

# Boxing Out the Competition

## E-commerce startup looks to change warehouse club model

by FRED MINNICK

**T**he next wave of retail has begun, where the Internet is the new bricks-and-mortar and startups can be more adroit and efficient than the bastions of the industry.

Such appears to be the case with Boxed.com, the mobile-focused version of a warehouse club. Instead of carrying every product on the planet, Boxed limits selections to a handful of brands per category.

Boxed launched with \$1.1 million in seed funding in 2013. Since then, the company has grown from 500 household and grocery products to 1,000, increasing revenues at a pace of more than 20 percent per month.

"We're trying our best to make some waves in retail," says CEO Chieh Huang, who founded the company with former executives he worked with at popular gaming company Zynga. If Huang's approach is anything like that demonstrated by Zynga, which revolutionized social media gaming with FarmVille, Boxed could change the retail experience.

### MILLENNIAL APPEAL

Boxed is targeting consumers who fall through the club-store cracks. Whether they live too far away or do not like the membership model, these consumers are "inconvenienced or ignored by big-box retailers," Huang says. "We're aiming to solve a problem for people who haven't been prioritized."

He cites the shift toward mobile behavior over the past two years as a strong trend and says that over the next decade, people may not feel at home in front of a desktop computer. "[Purchasing] is going to be on mobile

devices and we're trying to get ahead of that," Huang says.

In 2014, a poll conducted by Forrester Research and mobile advertising and app monetization platform Tapjoy showed that 54 percent of smartphone users were not interested in using their phone for purchasing. However, that data represents the here and now, while the future appears to be extremely bright for mobile purchases.

According to Sara Al-Tukhaim, di-

The screenshot shows the 'Household' category on the Boxed.com mobile app. It features a grid of products with their names, quantities, and prices. Each item has a 'Save' percentage indicated below the price.

Product	Quantity	Price	Save
Tide HE	170 oz. - Original	\$19.99	30%
Kleenex Tissue	22 Boxes - Ultra Soft	\$16.99	23%
Mrs. Meyer's Liquid Dish Soap	22 oz. - Lemon Verbena	\$7.49	25%
Charmin Ultra Soft	30 Jumbo Rolls	\$20.79	40%
Seventh Generation Natural Dish Liquid	50 oz. - Free + Clear	\$17.29	35%
Glad ForceFlex	340 Bags - 13 Gallon Tall Kitchen	\$17.29	35%

rector of retail insights with retail data firm Kantar Retail, Boxed is the first mobile retail platform to take a club-like experience online and package it in a way that appeals to Millennials.

"As a pure-play online/mobile retailer, I do view their strategy as innovative — to the extent that it seems they're attempting to capture the success that clubs like Costco have enjoyed in the bricks-and-mortar space, and apply this to the next generation," Al-Tukhaim says.

### LOGISTICS

Unlike the popular club store model, Boxed offers free access and shipping.

Al-Tukhaim questions the efficiency



of pushing a club-like offer online without fees. “I actually think something like Boxed is a great feeder for the clubs, where, for example, Boxed can source items from Costco and focus on generating profit from volume versus margin,” she says.

“[This] is less along the lines of innovation and more in tune with what Costco’s business has been doing for decades.”

Boxed does have internal processes that maximize merchandising and are cost efficient, Huang says. All logistics and inventory management software

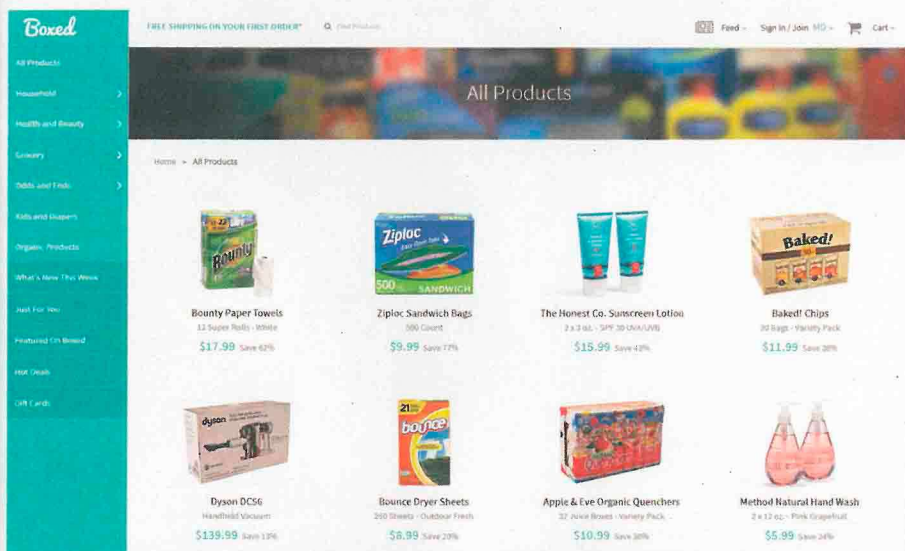
to everyday goods, Boxed has had less than 200 returns in its short history. Granted, the company doesn’t deal with apparel, which would drastically increase the return rate, but Huang says the low rate indicates the company is putting the right product in front of the customer at the right time.

An average cart carries 10 items per checkout.

“The overarching goal is to be the best end-to-end mobile commerce out there. There are a lot of great players who offer great prices and services and they own a large share of mar-

Al-Tukhaim says Boxed is taking a smart approach, though there are plenty of shoppers who are willing to drive quite a distance to get to their beloved Costco, even if their visits are less frequent than members who live closer.

“In the online/mobile space, there is a need for someone to get wholesale shopping right — at the right prices — and it has long been a challenge to reconcile the traditional no-frills, operationally reliant ‘wholesale’ shopping trip with the costs of purchasing large, bulk size items online,” she says.



“We bring wholesaling to mobile and to everybody.”

— Chieh Huang, Boxed.com

“I think where Boxed wins with this tactic is that it’s the shoppers who are inconvenienced by Costco that are probably also more likely to skew younger. In avoiding overlap with a traditional Costco shopper, they’re able to shed new light on the value of Costco-like offers without the barriers to shopping clubs that might be more of an issue for Generation Y.”

Boxed is also taking Costco’s “less is more” approach, showing constraint with its merchandise.

“In the beginning, it was out of necessity,” Huang says. “We were constrained in the beginning. We are still heavily curated. We are growing the assortment every day, but we won’t suddenly become a retailer carrying 10,000 [products]. This allows us to give customers a real discovery experience and allows us to push big cart sizes. [Consumers] trust they’re getting a good price, but also pretty interesting packaged goods online.” **STORES**

is written in-house. That makes sense, considering that Huang calls Boxed a technology company: His colleagues write the algorithms that dictate price, study analytics and handle packaging, shipping and anything else.

The systems available on the market that handle all of those tasks — and more — can cost hundreds of thousands of dollars. “All tech is built in-house, and it saves money,” Huang says. “Once the software is written, you can almost guarantee it will change the next day and need updating. It gets expensive if you don’t have core competency in house.”

Coupling the in-house tech crew with the fact that the company sticks

ket,” Huang says.

“What about the people who don’t have time or patience to go to a bricks-and-mortar wholesaler — the mom with three kids, and it takes 40 minutes to get the kids in the store, or they live in a small town and a big-box won’t come to their town,” he says. “We bring wholesaling to mobile and to everybody.”

## LESS IS MORE

Of course, Costco is not a bad model to emulate. The company’s \$457 million in profits is destroying the competition. And if one thing is clear, it’s that consumers love the Costco model.

Fred Minnick is the author of the book *Bourbon Curious: A Simple Guide for the Savvy Drinker*.