CASE 6.1

Birchbox: Leveraging the College Experience to Write a Business Plan and Launch a Growing Start-up

• *Web: www.birchbox.com* • *Facebook: Birchbox* • *Twitter: @birchbox*

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Introduction

Katie Beauchamp and Hayley Barna met on their first day at Harvard Business School. They volunteered to co-coordinate a spring holiday for themselves and 50 of their classmates. Through the experience they realized that they worked well together as a team, but at that time, they had no thought of cofounding a business. That all changed just over a year later, when Beauchamp and Barna launched Birchbox, a beauty samples subscription service that now has over one million monthly subscribers in five countries.

The College Experience

Beauchamp and Barna quickly became friends. They were also in the same MBA cohort and took many of their classes together. The idea for Birchbox emerged gradually. One class was particularly instrumental, a class on disruptive innovation taught by Harvard professor Clayton Christensen. The class challenged the students to think of a big idea that's an industry game changer. Beauchamp and Barna's first idea concerned the beauty industry, which hadn't experienced significant innovation for many years. A personal

Birchbox cofounders Hayley Barna and Katie Beauchamp

Birchbox

dynamic also nudged them toward a business idea in the beauty industry. Barna's best friend, Mollie Chen, was a beauty editor. Beauchamp would notice that Barna always had the best beauty products, and when asked where she got them, she would always say that Chen (the beauty editor) had recommended them. It got Beauchamp and Barna thinking—wouldn't every woman like to have a best friend that was a beauty editor and could recommend beauty products to them?

Beauchamp and Barna's thoughts coalesced in the last semester of their two-year MBA program. For the first time, they were thinking about starting a business together. They saw a void in the marketplace ripe to be filled. Companies had come up with great ways to sell many products online, including fashion, but not beauty products. Beauty products are tough to sell online because they have a touch, try, and feel element to them. To capitalize on the opportunity of selling beauty products online, and get around the hesitation that people have for buying beauty products without touching and seeing them first, Beauchamp and Barna's idea was an online monthly subscription service that consisted of a small box of beauty product samples that qualified customers could try out. They would then offer full-sized versions of the samples on their website for sale. The major brands were already making samples that they handed out in stores. Beauchamp and Barna decided to call their business Birchbox.

Last Semester at Harvard—A Testing Ground for Birchbox

Rather than let the clock run out on their college experience and then try to launch Birchbox, Beauchamp and Barna did everything they could to leverage their college status. They negotiated with their professors so their final project in each class would be Birchbox. They also used their student status as a way of getting their foot in the door with suppliers and customers. For Birchbox to work, Beauchamp and Barna had to answer three fundamental questions. First, would beauty brands work with them, in regard to providing samples? Second, would women pay for curated boxes of samples? And third, would samples drive full-sized purchases? The only way, they figured, to answer these questions was to go straight to the sources. First, they built a prototype of the box in which they would send the monthly samples and determined how the samples would be presented in the box. They then thought through the rest of the business. Each month, the box would contain five beauty product samples. Information would be put on the firm's website and YouTube channel about each product, so the customer could learn more about them. They would then offer full-sized versions of the products for sale. To get buy-in, they "cold-called" beauty and cosmetics companies. They never hid the fact that they were still in college. Instead, they framed it as an advantage (they had a readymade audience of their target market right in their classes). Incredibly, several of the companies, including Benefits, Nars, and Keihl's signed on. Second, they created a beta version of their website and incented 200 subscribers to pay them $20 a month to test their concept. They used feedback from the users to improve the original Birchbox in several key areas. At this point, Beauchamp and Barna had more than an idea. They had suppliers, a preliminary list of potential customers, results, and data.

After completing these steps, Beauchamp and Barna entered Birchbox into the HBS business plan competition. They won second place, which further bolstered their confidence. The competition provided tremendous exposure for Birchbox and for Beauchamp and Barna as nascent entrepreneurs. They met people who became advisers and mentors. The competition was judged by venture capitalists, and several of them offered the pair money. They passed on the offers, thinking it would be best to keep Birchbox lean.

Birchbox officially launched in September 2010. At the outset, it remained lean and reflected a college student's lifestyle. After graduation, Beauchamp and Barna moved Birchbox to Brooklyn to be closer to their suppliers. Their first office was unpretentious and had

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Each monthly Birchbox for Women includes a small collection of high-quality beauty, grooming, and lifestyle product samples. The product samples are similar to the ones shown here.

