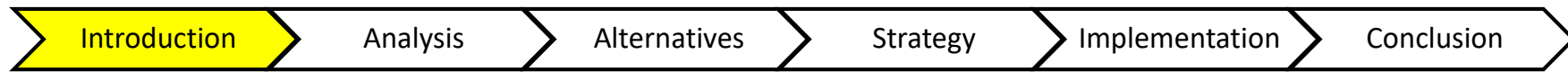


# PEPPERFRY.COM: Strategy

HEC Montreal

**CSC Consulting**

Olivier Cohen, Brandon Jacobs, Jessica Drolet, Richard Wallace



# Problem Statement

***What direction should Pepperfry.com take to maintain growth and retain its market-leading position in the market?***

# Recommendation

1

- Drive non-metro growth with offline studio expansion

2

- Create new revenue channel by commercializing Pepcart

3

- Introduce product financing for lower-income customers

4

- Develop new purchase options to increase customer conversion rate

# Key Issues

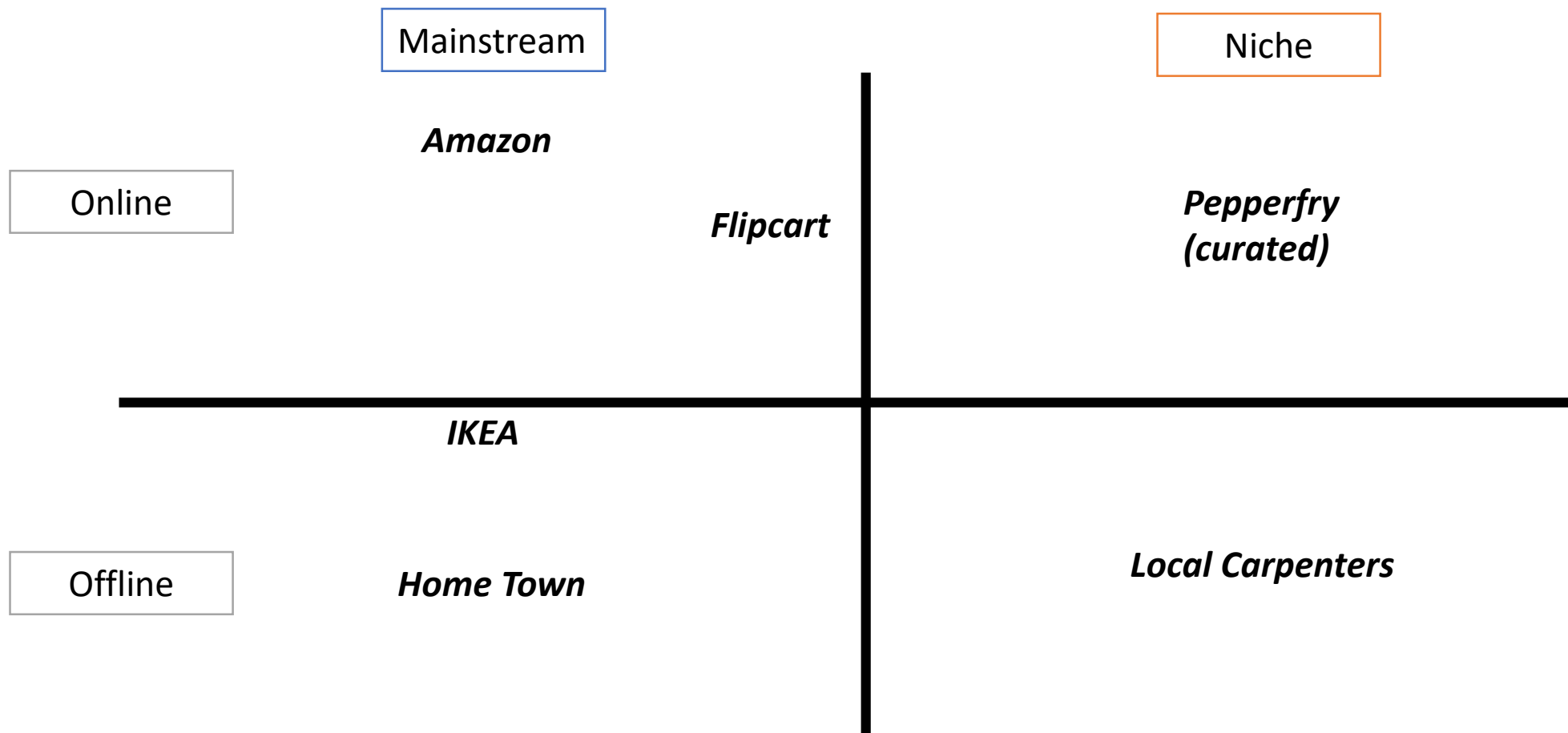
1. How should Pepperfry respond to increased competition

