LBS Case Competition 2021

Round 2 Case Prompt

BCG Consulting Club
A London Business School Student Club

Disclaimer: *All names, data, and other details are fictional and are created for the purpose of LBS Case Competition 2021*

A letter from Emporial's CEO

"

Dear all,

Thank you for your help developing the next steps on the new plastic packaging tax. Your recommendations inspired me to think more about the company's sustainability strategy and purpose. When I took over as CEO of Emporial, the company had a great success. However, I firmly believe that what made us successful today, will not make us successful tomorrow. The world is changing and I need your help to transition Emporial to a purpose-driven company with sustainability at its heart.

I wanted to reach out to you for a new project – to help me develop **Emporial's purpose and 5-year strategy within a sustainability framework**. I want you to consider sustainability as a competitive advantage, thinking about both commercialization and positive impact. The strategic planning could cover, but is not limited to, new business models, creative solutions and products, or sustainable operations. I want to see creative yet grounded and financially-viable solutions.

I look forward to hearing your bright ideas!

"

Submission Instructions

For Round 2 submission please prepare the presentation that outlines **Emporial's purpose and 5-year strategy within a sustainability framework**:

- There is **no page limit** for the number of slides
- Prepare yourself for **a 10-minute presentation** that you will give live to our judges

Your solution will be evaluated on four criteria - **problem diagnosis, analysis, insights and recommendation, quality of presentation**. You are free to build on your insights and data from your Round 1 recommendation, though not obliged to.

The deadline for submission is **2 December, 15:00 UK Time.** Presentations should be submitted via the 'Submit' button available on the LBS Case Competition 2021 website (lbscasecompetition.com).

Live presentations will be held 2 December in the evening (more details on the venue and exact time will be shared).

For any questions, please use the website contact form.

LBS Case Competition 2021

Appendix - Company Information

BCG Consulting Club
A London Business School Student Club

Disclaimer: *All names, data, and other details are fictional and are created for the purpose of LBS Case Competition 2021*

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.

