LBS Case Competition 2021

Round 1 Case Prompt

BCG Consulting Club
A London Business School Student Club

Welcome Emporial

Emporial is a cosmetics company that sells mass-market beauty products in the UK. The size of the UK cosmetics market is around £8bn and Emporial holds around 5% of that.

Emporial has seen exponential growth in sales following their successful rebranding campaign in recent years. By reshaping their products as trendy and fashionable, they saw their business going from a sub-1% market share in 2013 to where it is now.

This sales increase has also brought Emporial more bargaining power with their plastic suppliers, allowing them to decrease the prices of their packaging.

The company currently sells five products: anti-blemish lotion (50ml), anti-aging serum (30ml), lipstick (7ml), mascara (12ml), and eye cream (15ml). Their packaging consists mainly of non-recycled polypropylene (PP) and polyethylene (PET).

Industry and Company Context

Competition is intense in the UK's cosmetics market. While large players still dominate the market, smaller brands with distinguished company missions have been also thriving in the recent years. Going vegan, sustainable and cruelty-free have proved to be the growing trend with no signs of stopping.

There are multiple factors customers consider when buying cosmetics - brand, product quality and effectiveness, shopping experience, price, to name a few. There is also continued interest from consumers in environmentally sustainable products.

Emporial has an integrated business model and owns most of its value chain processes end-to-end (manufacturing, packaging, distribution). It has sophisticated production bases and runs a lean supply chain with several factories and distribution centres across the UK. This allowed the company to remain flexible and innovative, contributing to its recent success. They are present in most large retail channels and have been recently growing their presence online and in travel & hospitality.

Inside CEO Room

It was the end of July 2021, and as Wendy, CEO of Emporial, was finishing her morning alignment call with VPs, she received an email from her Chief of Staff. The message forwarded the link to the latest news that the UK Government announced a new plastic packaging tax.

The new tax will apply from 2022 for plastic packaging that doesn't contain at least 30% of recycled plastic. The tax will amount to £200 per pound of plastic that doesn't meet the aforementioned standard.

As Wendy was walking around her office, a number of questions were on her mind. She was excited about the potential for Emporial to become more sustainability-focused, perhaps even with the introduction of biodegradable packaging.

However, she was worried about whether non-plastic packaging will be a viable option given that their products contain certain erosive ingredients. The increased cost for the business was also a cause for concern, among with several other issues.

She decided to call on your team of experienced consultants to help her navigate the situation.

How should Emporial respond to the newly announced plastic packaging tax?

Submission Instructions

For Round 1 submission please prepare the presentation that outlines the answer to **“How should Emporial respond to the newly announced plastic packaging tax?”**:

- The solution should be 6-10 pages presentation in PDF format (page count excludes the cover page)
- Appendices can be attached, but **please note that they will not be formally reviewed**
- Your first slide should indicate **your team name** and your presentation **must not include names of team members**

Your solution will be evaluated on four criteria - **problem diagnosis, analysis, insights and recommendation, quality of presentation**. For your analysis, we recommend engaging in your own research beyond leveraging the data provided in appendix.

The deadline for submission is **21 November, 23:59 UK Time**, presentations should be submitted via 'Submit' button available on LBS Case Competition 2021 website (lbscasecompetition.com).

For any questions, please use competition website contact form.