IKEA furniture. Beauchamp and Barna learned many lessons the hard, and sometimes fun, way. For example, when they made their first product video they tried to recruit volunteers in Union Square (a popular area in Manhattan). They soon found that it's impossible to get busy New Yorkers to volunteer, so they, along with a couple of early employees, dressed up and starred in the video themselves. By the end of 2010, Birchbox had 10,000 subscribers.

Need to Pivot

Birchbox grew rapidly from 2010 to 2016. While it continued gaining subscribers, it was not showing a profit. In an effort to cut costs, in 2016, the firm laid off 15 percent of its staff in January and another 12 percent in June. The cost cutting measures were precipitated by an inability to raise fresh capital on favorable terms. In late summer of 2016, Birchbox raised $15 million in a convertible note—a type of loan that eventually converts to an equity stake—from its current investors. Its new business plan focused on becoming profitable while maintaining its momentum in the marketplace.

Birchbox has also shifted its business model and has broadened its reach beyond e-commerce. In mid-2014, it opened its first brick-and-mortar store. If you are in New York City and would like to make a visit, it's located in the SoHo district of Manhattan at 433 West Broadway. The store is packed with fun ways to try new products. A customer can BYOB (Build Your Own Birchbox) by picking a box and five samples from across categories. The store has been a success. Birchbox has found that the lifetime value of a customer is three times as high when they visit the store as opposed to shopping strictly on birchbox.com. Birchbox has also developed two lines of its own makeup. The first is a line of lipstick and eyeshadow, launched in 2015, created by a team of in-house product development experts, under the brand name LOC (Love of Color). The second is ARROW, launched in 2016, a makeup, skincare, and body products brand designed to enhance natural beauty during (and after) physical activity.

Challenges and Opportunities Ahead

Despite the need to pivot their business plan in 2016, the founders of Birchbox remain optimistic. The company has over 1 million monthly subscribers. The success of its first physical location, and its ability to increase the lifetime value of a customer via the in-store experience, opens the possibility of additional locations. Current plans are to open "pop-up" stores in select cities to gauge demand before opening permanent locations. Birchbox is also exploring the possibility of opening stores within the stores of retail partners. The addition of in-house expertise to develop its own beauty brands presents new opportunities. Birchbox is also considering an upscale women's monthly subscription box at a higher price-point than the staple $10 a month box it has featured from the beginning.

There are also challenges. Ipsy, GlossyBox, and BeautyArmy have similar subscription plans as Birchbox. Ipsy, in particular, is a formidable competitor. Started by YouTube makeup and skincare celebrity Michelle Phan, Ipsy reportedly has as many monthly subscribers as Birchbox. There is also a concern, shared by all participants in the market, that at some point the industry may plateau in terms of subscribers for its staple women's subscription service. New markets may be difficult to grow. For example, the number of products and product samples made for men's grooming and lifestyle supplies is much lower than those made for women. This factor may limit the growth of Birchbox Man.

Discussion Questions

6-34. How effectively do you think Katie Beauchamp and Hayley Barna used their time in college to advance their business idea?

6-35. In what ways is Birchbox's business approach a win-win for both its suppliers and its customers?

6-36. How was writing a business plan and preparing for a business plan competition helpful to Katie Beauchamp and Hayley Barna while Birchbox was still in the planning, testing, and prototyping stage?

6-37. Going forward, what are the most serious challenges facing Birchbox? Which of these challenges do you believe is the most threatening to the firm's success? Do you think Birchbox will have to pivot its business plan again? If so, what factors do you think will precipitate the next pivot?

Sources: Birchbox Homepage, www.birchbox.com (accessed February 21, 2017); J. Del Rey. "Birchbox's Investors are Giving the Startup a $15 Million Lifeline," recode, www.recode.net, August 2, 2016; E. Segran. "Birchbox Launches Its Own Makeup Brand," *Fast Company*, October 14, 2015; Shoptalk Podcast, "Katia Beauchamp—Co-Founder & CEO, Birchbox, available at https://www.youtube.com/watch?v=0lzgf80PtMc (posted June 27, 2016, accessed February 21, 2017); "Entrepreneur's Corner: Birchbox," *The Wharton Journal*, February 28, 2014; B. Barringer, and R. D. Ireland. *Entrepreneurship: Successfully Launching New Ventures*, Upper Saddle River, NJ: Pearson, 2016.