2. How can Pepperfry improve profitability

3. Maintain competitive edge through innovation

4. Increase conversion rate to drive growth

# Competitive Landscape



Pepperfry well-positioned as a niche online player with unique local offering

# Competitive Analysis

## Threat of Entrants – **HIGH**

- IKEA, Amazon, Urban ladder
- India experiencing high growth

## Supplier Power – **Low**

- Abundance of suppliers in India
- Local carpentry
- Word-of-mouth promotion



## Customer Power – **HIGH**

- Large customer base
- Many options to choose from

## Threat of substitutes – **Med/Low**

- Online retail emerging trend
- Brick and Mortar
- Custom

**New Entrants in India posing a threat to Pepperfry's online market leadership**

# Alternatives

1. Expand with large-scale retail stores to compete in metro markets

- Target metro residents, higher income customer

2. Expand horizontally into other product categories to grow revenue base

- White goods, electronics
- Target Cx: young prof. , new families, first time homeowners

# Alternatives

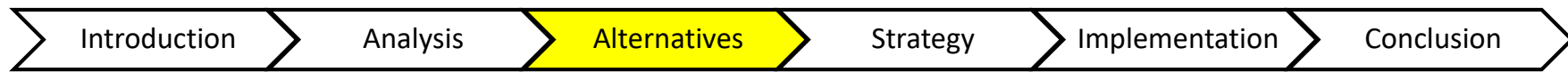
## 3. Expand studio footprint with new purchase options, leverage Pepcart

- Non-metro markets, lower-income households
- Dist. of similar sized-goods

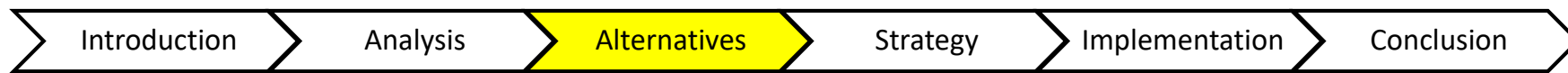
## 4. Focus on house brands, converting suppliers to standard product lines

- Refocus activities on higher margin goods

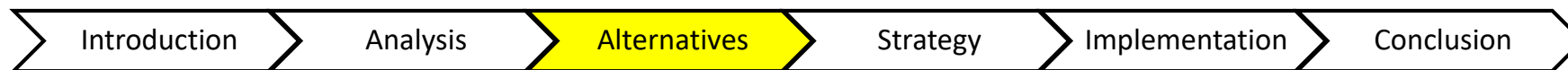




|  | <b>Increase revenue channels</b> | <b>Increase customer base and traffic volume</b> | <b>Differentiate the brand to better compete</b> | <b>Leverage existing strengths for cost efficiency</b> |
|--|----------------------------------|--|--|--|
|  |                                  |  |  |  |



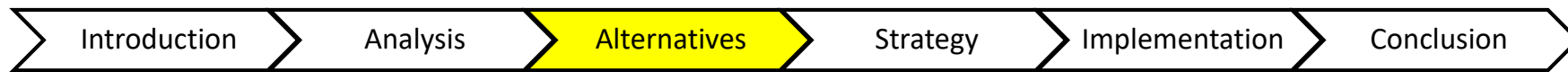
|                                 | Increase revenue channels | Increase customer base and traffic volume | Differentiate the brand to better compete | Leverage existing strengths for cost efficiency |
|---------------------------------|---------------------------|---|---|---|
| <b>1. Retail Stores</b>         |                           |   |   |   |
| <b>2. Horizontal Expansion</b>  |                           |   |   |   |
| <b>3. Studios and Pepcart</b>   |                           |   |   |   |
| <b>4. Focus on house-brands</b> |                           |   |   |   |