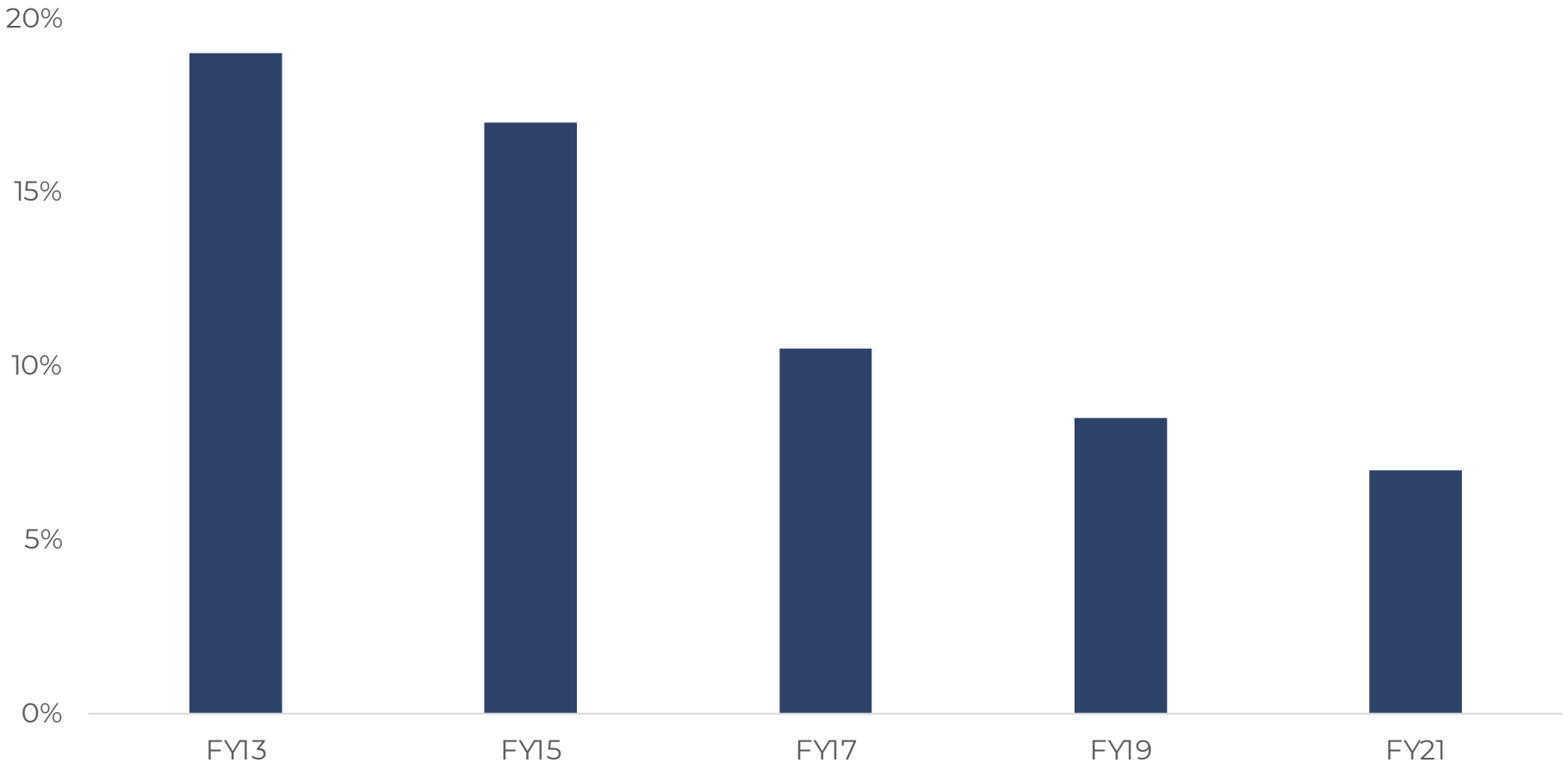
Appendix

Exhibit 1 - Emporial Income Statement

EMPORIAL Income Statement	**2021** current year	**2020** prior year
Revenue		
Sales Revenue	£321,937,189	£273,341,891
Other Revenue	£7,563,081	£3,678,431
Total Revenue & Gains	**£329,500,270**	**£277,020,322**
Expenses		
COGS (exc. Packaging & Printing)	£78,564,063	£69,705,091
Packaging & Printing	£30,845,071	£32,801,026
Marketing	£121,367,023	£126,789,651
Depreciation	£2,314,210	£1,157,105
Interest Expense	£1,960,000	£1,445,831
Extraordinary Losses	£15,213,000	£2,389,067
Other expenses	£36,789,191	£35,671,802
Total Expenses	**£287,052,558**	**£269,959,573**
Income before tax	**£42,447,712**	**£7,060,749**
Income tax expense	£8,065,065	£1,341,542
Net Profit (Loss)	**£34,382,647**	**£5,719,207**