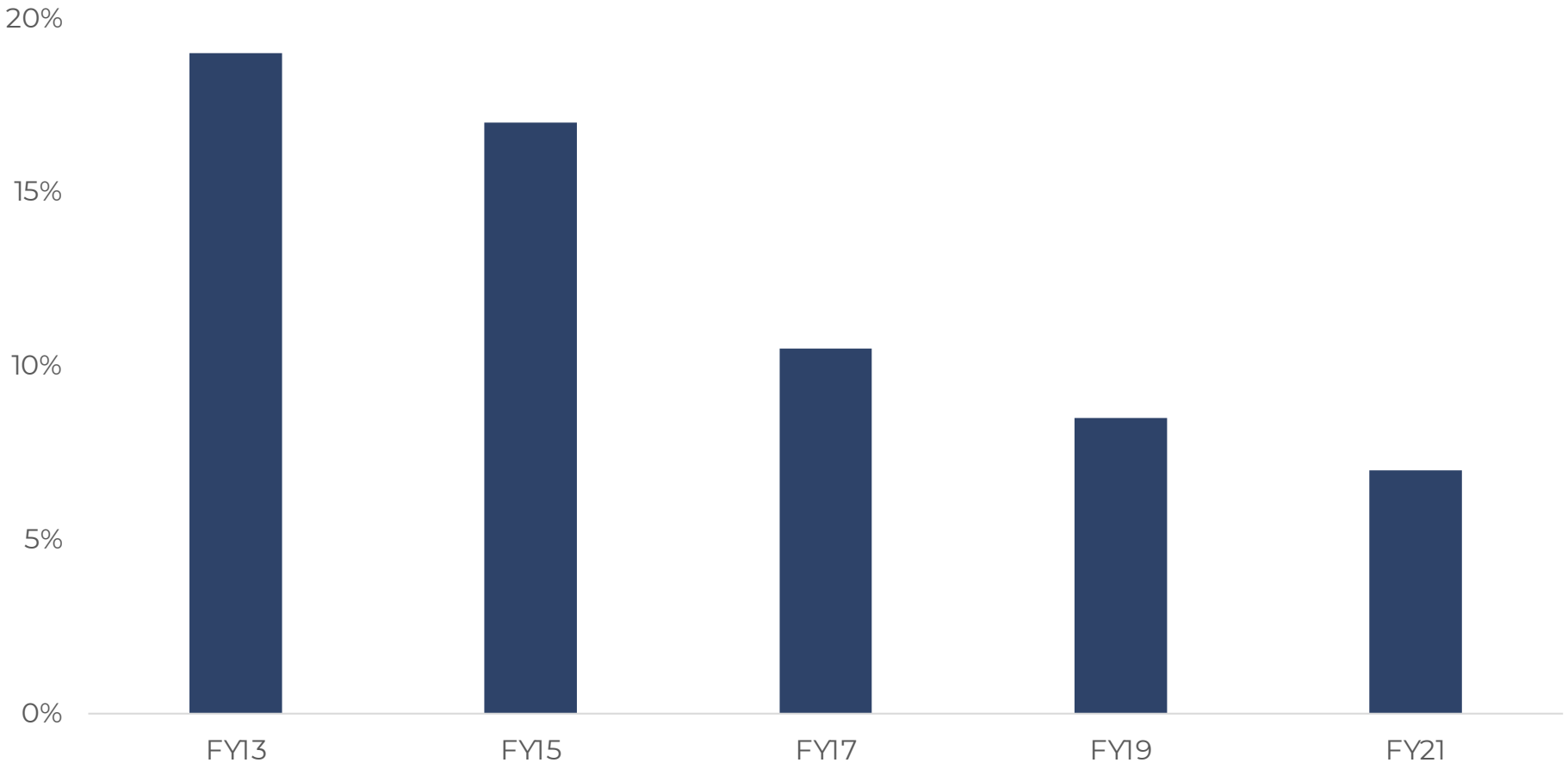
Emporial has an integrated business model and owns most of its value chain processes end-to-end (manufacturing, packaging, distribution). It has sophisticated production bases and runs a lean supply chain with several factories and distribution centres across the UK. This allowed the company to remain 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.

