

PEPPERFRY.COM

TURNING THE TABLES ON DISRUPTION

Agenda

- 1** Problem
- 2** Recommendation
- 3** Internal & External Analysis
- 4** Strategic Alternatives
- 5** Implementation
- 6** Financial Analysis
- 7** Contingency Plan
- 8** Conclusion

Problem: Pepperfry faces three key challenges that need to be overcome to boost further growth and realize financial success



- How can you achieve profitability?
- How can you stay innovative?
- How can you tackle the competition?

Recommendation: Three strategies will allow Pepperfry to solve the challenges it currently faces and prepare for its growth path



The three strategies neatly respond to the challenges faced by Pepperfry



Internal Analysis: Pepperfry exhibits well-established, diverse core competencies but is facing financial and innovation issues

Strengths

- Strong logistics network (last-mile)
- Large online customer base (5.5mn)
- Strong quality control
- Curation experience
- Analytics incl. strong digital marketing
- Omnichannel customer experience

Weaknesses

- Lack of profitability
- Innovation challenge
- No international product sourcing

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External Analysis: Pepperfry operates in a challenging market that offers a lot of potential for growth and innovation

Opportunities

- Increased internet and mobile penetration
- Globalization opening new markets
- Accelerated interest in home decor and furnishing
- Technological advancements, e.g. VR/AR

Threats

- Strong growing competition – some who have deep pockets
- Changes in customer mindsets and trends

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Strategic Alternatives: Six strategies have been considered to tackle the problems Pepperfry is facing

STRATEGY	Profitability	Customer Fit	Strategic Fit	Innovation Level	Feasibility	DECISION
Move into insurance business	+	+	×	×	×	×
Sell products in-store	+	+	×	×	+	×
International expansion	+	×	×	×	×	×
Add new revenue streams	+	×	+	+	+	+
Focus on customer centricity	+	+	+	+	+	+
Become a home solution provider	+	+	+	×	+	+



Implementation (1/3): New Revenue Streams

1 What

- Add new revenue by expanding into the office furniture market and logistics market (B2B)

2 Why

- Leverage the competitive advantage in logistics

3 How – Office Furniture

- Market research to determine the demand for office furniture
- Online packages for small start-ups and SMEs
- Digital marketing campaign focused on LinkedIn
- Offline marketing on taxis, e.g. OLA and Uber, and provide experiential airport business sections

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Implementation (1/3) cntd.: New Revenue Streams

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How – Logistics

- Form a subsidiary to provide logistics services, e.g. Salfry
- Focus on large items that require delicate handling
- Provide differentiated service levels for delivery times up to 48 hours
- Phased approach: 1.) Metro cities, 2.) Second-tier cities
- Cross-selling between logistics and office furniture clients
- Digital marketing campaigns on LinkedIn

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Implementation (2/3): Customer Centricity Strategy

1 What

- Enhance customer experience by providing customized solutions and virtual experiences

2 Why

- Innovate the business model while increasing revenues and customer satisfaction

3 How

- Step-up algorithm-based recommendations based on data analytics, e.g. customer views – kept internally
- Launch VR/AR services in mobile platforms – establish an internal team for development
- Establish a procurement team to curate products from overseas, e.g. Malaysia, to increase the product portfolio



Implementation (3/3): Home Solution Provider

1 What

- Become a holistic solution provider to meet customers' home-related needs

2 Why

- Create a unique value proposition to improve the competitive edge

3 How

- Hire a moving team to launch a house-moving service while leveraging existing logistics
- Marketing campaign for moving house, targeting e.g. students, young professionals and families
- Identify partners to offer large household products, e.g. TVs, washing machines on the platform

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Key Performance Indicators: The following metrics allow Pepperfry to track the success of the suggested strategies






Key Performance Indicator		Target
1	➤ Total revenue	➤ INR 32bn in Year 3 (progressively achieved)
2	➤ Profit margin	➤ Increase by 10%
3	➤ Cross-selling rate	➤ 60% of customers
4	➤ Number of business customers	➤ 20,000 SMEs in Year 3 (progressively achieved)
5	➤ Customer loyalty rate and satisfaction	➤ 92%
6	➤ Truck capacity load	➤ 95%

Timeline: The following timeline illustrates the steps Pepperfry needs to take to realize the suggested strategies