Exhibit 2 – Emporial Packaging Cost

Packaging* cost as a percentage of sales



**Packaging is 99% PP or PET*

Exhibit 3 – Emporial Product Mix

Sales by Product, FY2021

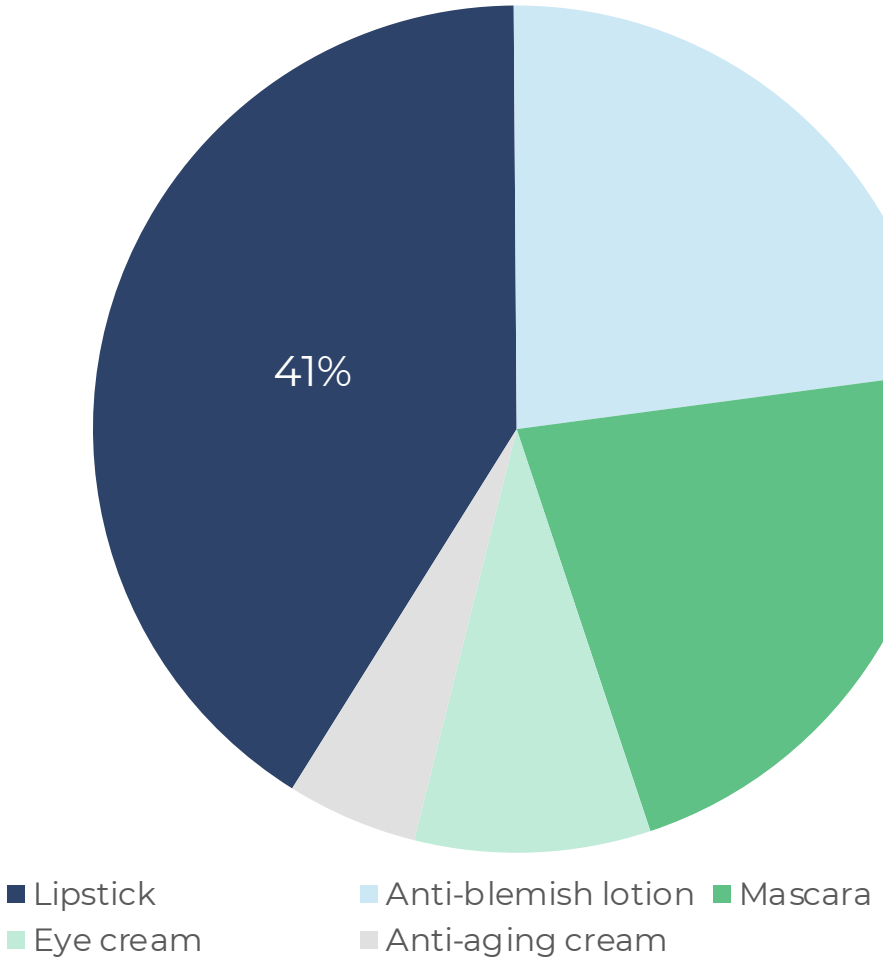


Exhibit 4 – Emporial Product Cost

Unit Cost Breakdown for Emporial's Three Best Selling Products

	Lipstick	Anti-Blemish Lotion	Mascara
Sale price	£5.98	£8.98	£10.98
Packaging cost	£0.42	£0.63	£0.77
Printing costs	£0.15	£0.22	£0.27
Ingredient cost	£1.20	£2.10	£1.60
Manufacturing cost	£0.26	£0.59	£0.48

Exhibit 5 – Emporial Product Info

Weight breakdown of Emporial's Lipstick

	Weight
Total	19.3g
Lipstick bullet	4.3g
Packaging	11g

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Just in Case

Emporial should switch to a plant-based protein packaging solution through the acquisition of Xampla

Emporial should consider the acquisition of Xampla to replace its traditional product packaging with a single-use biodegradable one, and introduce a refill option to its makeup offerings