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

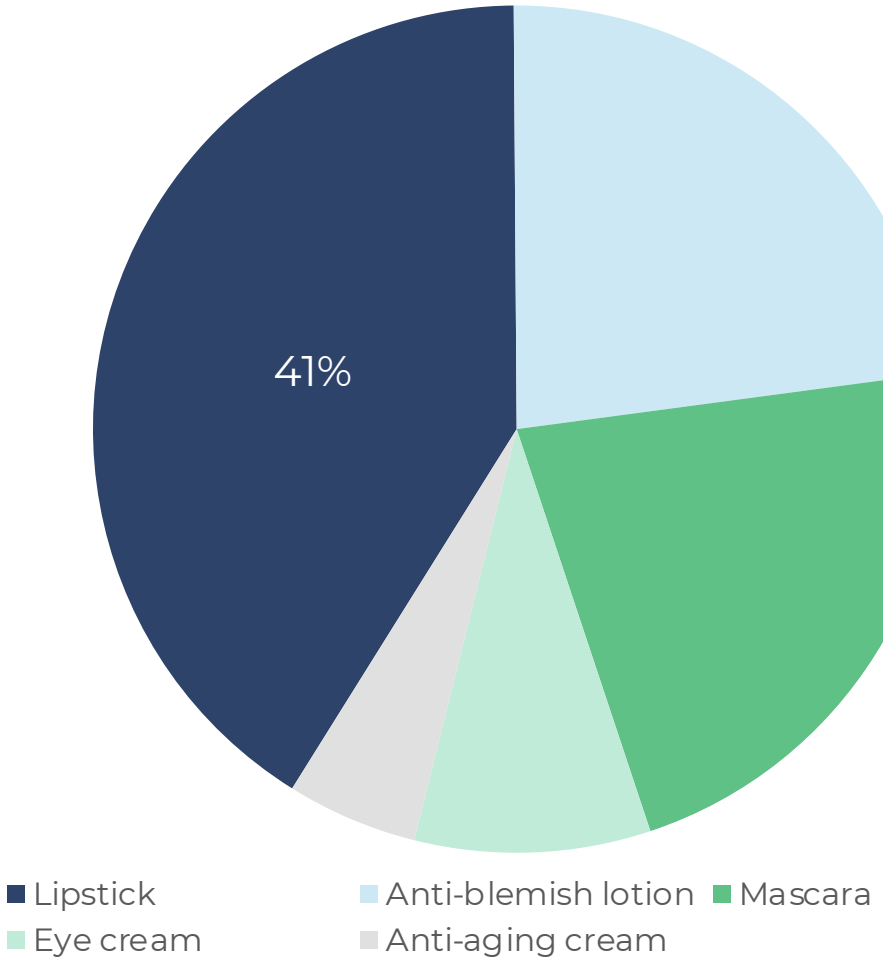


Exhibit 4 – Emporial Product Cost

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	15.3g
Lipstick bullet	4.3g
Packaging	11g

LBS Case Competition 2021

Round 2

BCG Consulting Club
A London Business School Student Club

Just in Case

Emporial should rebrand itself as an asset towards customers' drive to sustainable consumption

Emporial's strategy pillars

In 5 years, Emporial should aim to become the leading self-care brand driving sustainability trends in the industry

Adopting a customer centric approach

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

~45% of all retail spend will be controlled by consciously spending customers by 2025

Listening to customers is key for future growth

Creating circular economy

Today we are using 60% more of existing resources than Earth can regenerate

Circular economy model enables to save as much value as possible of raw materials

A sustainable business model is a key to a competitive advantage

Leading sustainable innovation

Extend sustainable packaging to rethinking key processes in the industry

Integrate consumer education on sustainability into Emporial's value proposition

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

Beauty players are already committing to a sustainability shift in their brand strategies

Case study examples

natura &co

Natura & Co is committed to a 10-year sustainability agenda under the "Commitment to Life" initiative

- Natura & Co pledged to achieve gender parity and equal pay by 2023
- Natura & Co pledged to reach net zero deforestation in the Amazon by 2025
- Natura & Co pledged to become net zero by 2030

"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**

L'ORÉAL

L'Oréal has set sustainability objectives for all its brands under the "L'Oréal for the Future" program.

- Achieve carbon neutrality by 2025
- Recycle and reuse 100% of the water used in their industrial processes by 2030
- Replace all packaging with recycled plastic or biobased sources by 2030

