

## Episode 26: How Boxed is Bringing Bulk CPG Products Online

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**Keith  
Anderson:**

Hello, and welcome to another episode of the Profitero podcast. I'm Keith Anderson and today's guest is Chieh Huang, co-founder and CEO of Boxed Wholesale. If you're unfamiliar, Boxed is an online pure play retailer of everyday household essentials, typically in bulk sizes. So, it's not unlike Costco or Sams and the warehouse clubs you're familiar with from the brick and mortar world, but there is no membership fee at Boxed.

Chieh's background is as an internet entrepreneur and executive. He worked at Zynga. I still remember, almost four years ago when the company launched, people looked at it and said, "Wait a second. You've got this mobile executive with no experience in retail and he's picked consumables as the category he wants to try and sell online."

While the investors and Chieh obviously had a vision, there were some skeptics. Here we are almost four years later and the company has taken more than a hundred million dollars in venture capital and is growing by leaps and bounds and maturing into, not just high growth, but business with some really interesting economics.

Chieh and I get into those economics, not only for the households that shop with Boxed, but for Boxed itself and its suppliers and some of the joint business planning that Boxed does with those suppliers and other ways that brands can partner with Boxed. It's an interesting conversation for sure.

I will admit we had a couple of audio difficulties so the audio may be a little choppy once or twice. Please forgive us. But there's more than enough substance in this

episode and I'm really grateful that Chieh joined us. So, without any further ado let's get started with Chieh Huang, co-founder and CEO of Boxed Wholesale.

Chieh, welcome to the podcast. Thanks so much for joining us.

**Chieh Huang:** Thank you very much for having me, Keith. It's fun to chat and to talk about the industry.

**Keith Anderson:** Where are you today? Are you at headquarters or you on the road?

**Chieh Huang:** I'm here in New York in our SoHo office. Nowadays, it's actually a very good question because I'm often on the road, or I'm often in our fulfillment centers. Today I'm here in Manhattan.

**Keith Anderson:** Awesome. So, I imagine most of our audience is familiar with Boxed, but on the chance somebody isn't do you mind just giving folks the elevator pitch?

**Chieh Huang:** Of course. Boxed is the wholesale club, aka Sams Club, BJ's, or Costco for a younger generation that doesn't have the physical means, aka a car, the time, or the patience, to access their local warehouse club. We've been in business about 3 years now. It's been a fun journey from me and the co-founder standing in a cold garage in central New Jersey to now where we have 6 locations across the US, and have a raised a little under 150 million dollars to date.

**Keith Anderson:** Great progress. So, Chieh, I've got a car are you telling me I'm too old to shop with Boxed?

**Chieh Huang:** Not at all, man. What you find in an industry is that a lot of folks in pure play feel like pure play is the end all, be all. I think a lot of folks with the just brick and mortar with a very light omni-channel presence think that brick and mortar will be the place where retail will be in 50 years. I think both those folks are probably wrong and it's somewhere in the middle. Even though you have a car eventually in the future you might not have the time or the patience to go. In those instances Boxed would be a pretty good alternative.

**Keith Anderson:** Car might drive itself, who knows?

**Chieh Huang:** That is actually true. Maybe it's a huge tangent, but I just went the other day and was sitting in the back of a car and was just thinking, "Oh my gosh, how is our world, our country, our economy going to change when literally there will be no need for drivers?" I think a lot for the better and a lot for the worse too. What a wild 10 years we're going to see ahead of us.

**Keith Anderson:** I totally agree. To keep it close to on topic, the economics of e-commerce are certainly going to change when fulfillment centers and last mile logistics are energy efficient and automated. In my opinion.

**Chieh Huang:** Oh my gosh. Absolutely right. As solar technologies and other renewable energy technologies get more and more efficient you're exactly right. If you pay zero on your automated facility in your fulfillment center and also your last mile delivery prices cratered, you could very well see a day where things online are significantly cheaper than things in store. If that's the case it'll be very tough like, "Would you buy it online or in-store?" By that time it might just be an IQ test actually.

We'll see. Still many steps before that day comes. It's going to be so wild from now until then.

**Keith Anderson:** So you and I were on stage at the Nielsen event together almost 6 months ago. We were there with Jet, we were there with Instacart. Some interesting developments in the market since then. I think what everybody is starting to acknowledge is maybe this e-commerce thing for consumer package goods is going to happen. Maybe the economics are not as murky as everybody once believed.

I think what's helpful to people to understand is a little bit about where Boxed fits today and potentially in the future in this ecosystem of increasingly diverse online formats. It's no longer as simple as pure play versus brick and mortar versus omnichannel. You've got different models that sometimes include temperature sensitive and perishable products. Sometimes you're optimized for a single item order. Sometimes you're optimized for a whole box.