There is a strong shift towards sustainability in the cosmetics industry

71% of UK customers now care about sustainability, up from 44% in 2019

35% of all retail spend is controlled by consciously spending customers

Distinguished company missions have become key drivers of consumption

The power of selecting winners and losers is shifting towards the consumers

The UK SME cosmetics industry houses over 550+ players

Customer sentiment induced through product differentiation is the key to win

Refill option is a powerful addition to differentiation after the tax is introduced

Regulatory pressure is here to stay for the long term so first movers will be at an advantage

Just meeting regulatory expectations does not cut it anymore

Emporia's end-to-end value chain is well positioned to house the disruption

Introducing a refill option offering cuts costs and aligns with company mission

Sources: Just in Case analysis, company websites, press research & annual reports

The beauty mass-market is increasingly driven by sustainability related solutions

The shift towards sustainability

Emporial should become more sustainability focused by introducing a plant-based alternative packaging solution

Customers increasingly reward companies that are pioneers of sustainability, pressuring retailers to remain conscious of their packaging solutions

Just meeting the 30% regulatory standard might be more cost-effective, but it can drive customers away in such a competitive industry with low switching costs

The sustainable packaging industry is thriving with growing players who are ready to disrupt the currently established equilibrium in the market

"Any company that wants to stay relevant in the future should think about sustainable behaviour"
- CEO of Unilever

74% of customers would pay more for sustainable packaging

~50% of customer 'shy' away from harmful packaging

16% of plastic waste ends up being recycled

Sources: Just in Case analysis, company websites, press research & annual reports

Leading beauty players are already embracing the shift towards sustainability solutions in the industry

Case study examples

Beauty brands are becoming more sustainable by changing the customer journey….

Garnier – L'Oréal
Partnered with TerraCycle on a recycling programme that allows beauty packaging that can't be recycled to be dropped off at recycling points across the UK

L'Occitane
Sells refillable pouches of soaps, shower gels and shampoos. The company pioneered its first refill concept back in 2008

REN Clean Skincare
Goal to reach zero waste by 2021 by using recycled and recyclable plastics and refillable containers for all its products

… or by changing product packaging to a more sustainable solution

We Are Paradoxx
Houses products in aluminum bottles instead of plastic, and dedicate 1% of total sales to non-profit environmental organisation

Lush
Lush sells packaging free products and has opened three packaging-free "Naked" stores. The company has plans for a fourth in the UK

Aveda – Esthée Lauder
First beauty company to use 100% post-consumer recycled PET. More than 85% of product packaging is made of post-consumer recycled material

"The idea is to improve the sustainability program by offering customers the opportunity to recycle the components of the product at the end of utilization." - **International Strategic Marketing at L'Oréal**

"For a plastic film, what is the most important thing for sustainability? For me, it's the end of life." - **Product Development Manager at Xampla**

Sources: Just in Case analysis, interviews with L'Oreal, Xampla representatives, company websites, press research

The cost of not following the key industry trends will amount to be too high in the long run for Emporial

Risks of inaction

Cost of inaction are too high for Emporial…

Cost of tax is **~£300 M**[1] and will have an increasing impact on the firm's profitability

Emporial will stand out as the only product with plastic packaging on shelves which will negatively impact brand reputation and sales

Not innovating will go against the company motto of being trendy and fashionable

… and changing packaging cost to 30% recycled plastic is not a viable long-term solution

Risk of losing customers because brand will not be seen as innovative and sustainable enough compared to competition

Long term risk associated with risk of a complete plastic ban

High cost in R&D and manufacturing due to new packaging and risk of regulation switching to a higher % of recycled packaging plastic tax

1 - Cost of tax based on 2022 growth projections

Sources: Just in Case analysis, case exhibits, company websites, press research & annual reports

Acquiring Xampla's is beneficial to Emporial's market positioning in multiple ways

How Xampla's bioplastics can phase out plastic packaging in the cosmetics industry