|                                 | Increase revenue channels | Increase customer base and traffic volume | Differentiate the brand to better compete | Leverage existing strengths for cost efficiency |
|---------------------------------|---------------------------|---|---|---|
| <b>1. Retail Stores</b>         | 2                         |   |   |   |
| <b>2. Horizontal Expansion</b>  | 3                         |   |   |   |
| <b>3. Studios and Pepcart</b>   | 4                         |   |   |   |
| <b>4. Focus on house-brands</b> | 1                         |   |   |   |

**Correlation to Criteria:**

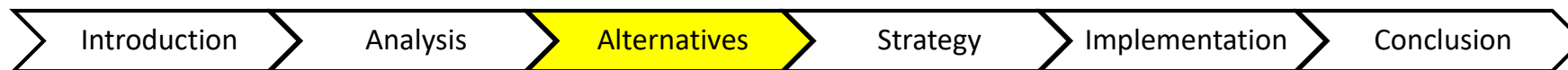
- 1 - Low
- 2 - Below Average
- 3 - Above Average
- 4 - High



|                                 | Increase revenue channels | Increase customer base and traffic volume | Differentiate the brand to better compete | Leverage existing strengths for cost efficiency |
|---------------------------------|---------------------------|---|---|---|
| <b>1. Retail Stores</b>         | 2                         | 3   |   |   |
| <b>2. Horizontal Expansion</b>  | 3                         | 2   |   |   |
| <b>3. Studios and Pepcart</b>   | 4                         | 4   |   |   |
| <b>4. Focus on house-brands</b> | 1                         | 1   |   |   |

**Correlation to Criteria:**

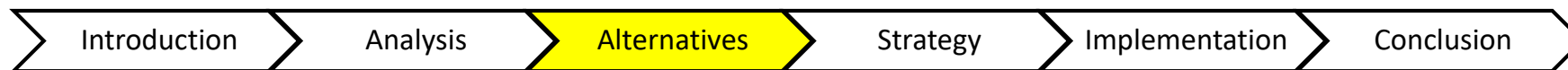




|                                 | Increase revenue channels | Increase customer base and traffic volume | Differentiate the brand to better compete | Leverage existing strengths for cost efficiency |
|---------------------------------|---------------------------|---|---|---|
| <b>1. Retail Stores</b>         | 2                         | 3   | 2   |   |
| <b>2. Horizontal Expansion</b>  | 3                         | 2   | 2   |   |
| <b>3. Studios and Pepcart</b>   | 4                         | 4   | 3   |   |
| <b>4. Focus on house-brands</b> | 1                         | 1   | 3   |   |

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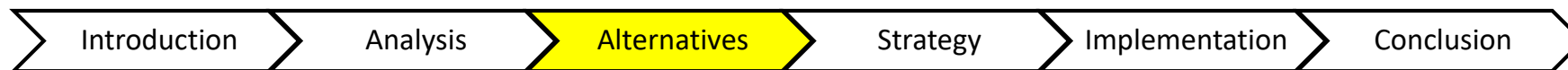
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|                                 | Increase revenue channels | Increase customer base and traffic volume | Differentiate the brand to better compete | Leverage existing strengths for cost efficiency |
|---------------------------------|---------------------------|---|---|---|
| <b>1. Retail Stores</b>         | 2                         | 3   | 2   | 1   |
| <b>2. Horizontal Expansion</b>  | 3                         | 2   | 2   | 2   |
| <b>3. Studios and Pepcart</b>   | 4                         | 4   | 3   | 4   |
| <b>4. Focus on house-brands</b> | 1                         | 1   | 3   | 3   |

**Correlation to Criteria:**

1 - Low       2 - Below Average       3 - Above Average       4 - High 



|                                 | Increase revenue channels | Increase customer base and traffic volume | Differentiate the brand to better compete | Leverage existing strengths for cost efficiency | Total |
|---------------------------------|---------------------------|---|---|---|-------|
| <b>1. Retail Stores</b>         | 2                         | 3   | 2   | 1   | 8     |
| <b>2. Horizontal Expansion</b>  | 3                         | 2   | 2   | 2   | 9     |
| <b>3. Studios and Pepcart</b>   | 4                         | 4   | 3   | 4   | 15    |
| <b>4. Focus on house-brands</b> | 1                         | 1   | 3   | 3   | 8     |

