



A CASE ANALYSIS OF BIRCHBOX IN CHINA

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ABSTRACT

This article examines the founding and growth of Birchbox, an online subscription service for makeup, skincare and other beauty items. It argues that the company should expand into China to take advantage of a growing urban middle class with significant disposable income and a taste for Western consumer goods.

INTRODUCTION

Birchbox is an online subscription service for makeup, skincare, haircare, and more. Their success is evident in their one million monthly subscribers and headquarters in the United States (U.S.), France, Spain, and the United Kingdom (UK). However, they should consider penetrating the Asian market. A hub of growing affluence and expanding style, China could be a potential new market for Birchbox. The findings are as follows:

LITERATURE REVIEW

From Business School to Birchbox

As the U.S. economy struggled to move from recession to recovery, Harvard Business School students Katia Beauchamp and Hayley Barna came up with the idea of “Birchbox,” a company that would prove itself immensely in both the beauty and technology industry. Despite the obstacles of the recovering economy and intense competition, the concept of the company transformed from a possibility to a multimillion dollar brand. After winning second place in the Harvard Business School’s Business Plan Contest in 2010 (Exhibit 1), which earned them \$20,000 in funding, the duo attracted the attention of New York City (NYC) investors. Securing a \$1.4 million seed round with Accel Partners and First Round Capital, Birchbox was on its way to becoming the esteemed company it is known as today. Six years later, Birchbox is headquartered in New York, New York, operating in six countries with upwards of three-hundred employees, eight-hundred brand partners, and more than one million subscribers.

A Business Model Fit for the Runway

In hopes of helping the average, low-maintenance beauty consumer better navigate the world of makeup, the founders of Birchbox, Katia Beauchamp and Hayley Barna, conceived the idea of bringing personalized makeup samples to their doorsteps. With so many products and brands to filter through, Birchbox was developed to make the process of finding the perfect product not only more affordable and efficient but more enjoyable as well. The concept was based in a monthly subscription box filled with makeup samples based on a consumer’s specific skin tone, skin type, hair type, makeup preferences, and more. If they liked a sample, the consumer could purchase the full-sized product straight from Birchbox’s e-commerce site. In face of many subscription box competition, their “two-pronged approach” of a box and e-commerce platform is what has set them apart and allowed them to be the dominant force in this industry (Forbes 2015). In 2012, the company expanded their concept to include men, still offering a monthly subscription box, but catered to grooming and lifestyle needs of a male clientele base. In 2014, Birchbox opened a brick-and-mortar store in New York City where customers could go to build their own box and see the products before purchasing. Despite the company’s tech roots, the store was created to combat competition, grow the full-sized product retail segment, and ultimately increase profitability. By offering products sorted by type rather than brand, Birchbox still embodies its original mission of helping consumer discover new, better-suited brands and products in store. While online sales remain the company’s priority, with over 1 million subscribers monthly, they have plans to expand their retail locations to cities like Atlanta and Los Angeles.

There are two sources of revenue for Birchbox: subscription fees and e-commerce. Per month, each subscriber's Birchbox is \$10. The Birchbox comes with a variety of products, from makeup, to skincare, to haircare, nail polish, and more; it even comes with instructions on the best way to use the product. If the consumer decides to purchase one of the products from Birchbox's e-commerce site, Birchbox gets a cut from that purchase. Online, they also offer "lifestyle items" such as sunglasses, candles, bags, and water bottles. In their NYC store, they offer a "Build Your Own Birchbox" station, products to try, and services such as hair, makeup, and nail appointments.

The company is predominantly online-based, with the exception of its brick-and-mortar store in NYC, and therefore it relies heavily on online reviews from their customers. Subscribers can earn "points" by giving reviews for products they have tried, thus allowing an endless amount of reviews for each product. This benefits both Birchbox and the consumer. As Katia Beauchamp stated, "Data became our best friend." Birchbox's online reviews provide the company with numerical data to help them tailor products to their customers' preferences. From this data, the company is not only able to meet the customers' needs, but also decide for themselves which brands they want to partner with. Birchbox relies on several hundred different brands to supply them with their products. In addition to their online reviews, Birchbox relies heavily on marketing through social media platforms such as Instagram, YouTube, and Pinterest. They use these platforms to post tutorials on how to use the makeup and products, as well as to market their monthly boxes. Instagram is very helpful in that the company can partner with fashion and beauty bloggers so that they can expand their consumer base by attracting the followers of these bloggers.