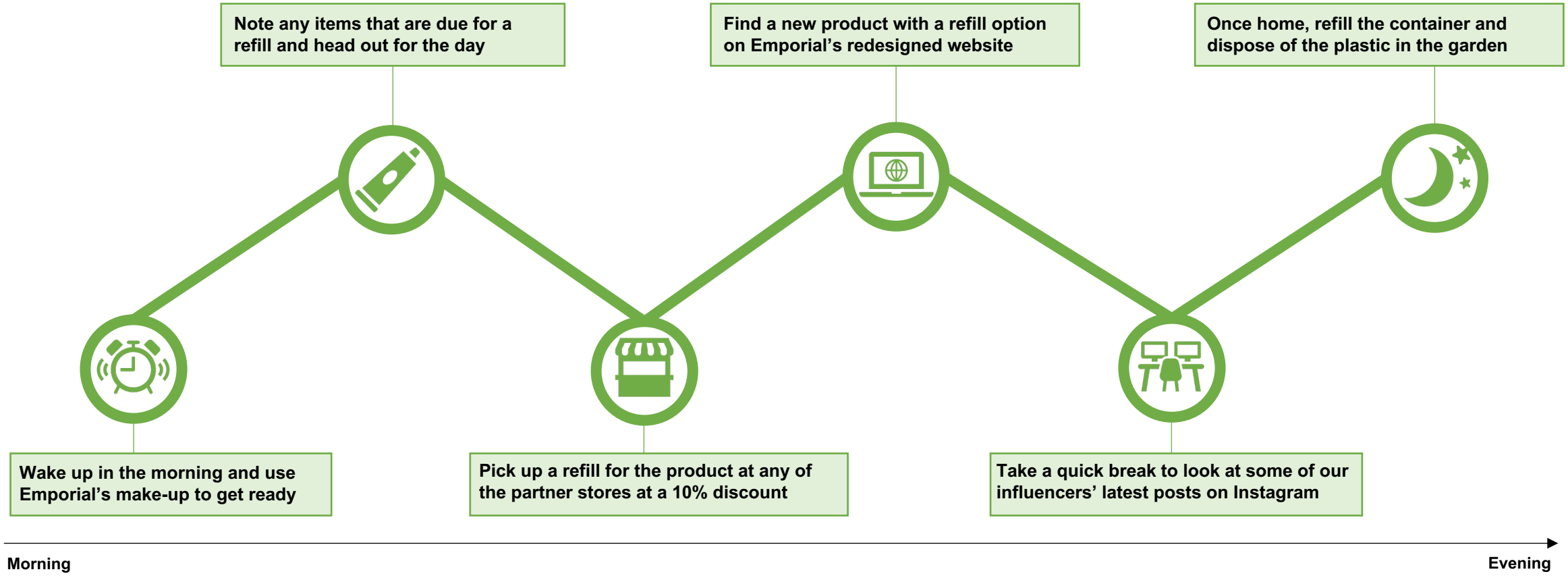
"The idea is to improve the sustainability program by offering customers the opportunity to recycle the components of the product at the end of utilization." - **International Strategic Marketing at L'Oréal**

Sources: Interviews with L'Oreal, company websites, press research & annual reports

Emporial's sustainability strategies should be an integral part of the customer journey of the average cosmetics user

The sustainable Emporial customer journey

Emporial's sustainability strategy aims to solve the average make-up user's painpoints related to sustainable make-up practices



Sources: Just in Case analysis & press research

Emporial needs to consider multiple channels of growth to be successful at transitioning to a sustainable business model

Emporial's 5-year plan

Time	Stage of growth	Key considerations of growth
Year 1	**Inorganic growth**	Complete the acquisition of Xampla Integrate Xampla into Emporial's supply chain, leveraging its technology Begin the scaling up of the production capabilities of Xampla
Year 2	**Redefine brand image**	Launch sustainable drives of biodegradable packaging and refillable options for Emporial's product mix Establish the brand as an asset to the customer's sustainability journey, and as renewable and sustainable
	Improve the visibility of the brand	Align company's brand with SDG goal 12 "Responsible consumption & production" Grow online presence of the brand through the redesign of Emporial's website & focused social media campaigns partnering with influencers
Year 3 - 5	**Sustain and grow**	Upscale the penetration of sustainable strategies, including the efforts to improve the visibility of the brand Achieve transparency and begin publishing sustainable reports (GRI)

Sources: Just in Case analysis & press research

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

Xampla's packaging solution

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 offers new exciting opportunities for the future

Highly scalable business model

Potential usage of cheaper raw materials (eg. rapeseed) in the future

Nature of material offers potential for experimental use cases: edible bioplastic, hard plastic for perfume etc

Vertical integration is compatible with existing supply chain

Smooth replacement of old sourcing process with Xampla's solution

End-to-end supply chain will offer R&D benefits for future innovation going beyond packaging

"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

The acquisition of Xampla will provide Emporial with significant competitive advantages at a relatively low cost