Xampla's biodegradable plastic is superior to other sustainable solutions

	Commodity plastics	Bio-PP/ PE/ PET	Starch blends	PHA[1]	Xampla materials
Industrial composting	✗	✗	✓	✓	✓
Home composting	✗	✗	~	✓	✓
Soil	✗	✗	~	✓	✓
Fresh water	✗	✗	~	✓	✓
Marine water	✗	✗	~	~	✓
Landfill	✗	✗	~	~	✓

1 - Polyhydroxyalkanoate

Acquiring Xampla will enable a faster response to the new tax and will help mitigate R&D costs

- Handles like a polymer resin
- Removes need for light barrier for botanical oils
- Highly scalable business model
- Vertical integration is compatible with existing supply chain
- Based in the UK so no relocation needed
- 2 products in line with business model

"Xampla is biobased and uses a highly renewable and sustainable resource, that is non-animal derived and can be compared to Cellulose, PHA, Alginates or Starch Blends." **- Product Development Manager at Xampla**

Sources: Interviews with Xampla's product manager and commercial strategy manager, Xampla company presentation

Expected £50 - £60 M investment to acquire Xampla to unlock future growth opportunities

Market research output

Valuation of Xampla based on similar M&A transactions

- Closed seed round on 8th Jan 2021 with post-valuation of **£24,7 M**
- European industry average EV/EBITDA of **x7**
- Similar plastic-alternative companies (eg. Carbiolice) acquired based on **~ £40 - £50 M** valuation

The market is likely to attract a high premium on companies like Xampla

- Xampla has double-digit growth and is undergoing a Series A round according to the company representatives
- After the implementation of tax, we will see an increase in demand for similar acquisitions

Xampla

Expected valuation range:

~ £50 M - £60 M

Sources: PitchBook, Interviews with Xampla's product manager and commercial strategy manager

Emporial's timeline to transition to the new packaging method should be crafted around the acquisition and implementation

An agenda for the implementation of Xampla

July 2021 — **January 2022** — **July 2022**

6 months — *6 months*

Acquisition process

- Negotiation with Xampla over the acquisition
- Completion of the transaction
- Development of the integration plan

Implementation process

- No change in operation, pay the tax, sell all inventory by end of June
- Scale-up Xampla's production capacity to match our needs in terms of resources (bioplastic)
- Start producing new packaging to run tests for the launch of new business model in July 2022

Sources: Just in Case analysis

The acquisition will allow the rethinking of Emporials' business model to be one with a long-term vision

A trendy and fashionable model embedded in sustainability

A new biodegradable packaging …

Brand position as a sustainable player: using bioplastic packaging made from renewable and sustainable resources

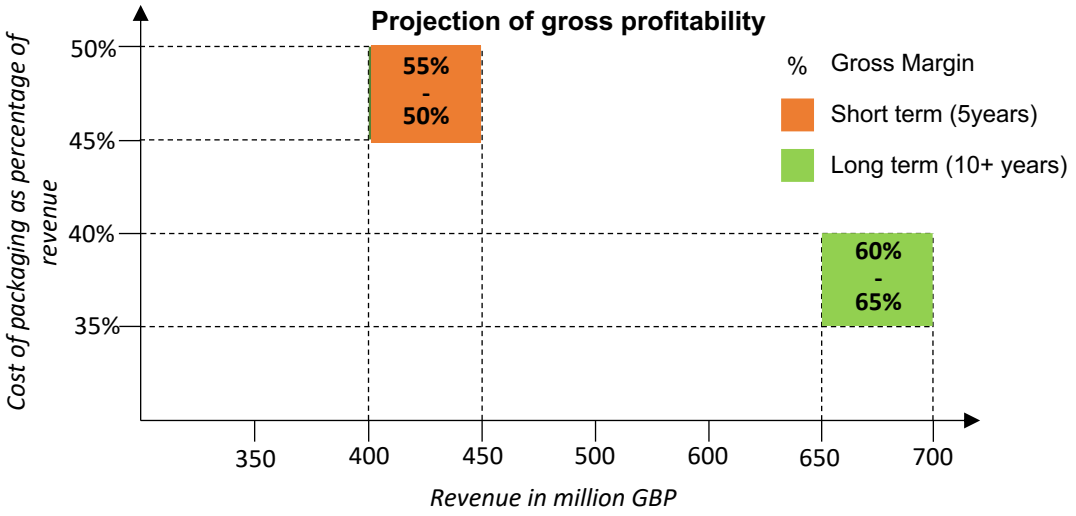
New marketing campaign targeting environmentally conscious customers