What is the product, anyway?

The large success of Birchbox is due to the unique and pioneering qualities of the product. Birchbox was one of the first companies to start using a monthly box delivery service and since then, many companies have modeled their products after Birchbox. For example, Rocksbox is a monthly delivery of jewelry and Popsugar is another box delivery of beauty products, both with designs similar to Birchbox. The box arrives on the consumer's doorstep, decorated with bright colors and patterns, and full of exciting new products to try. However, "the box is not the innovation... [e-commerce plus the box] together are" (Chhabra, "Key to Success: Beauty Box Company Birchbox Says It's Not Just About The Box"). With online shopping becoming a very popular method among consumers, Birchbox took the initiative and capitalized on this growing interest. With this concept, customers enjoy the delivery of products to their door in two ways: when their monthly Birchbox arrives and when they go to the website and purchase any product they want. Customers say that they love the surprise that comes with receiving a new Birchbox stocked with exciting products to try. Additionally, they love the fact that the products are higher-end and are therefore not some the consumers would have normally discovered or been able to try. Birchbox does the searching and experimenting that the typical consumer does not have time for, making it a worthwhile investment. While only a very small percentage of people use this sample-delivery method to buy their beauty products,

with the proper marketing and advertising, this business could boom and take over the beauty market in China.

Who is buying the product?

Birchbox has over one million subscribers, both in the United States and worldwide. The company started off with beauty products catered towards just women, but soon expanded to include men in their consumer base. Birchbox Man is a subscription box that provides buyers with grooming and lifestyle products. Consumers of Birchbox typically come from mid to high income backgrounds as they are buyers who have greater buying power in regards to being able to try new things. As mentioned earlier, less than five percent of people use this method to buy beauty products even though it may be more cost-effective. This stems from many consumers fearing the commitment of subscription services and preferring to put their money on something they are guaranteed to be satisfied with (Mintel, "Beauty Retailing-US-January 2016").

Although Birchbox has expanded internationally, it is only available in a select few countries--namely France, Spain, the UK, and Ireland. Our mission, then, is to see if this company can expand even further by penetrating the Asian market, particularly China. In order to effectively market the product towards Chinese consumers, Birchbox must understand the consumers' needs. Beauty concerns of Chinese women consist of the following: thirty percent of Chinese women are concerned with enlarged pores, thirty-two percent focus on eye and skin problems, and thirty-two percent are worried about dull complexions. This makes facial skincare the most flourishing market in beauty retailing (Mintel, "Beauty Retailing March 2016"). The most widely used products for facial skin care in China are facial rinses and facial masks (Mintel, "Facial Skin Care-China-August 2016") (*Exhibit 2*).

Skin products from Korean, as well as some U.S. brands are very popular and appealing to the younger demographics. French brands, however, remain the most preferred, followed by Chinese and American brands (Mintel, Marketing to People in their Twenties-China"). In regards to makeup usage, surveys show that thirty-eight percent of women wear makeup daily and twenty-six percent of women wear makeup weekly. Consumers in the younger demographic prefer their natural skin tone instead of lightening it (Mintel, Color Cosmetics China 2016).

Our job is to help Birchbox firstly effectively market in a way that catches these consumers' attentions and furthermore provides products that satisfy their needs. Forty-three percent of Chinese consumers say that seeing color cosmetics advertisements encourages them to try out new products. Another forty-two percent say that they like to read product reviews as opposed to watching media advertisements (Mintel, Color Cosmetics China 2016). Consumers are also heavily swayed by celebrity endorsement in terms of brand awareness and preference. Cosmetics, beauty, and health-related products are also the leading product categories purchased from foreign e-commerce sites by online buyers in China and Hong Kong. With this information, Birchbox can better present itself to the Chinese consumers through advertising.