The costs related to Xampla's acquisition

Acquisition costs

~ £50 M - £60 M

Valuing Xampla based on similar M&A transactions

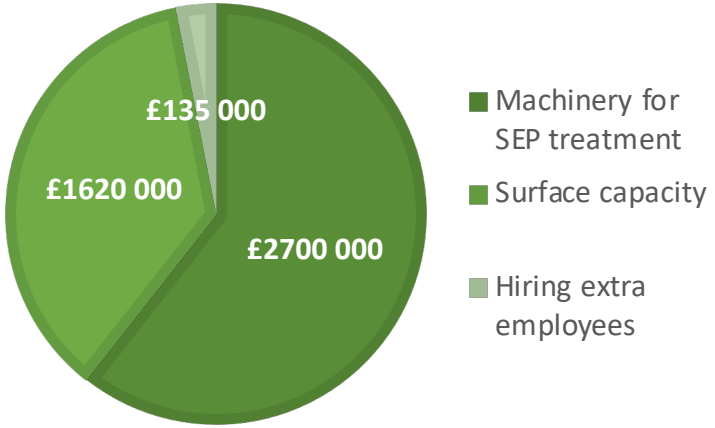
- Seed round with post-valuation of **£24,7 M**
- Similar companies acquired at **~ £40 - £50 M** valuation

The market is likely to attract a high premium

- Double-digit % growth and preparing for Series A round
- Potential upside in demand for similar acquisitions with the introduction of new tax

Production scale-up investment

~ £4.5M



- ✓ **Economies of scale** on R&D with fully developed technology
- ✓ **Scalable** as plant protein is abundant in nature

Sources: Just in Case analysis, PitchBook, interviews with Xampla's product manager, Xampla's company presentation, press research

The nature of Emporial's supply chain allows for a quick implementation without significant integration requirements

An agenda for the integration of Xampla

July 2021 → **January 2022** → **July 2022**

6 months | *6 months*

Acquisition process

- Perform due diligence of Xampla
- Negotiate the final agreement
- Develop implementation plan

Implementation process

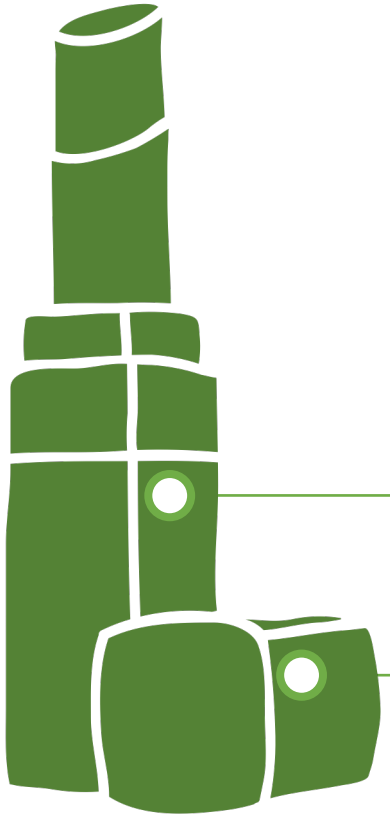
- No change in operation, pay the tax, sell all inventory by end of June
- Scale-up Xampla's production capacity to match Emporial's needs
- Start producing new packaging to run tests for the launch of new business model in July 2022

Sources: Just in Case analysis

The new packaging and refillable business model can quickly be integrated into Emporial's sustainable framework

Emporial's new refillable packaging is fully sustainable

Overview of Emporial's redesigned packaging



The packaging is **bioplastic** made from, renewable and sustainable resources

The redesign aligns with Emporial's **sustainability purpose** leading to strong **competitive advantage**