	2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NEW REVENUE STREAMS												
Market research, online packages												
Digital marketing												
Offline marketing												
Form the subsidiary												
CUSTOMER CENTRICITY												
Establish and expand procurement team												
Develop VR/AR and algorithms												
Launch and maintain VR/AR												
HOME SOLUTION PROVIDER												
Hire and expand moving team												
Identify partners for household products												
Marketing campaign												



Financials: The suggested strategies aim for 32B revenue in 2020 to reach a positive EBITDA

INR Million	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Trend
Revenue	341	439	992	2,001	2,580	4,257	7,024	11,590	
Profit	(542)	(362)	(1,255)	(2,992)	(2,486)	(3,978)	(5,966)	(8,651)	
GMV	582	642	2,202	5,122	6,500	8,249	10,468	13,284	
Cost	(883)	(801)	(2,247)	(4,993)	(5,066)	(8,235)	(12,990)	(20,241)	
Cost as % of Rev	-259%	-182%	-227%	-250%	-196%	-193%	-185%	-175%	

AIM : +ve EBITA in 2020

Current Contribution Margin = 25%

8 Billion Loss in 2020 if continuing on the same path

Thus Aim to get 8B/.25
= 32B Revenue for +ve EBITDA



Financials: The current loss of -196% is driven by the minimum fixed cost items that are required to operate on scale in India

INR Million	Ratio	2016/17
Cost Drivers		
Gross Margin	55%	1,419
Digital Marketing	19%	500
TV Marketing	19%	500
Warehousing	35%	903
Physical Stores	9%	238
Technology	20%	516
Staffing	25%	645
SME Training Operations	1%	25
Returns	2%	52
Logistics	10%	258
Total	196%	5,056

Key Highlights

Fixed Cost Items

Variable Cost Items

Financials: We expect additional revenues of 20B in 2020 from recommendations driving net revenues to 32B INR

INR Million	2017/18	2018/19	2019/20	Trend
Revenue Drivers				
New Revenue Streams				
B2B Office Furniture	500	1000	2000	
Logistics for Large Items	250	500	1000	
Home Solution Provider				
House Moving	1000	2000	6000	
Selling Housebrands in Store	182.5	250	500	
New home décor from overseas				
Customer Centricity				
Cross Selling	162	216	270	
Better Customer Retention	18	90	144	
New Customers	1800	3600	10800	
Additional Total	3,913	7,656	20,714	
Net Revenue	8,170	14,680	32,304	

Key Highlights

20B Additional Revenue

Leveraging existing fixed costs

32B Net Revenue
+ve EBITDA



Contingency Plan: The following risks are anticipated and ways of mitigation are crucial to the strategies' implementation success

	Anticipated Risk	Contingency
1	➤ Truck bottleneck	➤ Close tracking of demand using integrated supply chain technology
2	➤ Insufficient demand	➤ Establish a ramped-up marketing plan (e.g. contractors)
3	➤ Non-acceptance of new technology	➤ Play with explanatory, story-telling advertising
4	➤ Damage of moved items	➤ Close monitoring of customer satisfaction and well trained teams
5	➤ Seasonality of moving business	➤ Use cross-selling opportunities sensitively, using analytics

Conclusion: Three strategies have been developed that will solve the problems Pepperfry is facing and allow for a continued growth story



The three strategies neatly respond to the challenges faced by Pepperfry



**THANK YOU
FOR YOUR ATTENTION**

We welcome any questions you may have.

APPENDIX

Please flip the page for our back-up slides.

Financials: Assumptions underlying the financial model

Additional Costs
New Revenue Streams
Linkein Mqrketing
Offline Marketing Taxi, UBER, OLA
Experiental Airport Business
Home Solution Provider
Movement Logistics
Technology update in App
New Sourcing
Customer Centricity
Recommendation System
VR/AR

INR Million	Unit Cost	2017/18	2018/19	2019/20
Revevnue Drivers		Number of Customers		
New Revenue Streams				
B2B Office Furniture	100,000	5000	10000	20000
Logistics for Large Items	5000	50000	100000	200000
Home Solution Provider				
House Moving	20000	50000	100000	300000
Selling Housebrands in Store	2500	73000	100000	200000
New home décor from overseas	4000	40000	70000	100000
Customer Centricity				
Cross Selling	18000	9000	12000	15000
Better Customer Retention	18000	1000	5000	8000
New Customers	36000	50000	100000	300000