The Tech Side of Things

Although Birchbox is attempting to expand in physical stores, the company is still mostly online-based. Thus, when marketing to Chinese consumers, Birchbox must maintain the quality of their online websites and social media presence. Having a website that is easy to navigate is essential, as well as having a strong social media presence. In addition to this, they must also maintain their product quality, as this will promote further growth. In marketing to Chinese consumers online, they should take into account the fact that viewers are bothered by ads on video streaming websites. Therefore the company should avoid advertising on websites like YouTube as it could deter consumers from buying their product. Instead, Birchbox can partner with YouTube bloggers and have them promote Birchbox in their videos themselves. Additionally, ads in mobile apps also receive negative perceptions. To promote positive perceptions of the product, they must utilize marketing methods that buyers enjoy looking at. An example of this could include celebrity endorsement. Using celebrities to demonstrate how easy having a daily make-up routine can be would amp up positive perceptions in advertising. Furthermore, the younger generation of Chinese consumers, the millennials, make up about thirty-one percent of the Chinese population. This also means that thirty-one percent of the Chinese population is likely to be tech savvy. Thus maintaining a strong online presence is essential to penetrating this market. This can be done through a variety of different mediums, such as creative content on social media apps and partnering with apps that are already big in China, such as “WeChat,” an app in which fashion and beauty looks are shared (Mintel, Color Cosmetics China 2016).

A Contour of the Consumers' Wants

“[Birchbox is for] people who aren't set in their ways, who like trying new things... people who don't mind spending a little on something frivolous,” says one subscriber (Velasco, “Birchbox brings surprise to online shoppers”). Looking at the concerns of Chinese women when it comes to beauty, the results were surprising. Thirty-seven percent of Chinese women ages twenty to forty-nine “prefer investing in facial skincare products rather than color cosmetics,” unlike this demographic from the U.S. (Mintel, “Colour Cosmetics”) (*Exhibit 6*). As mentioned earlier, rather than being concerned with their makeup they were more focused on their skin quality, with some of their biggest concerns being their pores and skin complexion. As a result, women are primarily buying facial washes and masks (*Exhibit 3*). Birchbox, therefore, should include more products that are beneficial for your skin rather than makeup products, both in the Birchboxes themselves as well as in a physical store in China. When choosing their skin care products, one-fifth of Chinese women prefer French brands, while fifteen percent prefer Chinese brands and thirteen percent U.S. brands (*Exhibit 7*). While still introducing consumers to new brands and products in their monthly boxes, Birchbox can include samples from these popular skincare brands and feature them in-store. We also found that only thirty-eight percent of women wear makeup daily and twenty-six percent wear makeup weekly (Mintel, “Colour Cosmetics”) (*Exhibit 4*). This is a fairly low percentage, thus further proving that it would be more important and beneficial to market the skincare products over the makeup. For those who do wear makeup regularly, we found that lipstick is a favorite product. (Mintel, “Colour Cosmetics”) (*Exhibit 5*). Through various forms of social media, like Instagram, Facebook, Twitter and Snapchat, Birchbox can feature lipsticks and lip kits with benefits

like SPF and vitamins, blending the Chinese consumers concern with skincare and interest in color cosmetics. With features tailored to their specific concerns, they may be more likely to subscribe to Birchbox in order to further explore brands that may suit them.

It was found that celebrity endorsements are the biggest drivers in brand awareness (Mintel, "Beauty Retailing-March"). In the U.S., Birchbox has partnered with many fashion bloggers and celebrities in order to increase brand name recognition. If Birchbox moves into China, they can plan to seek out beauty influencers, like YouTube phenomenon BeautyQQ, and celebrities to do the same and spread the word about Birchbox China. Various social media platforms would play a role in this as well as Birchbox could feature their endorsers in pictures holding their own Birchbox or through interviews on their favorite products. From YouTube videos to a separate Instagram account, they could market tutorials that specifically pertain to the Chinese consumer. Until they are able to gather data on the grooming and lifestyle needs of men in China, they should not introduce Birchbox Man; for now, they should strictly focus on developing Birchbox for women.