Benefit to the customer

Customers can enjoy a discount of **10%** when purchasing a refill

Benefits to Emporial

Emporial has up to **80%** lower manufacturing, packaging and printing costs

Emporial has a **15%** lower COGS potential

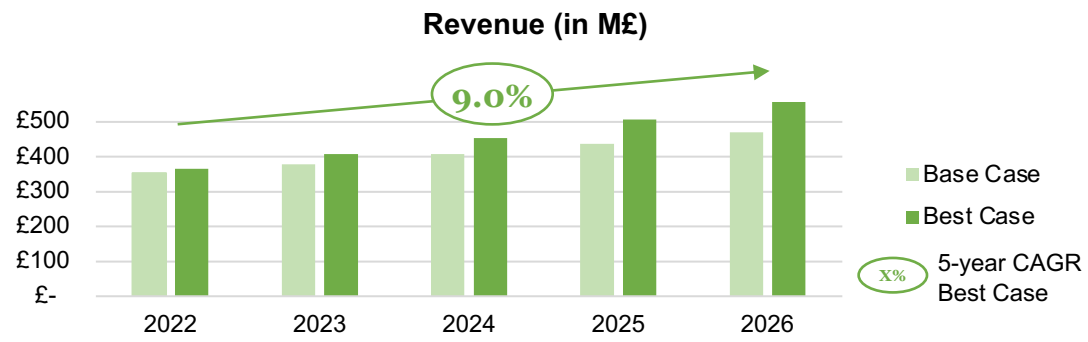
Emporial can achieve a gross margin of up to **5%** higher

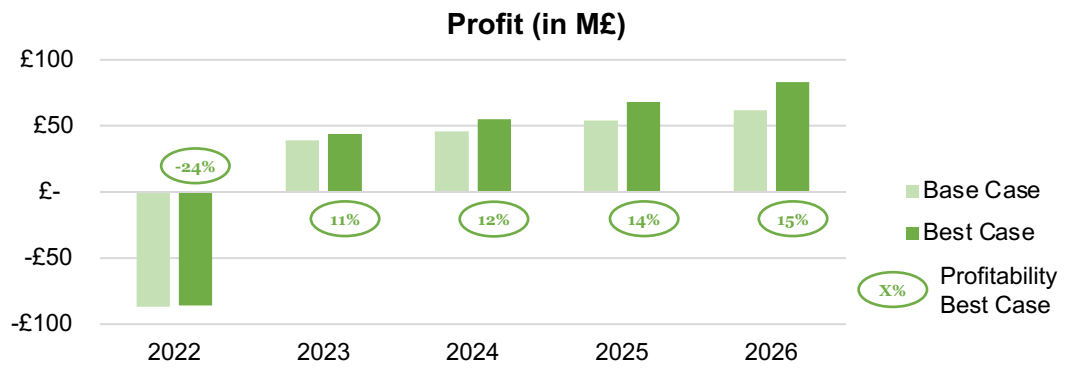
Sources: Just in Case analysis

Emporial's new business model offers high growth and profitability potential

5-year projection of Emporial's business model

Base and Best Case projections show profitable business model…





Note: Tax of £130m will be paid in Year 1 due to implementation time of Xampla packaging

…with Best Case scenario being the most likely based on Emporial's historic performances

Assumptions

- Expected growth in revenue superior to market's due to acquisition of new environmentally conscious customers and historical trends
- Increase in packaging cost due to higher resource costs (raw material)
- Long run: economies of scale & expected cost savings from higher penetration of refill option

Payback period:	Base Case - 4 years 1 months	Best Case - 3 years 9 month	£150m (acquisition, scaling, tax loss)

Sources: Just in Case analysis & Emporial's data

Emporial's successful transition to a leading sustainable company requires immediate actions and a long-term vision

Next steps: immediate vs long-term

Xampla's acquisition and implementation process

Grow visibility through partnering with fashion shows and social media influencers

Launch new business model – biodegradable packaging and refill option

Extending sustainable business pledge - go beyond packaging (shipping, production)

Stay on top of the new regulation

Explore new business models and product lines

Rebranding of Emporial as an asset towards customers' drive to sustainable consumption

Become transparent and a leader in sustainable reporting through different frameworks (GRI, CDG)

Sources: Just in Case analysis & press research

LBS Case Competition 2021

Round 2

BCG Consulting Club
A London Business School Student Club

Just in Case