… Alongside the introduction of a refill option

Refill option will decrease purchasing cost for customers and packaging cost for Emporial

Available in retail stores and online: packaged in Xampla's single use biodegradable bioplastic (lipstick will be a refill to clip into the base)

A profitable business model



Assumptions

Expected growth in revenue due to acquisition of new environmentally conscious customers

Increase in packaging cost due to higher resource costs (raw material)

Long run: economies of scales & expected cost savings from higher penetration of refill option

Sources: Just in Case analysis, case exhibits, Statista, interviews with Xampla's product manager and commercial strategy manager

The next months are key to making Emporial's transition to a sustainable company a success

Next steps, rewards, and risks to consider

Stay on top of the new regulation

Contact regulators to fully understand the impact of the tax

Appoint individuals responsible for administrative tasks, new tax reporting, registration

Explore Xampla's acquisition & refill option further

Get in touch with Xampla to start the negotiations

Assess operational implications of introducing the refill option

Rewards

Being up to date with market trends are likely to drive sales in a market dominated by conscious customers

Responding to trends improves the brand's image, which is key in a fragmented market

Consciously staying a step ahead of the market will ensure that no future change is met by a surprise

Steps looking forward

Managing the post-acquisition integration of Xampla

The cost of scaling Xampla might run into previously unforeseen costs

Sources: PitchBook, interviews with Xampla's product manager and commercial strategy manager

APPENDIX

Tax Impact for Emporial in 2022

Assumptions

Constant minimum growth rate assumption:

Sales 2020	273 341 891
Sales 2021	321 937 189
Growth rate	18%
Sales 2022	379 171 862

Tax Impact:

2021:	Tax/pound	Pounds (method 1)	Pounds (method 2)
	200	308 391 212	303 442 543
2022:	200		

Calculations:

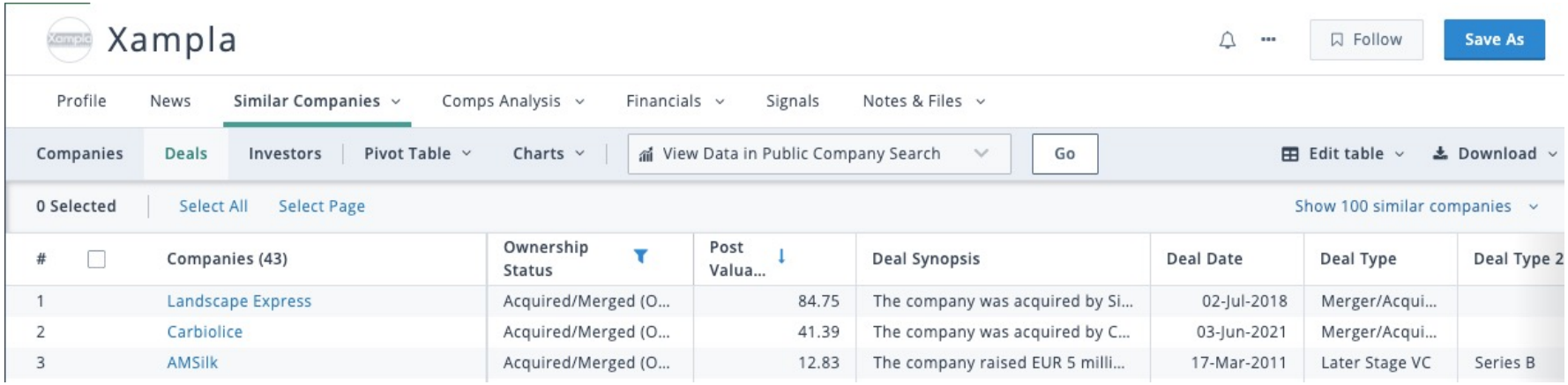
	Packaging weight/product					
		g/unit	packaging cost/unit	cost/g		
	Lipstick	11	0,42	0,04		
	Anti-blemish lotion	17	0,63			
	Mascara	20	0,77			
	Creams (bundled)	16	0,61			
Method 1	**Sales 2022**				**Price**	
	Sales revenue		379 171 862			
	Lipstick %	41%	155 460 463		Lipstick	5,98
	Anti-Blemish lotion %	22%	83 417 810		Anti-Blemish lotion	8,98
	Mascara %	22%	83 417 810		Mascara	10,98
	Creams %	15%	56 875 779		Creams avg. price	7,98 prices seem to be cost based
	Units sold					
	Lipstick	25 996 733				
	Anti-Blemish lotion	9 289 288				
	Mascara	7 597 250				
	Creams avg. price	7 127 291				
	Weight of packaging sold					
	Lipstick	285 964 063				
	Anti-Blemish lotion	153 273 258				
	Mascara	153 211 217				
	Creams avg. price	114 036 650				
	Sum	706 485 188				
	Conversion rate g/p	0,00220462				
	Sum in pounds	1 557 531				
	* Adjusting for 99% plastic p	1 541 956				