So tell us a little bit about where things fit and what gives you a unique advantage with shoppers and a unique advantage versus competition.

**Chieh Huang:** I'm really glad that you brought that point up because everyone up until now has thought of pure play or thought of online as just being one model. You have to be the everything store, you have to have unlimited shelf. For the most part that has been a very successful model pioneered by Amazon, basically a sport that they invented. But as you see today with offline retail it would just be totally preposterous to think that there's only one winning formula for offline retail. As more and more dollars get spent online over the next 10, 20, 30 years we'll look back and think it was absolutely preposterous to only think that one playbook won all of online retail. We're starting to transition into that phase where so much money is spent online that different models can succeed.

So, your question about where we fit in, I would say let's answer the question of what are we not? We are actually not the everything store. We're limited assortment, a very curated selection of items based on where you are across the country, that gets to you in generally two days or less. From that perspective, you would think of us as another entrant in the wholesale club model. Which is generally true, we have large format only SKUs, limited SKU format environment, and we regionally select what items are in the "club".

Also, at the same time, we obviously deliver to you, we carry vastly different brands than what's available in an in-store club. We're evolving into a model in and of

ourselves. It's been an interesting ride. In the future I would probably see Boxed as one of the entrants in the warehouse club space, but at the same time I would say we would be the most convenient warehouse club. That's where we would solidify our space in the ecosystem.

**Keith Anderson:** Got it. Makes a ton of sense. I see the commonalities between what you're doing and the clubs. You've got larger pack sizes, lot of everyday essential consumables. One thing that I think is noticeably distinct is the membership fee. A lot of people have written and talked about the importance of membership fees, membership revenue, both to the Costcos and Sams of the world and to Amazon with their Prime membership and Prime Fresh.

What role do you think the fee plays for an online club like Boxed?

**Chieh Huang:** Whether it's us at Boxed or anyone it's just another lever to pull when you're developing a model. On one hand, if you do one item per order as most online retailers do you actually need to offset that loss you're inevitably going to incur when you ship it across the country to someone's doorstep. You can recoup that loss via one of several ways, two of which are one.

You can go to the manufacturer and have them subsidize. I'm sure some manufacturers are listening to the show, they'll probably say they've gotten a few knocks on the door asking them to subsidize shipping costs on behalf of some of the retailers. The second part of that could be via membership fee.

Luckily because our model is completely different, because we are not the everything store, what we find is we've been able to generate the largest CPG only order, considering we don't even carry fresh foods for the most of the country, to day every online. Our average B to C ring is above a hundred dollars and 9.8 items per order.

When you find that you have a model like ours where you're shipping 9.8 items person order you can effectively amortize the shipping cost over those 9.8 items. So, it's not necessarily the case that you lose money on every box that you're shipping out. To date, membership fees have not played a role in our model. Could it in the future? Absolutely. Is it necessary to? No, not for our model. Because of the abnormally high ring and items per order.

**Keith Anderson:** Obviously those are interesting economics from your point of you. A lot of our listeners, as you know, are the suppliers. The club model has always been attractive because of the SKU velocity of any individual item you can get into distribution in a club. So you're not going to get your whole portfolio listed, but you can drive a lot of demand into a single item, and the economics can be incredible. Rather than trying to manage an endless aisle and deal with item level economics for tens sometimes hundreds of items, how many items does the typical supplier have in distribution with Boxed? Or maybe another angle on it is, in a given category how many items does Boxed typically carry?

**Chieh Huang:** That's actually one of the first times I've ever been asked that question. It's an incredibly insightful question. When you find any given category we don't have a hard and fast rule, but we rarely go beyond good, better, best. Right? You'll find very few categories where we have 4, 5, 10 entrants. Some items you'll just find that folks really want their brand and they will not order anything unless you have their brand in this category. We'll go a little deeper there, but for the most part you're either just good, better, best. Sometimes even good and best, sometimes even just best. I know that's not a direct answer, but you don't find us going too deep into a category.

Now, it's a really great question as to what is a number of items that an average manufacturer has. It really depends on the level of cooperation. For us, ones that we have a great JPV cadence where we're constantly sitting down and planning out our numbers and seeing what else they have, when we have a great relationship, you'll find manufacturers with double digit items. I don't think anyone has over a hundred items on our platform yet, but you'll find us going pretty deep with that manufacturer. You'll have other major manufacturers where we don't have an incredibly relationship with where they might have four, even though their portfolio includes hundreds of items. So, it really runs the gambit and it really depends. Partially because we're so young as a business that even for us we're still testing out how much can our model bare? How many entrants can our model bare before people get fatigue and before people start searching for they want, finding it, and checking out with a single item. Which is completely against our current model.