Product reviews are a huge part of the Birchbox experience. After receiving their monthly boxes and testing out their samples, consumers share their experience with those products online. Both Birchbox and customers themselves rely heavily on these reviews when choosing brands and products. A potential risk that may arise in this use of reviews is rooted in the fact that "47% said they are more influenced by negative reviews rather than positive ones," (Mintel, "Colour Cosmetics China"). Since most customers leave positive reviews, the Chinese consumer might not be as influenced when scrolling through the website. A solution to this dilemma would be opening a brick and mortar store in a big city in China; this way the consumers can see for themselves the high quality of the products. If they are still unsure about whether a product is right for them, they could build their own box in store and bring home a sample. Forty-seven percent of Chinese female consumers between the ages of twenty and forty-nine said that free samples will encourage them to try a color cosmetics product, which is a perfect statistic for us to hear (*Exhibit 6*). If this demographic is more willing to buy products after receiving a sample, Birchbox's business model will work well for the Chinese consumer.

Makeup, Not Slow Down

As the beauty industry as a whole seems immune to economic slowdown, we feel Birchbox is in a good position to expand its following into China. Facial skincare has proven itself to be a flourishing market, with fifty-six percent of consumers reportedly spending more on these products in the last year alone (Mintel, "Beauty Retailing", March 2016). With this information, Birchbox can capitalize on this growing interest, using their business concept to introduce Chinese consumers to up-and-coming brands in their own country and those from the United States as well, growing the business of its domestic partners.

A major concern regarding subscription boxes among consumers is the notion that they are expensive. Since China is a lower to middle income country, Birchbox would need to be sure to emphasize their affordable subscriptions and non-penalty cancellation policy

in their advertisements. In order to draw these consumers away from the traditional department store and specialty retailer way of shopping for cosmetics, consumers must feel able to try the subscription without major financial commitment. After receiving their first box, they will be hooked; getting consumers to that point, however, will require strategic advertising.

The presence of a physical store in China also holds major potential. Many consumers enjoy shopping in-store, as it allows them to experiment with a variety of different brands and products at a time. Chinese consumers value in-store innovation and self-service systems (Mintel, "Beauty Retailing", March 2016), a nearly perfect opportunity for a Birchbox brick and mortar store, complete with the "Build-Your-Own-Box" section.

Competition is Not Comparable

One of the major obstacles Birchbox will face as they market their product to the target consumer is the issue of competitors. Birchbox is a simple product model: a consumer buys a subscription for ten dollars a month to receive a box full of five beauty samples each month. The positive aspect of this is that the model can be implemented without too much difficulty. However, the negative aspect is that this model can be easily copied. The trend of subscription box services has taken off in the past decade as more and more people begin to shop online due to convenience. As a result, many other types of subscription box services have launched. For example, the "Natural Hair" box provides consumers with a monthly supply of hair products fit to their hair type; the "BroBox" is a subscription service catered specifically towards men; and the "Rocksbox" offers consumers a monthly subscription of jewelry. There are also various other types of boxes that offer just healthy foods, crafting for kids, and even dog food. Although the aforementioned boxes differ from Birchbox in the types of products they offer, other boxes like "Ipsy" and "PopSugar" are in stark competition with their company as they offer virtually the same types of beauty products. Ipsy seems to be almost the same as Birchbox, both in regards to price and the types of products offered, differing only slightly in brand type. PopSugar, on the other hand, seems to be similar but is sold for a much higher price--\$35 per month. However, Birchbox's e-commerce platform is what sets it above its competitors. The option of purchasing products directly through their site is a feature unique to them. Keeping all this in mind, they must maintain the quality of the product, keep the price affordable, and market Birchbox in a way that sets it apart from other similar subscription services.

We also run into the issue of excluding customers that would rather go into a store, like Sephora or Ulta, to sample a variety of makeup products rather than subscribe to a service in which they are not guaranteed to like what they receive. This issue has been resolved in the United States by opening of brick and mortar stores. As Chinese consumers have expressed a preference towards in-store shopping, a physical store in China is a vital component in achieving success in this market. The subscription box service paired with the brick-and-mortar store will help Birchbox reach all beauty consumers while also combating competition.