Method 2	**Packaging expense 2021**	
	Sales revenue	379 171 862
	% Packaging	7%
		26 542 030
	* Adjusting for 99% of plasti	26 276 610
	Cost/gram of plastic	
		0,04
	Grams of plastic sold	688 196 929
	Conversion rate g/p	0,00220462
	Sum in pounds	1 517 213

Xampla's comparable companies M&A transactions and valuations

Summary Statistics	Acquired Companies	Similarity Score	Post Valuation	Revenue	EBITDA	EBITDA Margin %	Valuation/Revenue	Valuation/EBITDA
Mean			54,14	69,41	3,43	13,63%	0,94x	7,18x

Deal ID	Acquired Companies	Similarity Score	Post Valuation	Revenue	EBITDA	EBITDA Margin %	Valuation/Revenue	Valuation/EBITDA
10000-00T	Xampla							
84965-95T	PlastKaptek Sverige	84,76%	0,32	0,56	0,10	16,95%	0,56x	3,30x
100783-90T	Polypipe France	82,22%	14,58	56,89	1,91	3,36%	0,26x	7,63x
81116-11T	MGF Gutsche	82,09%	46,19		5,64			8,19x
72610-75T	Eukerdruck	81,73%	22,16		2,97			7,47x
170822-08T	Alliance Étiquettes	81,46%	171,33	57,64	16,47	28,57%	2,97x	10,40x
64965-61T	Rotalac Plastics	81,22%	0,20	0,63	0,10	15,65%	0,32x	2,03x
95134-06T	Sulo	80,37%	196,37	305,93			0,64x	
93799-36T	Regency Design & Print	80,29%	1,90	6,27	0,23	3,60%	0,30x	8,41x
117882-19T	Eco Fill	79,86%	0,67		0,07			10,03x
65996-74T	SF-Filter Group	79,84%	87,65	57,96			1,51x	



Sources: Pitch Book

New Business Model

REVENUE

Revenue Projection

Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
GBP *(millions)*	277	330	349	370	392	416	441	467	495	525	557	590	625

Revenue Growth

2020-2021	19%		
Projection	6%	<-- According to Statista:	"Revenue in the Beauty & Personal Care market amounts to US$15,425m in 2021. The market is expected to grow annually by **5.67%** (CAGR 2021-2026)"

COST

COGS + Packaging and Printing	
Other	27%
Packaging	8%
Total	35%

Projection	**COGS + Packaging and Printing**		
Short run			
	Packaging	15%	20%
	Other	30%	30%
	Total	45%	50%
Long run			
	Packaging	5%	10%
	Other	30%	30%
	Total	35%	40%

Sources: Just in Case analysis, LBS CC – Case Prompt Exhibits, Statista, Interviews with Xampla's product development manager and commercial strategy manager