**Keith Anderson:** That makes a ton of sense. Can you expand at all on that dynamic between your model that focuses on curation and essentially discovery as opposed to some of the more common, what are sometimes called spear-fishing, search oriented models, where somebody is really focused on finding a specific product or maybe at least a specific brand? What's distinct and different about the shoppers pathway to a given product on your sight?

**Chieh Huang:** The biggest point of differentiation is the vast majority of our customers do not use the search bar on their path to purchase. So, as they're not using a search bar, what they're doing is scrolling through the app, scrolling through the website, just like they would be pushing through unlabeled aisles in a warehouse club discovering items as they go along. What we find is that maybe they come in with intent to buy one or two items, but actually most of the items in their cart were not on their original list.

What you also find is that because we also do not incentivize them to add more to their cart it's just a very natural flow they naturally build a basket. Which to the listeners out there it'll be really interesting because this is right back to what powered brands and their knowledge of how to power their business or grow their business. How customers are building their basket. That largely has gone away so it's really interesting that that's what we're about and that provides some incredible insights back to how folks are building their baskets and what the hottest adjacent products are.

**Keith Anderson:** I can imagine that's incredibly valuable. You mentioned the app and the scrolling. Box was born on mobile, correct?

**Chieh Huang:** Yeah, that's right. We were mobile only for the first year plus of our company.

**Keith Anderson:** So, you may have been the first mobile only at least CPG online retailer I've encountered. Are there any lessons learned from optimizing for mobile only? And first?

**Chieh Huang:** Yeah, that's a really good question. Being mobile only versus mobile first is very different even as we're living it day-to-day now. Being mobile only means that almost all of your resources are going to the app. When you went to boxed.com it was just a landing page. It just directed you to download the app. Now, obviously, we're live on the web as well so you have to stack accordingly against it. Also, think about multi-screen carts and cart sharing. That's been a really big difference in how we plan out product, if you will.

One unique challenge is that for folks to keep scrolling and not searching on a mobile app is actually very different from the experience you need to plan out when they're on a desktop where muscle memory has trained them to go to the search bar over the last 16 years of shopping online. Very different approaches are taken when we look at mobile versus desktop.

**Keith Anderson:** Makes a ton of sense. If you had to give suppliers a simple framework for how to get started and what some of the more sophisticated companies are doing with you, you mentioned joint-business planning. How should a brand think about getting started with Box? What's the destination?

**Chieh Huang:** For one, is just to really think about us as a separate channel. Some of the least successful manufacturers with just a regular retail packs or items that weren't meant to be in a warehouse style environment. It may sound like, "Oh, I guess they gave it a try." But it's as crazy as in the offline world if you went and tried to sell the wholesale pack or went with the dollar store portfolio, the dollar channel portfolio to the drug portfolio or to a club.

We're finding that our customers, and we show this with actual numbers, our customers when they do see the large format item it resonates way better than when we just sell something that's not differentiated. So, that's one.

Two, something else to keep in mind, when it comes to pure play and when it comes to the playground in which we offer manufacturers really the sky is the limit. You want to offer samples so we can feedback trial and repeat rates back to the brand managers? That's very easy. Do you want to get something to market in a 90 days time frame instead of a year and a half time frame and test it out? That's actually possible as well. Really thinking that it's not just about stocking Boxed with your items and trying to dump the whole portfolio on us, but also thinking about what else you can do on Boxed is really key.

When it comes to destination, obviously there's the website and you'll find the supplier page on there, but at the end of the day I'm very accessible and we built out a very good merchant and buyer team here at Boxed. I can be easily reached at [chieh@boxed.com](mailto:chieh@boxed.com). From there on out I'll loop the appropriate buying team in.

I will say that now that the business has started to scale tremendously we've also been able to hire some really awesome talent from all across the industry. Including our latest hire was Heather Mayo who's joining us from Sams Club as their former SVP of ops and before that one of their senior merchants. You'll see some familiar faces around here. We're happy and the doors are open for new suppliers to get into the mix.

**Keith Anderson:** Fantastic. Chieh it's great to see the growth. Really appreciate your candor and transparency today and appreciate the insight.

**Chieh Huang:** Thank you, Keith. This was super fun.

**Keith Anderson:** Well, that'll do it for this episode of the Profitero podcast. If that felt like an abrupt ending to a really interesting conversation it was. Like I mentioned during the intro Chieh and I were having a little bit of trouble with Skype, but I certainly learned a lot and I hope you did too. We all hear so much about the 800 pound gorilla in the industry which is Amazon and over these last few quarters we've heard a lot about Jet. But I hope you realize as I have that there are other important players to understand and potentially do business with. If they weren't on your radar before now I hope Boxed is.

As always, if you've got feedback you can reach us at [insightsatprofitero.com](https://insightsatprofitero.com). I'm Keith Anderson for Profitero, until next time. We will talk to you soon.