CONCLUSION

In conclusion, after analyzing the business model of Birchbox, the product, competing models, and the Chinese consumer, we have decided that it would be a beneficial plan to expand to China. They should have a plan to open a brick and mortar store in Beijing since it has a population of over 21 million and would bring great traffic to the company. Once the consumers are exposed to the high quality of the products, they will be more likely to go online and subscribe. As for the marketing aspect, they could partner with Chinese bloggers and celebrities in order to draw the attention of consumers and spread the word about the company and the product. From looking at what the Chinese consumer tends to buy and cares about, we know that Birchbox should be marketing mostly skincare products as opposed to makeup. They should do this through social media posts that advertise the benefits and good quality of the products. By marketing specifically to the Chinese consumer, Birchbox has the potential to reach great success in China.

Visuals*Exhibit 1: Birchbox history*

Runner-up in Harvard's Business Plan Contest	April 2010
First Birchboxes are shipped	September 2010
Birchbox men launches	April 2012
Opens first brick-and-mortar store in Soho, NY	July 2014

*Exhibit 2: Current Skin Condition in China****Which of the following, if any, can describe your current skin condition?***

Condition	Percent Who Responded
Enlarged pores	39
Eye skin problems (eg dark eye circles, eye bags)	32
Dull complexion	32
Showing early signs of wrinkles/lines	30
Has dark spots/pigments/acne marks	29
Blackheads/whiteheads	29
Prone to acne/pimples	26
Deep wrinkles/lines (eg forehead lines, smile lines)	25
Sagging skin (eg lack of elasticity, drooping eyelids)	25
Sensitive (eg redness, hay fever, seasonal allergy)	20

None of the above	11
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Source: <http://academic.mintel.com/display/784112/>

Exhibit 3: Facial Skincare Product Usage in China

Which of the following types of facial skin care products, if any, have you used in the last 6 months at home?

Skincare products	Percent Who Responded
Facial cleanser (eg cleansing milk, cleansing gel)	67
Facial mask (including sheet mask, rinse-off, and sleeping mask)	49
Facial moisturiser/lotion	48
Sun care products	42
Facial serum	33
Eye cream	27
Facial spray	21
Special treatment products (eg anti-acne, anti-blackhead)	16
Deep exfoliating/scrub products	15
Facial oils	15
Facial cleanser device	9
I haven't used any products	10

Source: <http://academic.mintel.com/display/784112/>

Exhibit 4: Frequency of wearing make-up in the last six months in China

How often have you worn makeup in the last six months?

Frequency	Percent Who Responded
Every day or almost everyday	37.8
Once a week or more	25.6
Not regularly, only for special occasions	23.2
I have not worn makeup in the last six months	9.5
Less than once a week	4.0

Source: <http://academic.mintel.com/display/778892/>

Exhibit 5: Product Usage for Wearing Makeup Every day in China

Which of the following color cosmetic products, if any, do you use when making up for everyday makeup?

Product	Percent Who Responded
Lipstick/lip gloss	74
BB cream	72
Brow definer	56
Foundation primer	56
Mascara	49
Eyeliners	42
Foundation	42
Eyeshadow	37

CC cream	34
Blusher	31
Concealer	31
Face powder	27

Source: <http://academic.mintel.com/display/778894/>

Exhibit 6: Attitudes towards buying cosmetics in China

Thinking about buying color cosmetics, which of the following statements, if any, do you agree with?

Product	Percent Who Responded
Free samples will encourage me to try a color cosmetics product	47
I buy color cosmetics from a variety of brands	46
I prefer investing in facial skincare products rather than color cosmetics	38
I do not care about the brands as long as the product can satisfy my needs	37
I buy expensive products if I am going to use them regularly	34
I buy the cheaper one when choosing between two similar products	18

Source: <http://academic.mintel.com/display/778900/>

Exhibit 7: Favorite skincare brand, by brand origin, for Chinese women

What is your favorite skincare brand?

Brand's Country of Origin	Percent Who Responded
French Skincare brands	20.6
Major Chinese Skincare brands	15.8
American Skincare brands	13.2
Other International skincare brands	6.9
Japanese skincare brands	4.0
Other Chinese skincare brands	2.5
Korean skincare brands	2.3

Source: <http://academic.mintel.com/display/755555/>

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