	█	█		
Advertising men		█	█	█	█	█	█	█	█		
searching for buyer			█	█	█	█	█	█	█	█	█
searching support of investors			█	█							
integration into new company										█	█

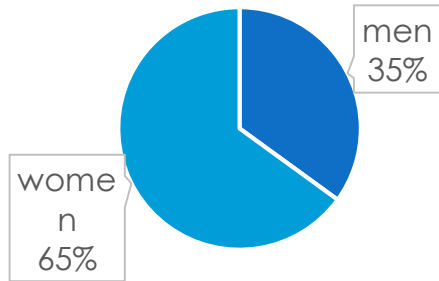
Invest what's necessary to shine in the eyes of potential buyers of the company

Invest	
Set up data analytics	\$ 40,000
5 Data analysts	\$ 260,000
Social media campaign	\$ 500,000
New concept & inventives	\$ 200,000
Total	\$ 1,000,000

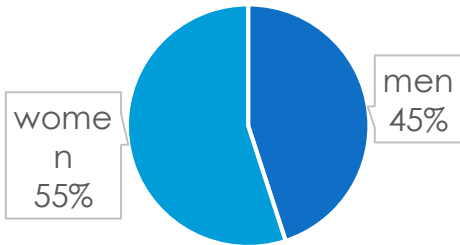
- **Invest one million to get everything straight**
 - Customization is key
 - Data analytics
 - Increase awareness
- Increase **subscribers to 1.3 million**
- Reach the operational **break even**
- Increase **conversion rate**
 - Better **profitability**

Tackle the most important problems to be attractive for sale

What to offer potential buyers



Average price = 13.5%



Average price = 14.5%

Customer value	Average customer per year	
Subscription	\$14.5*12	\$174
Physical stores	\$17	\$17
E-commerce	\$61	\$61
Total		\$252

Customer value = 1.3 million * \$252

\$327,600,000

Negotiate about your price

- Sell 100% of assets
- Pay out investors
- Agree on keep working to guide profitable growth
- Agree on an exit option in 5 years for a specified
- EBITDA multiple (3 times EBITDA)

Customer value = 1.3 million * \$252

\$327,600,000 customer base

\$ 10,000,000 premium & goodwill

Start with \$340 million to negotiate

Investors are satisfied & you profit from your baby Birchbox

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Future outlook and to do's

1

Inform employees about next steps and preparing the company for a buy out

2

Start Change Management and bring all your employees for the next changes

3

Create criteria list for future negotiations

4

Contact Sephora as a potential buyer

Key issues

1

Achieve sustainable growth as well as **profitability**

1.1

Investor's pressure

1.2

Competition

1.3

Customer loyalty