**Correlation to Criteria:**



# Recommendation

1

Drive non-metro growth with offline studio expansion

2

Create new revenue channel by commercializing Pepcart

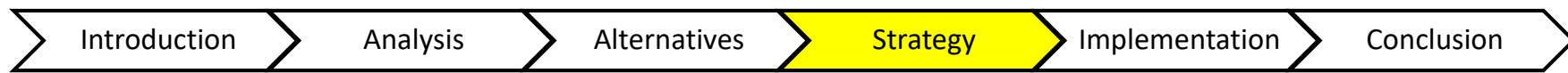
3

Introduce product financing for lower-income customers

4

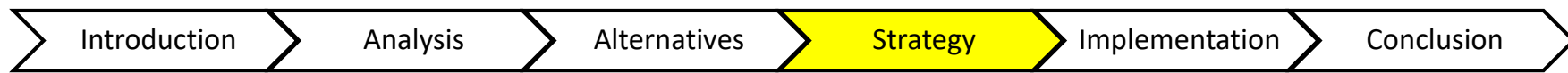
Develop new purchase options to increase customer conversion rate





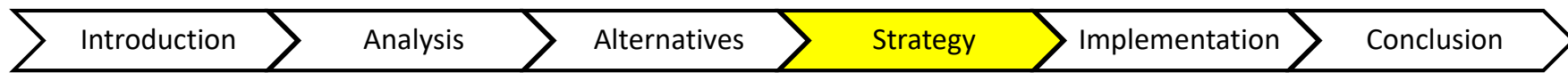
# 1. Offline Expansion

- Aggressive increase in offline studios in non-metro area (regional hubs)
  - 35 initially planned in 2019
  - **Focus on franchisees from 2019**
  - Increase number of new sites year-over-year
  - Top 20 tier **3 & 4 cities** over 5 years
- Maintain **Pepperfry-operated flagships in key metro areas**
  - Set **standard for service and quality**
  - Locations used to try new product and innovations



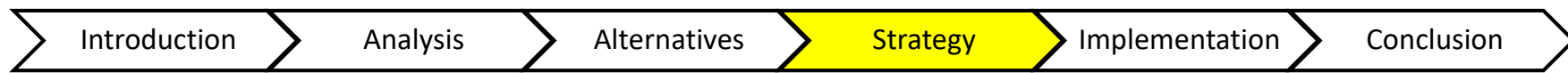
## 2. Commercialize Pepcart

- Leverage established distribution system to serve **new B2B customers**
  - Initially offer hub-to-hub distribution
  - Transition to point-to-point delivery over time
- Target non-perishable consumer good brands
  - White goods
  - Large electronics
- Highlighting low-damage returns to attract business
- Leverage entry of new competitors to offer logistic support – as they grow, we grow



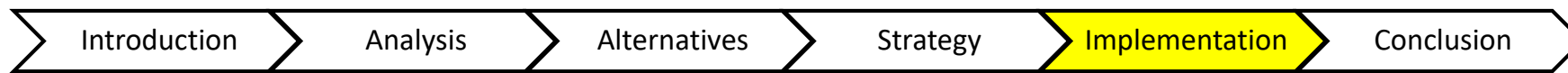
## 3. Customer Financing

- Partnership with Mahindra Finance to offer financing options to non-metro customers
- Leverages Mahindra's reputation and customer base among lower-income (regional) customers
- Opens new customer segments
- Increase Peppery cash-flow compared to payment plans
- Outsources risk to third party



## 4. Introduce New Purchase Options

- Offer new Rent-to-buy purchase options
- Attracts millennials and young families
- Provides conversion avenue for “**fence-sitting**” customers who are hesitant to buy
- Removes the aversion to renting, with option to purchase at any time
- Promotes supplier growth



# Marketing plan

## Product

- 10 house brands: more visibility
- Decor & utilities: increase volume
- Furniture: expand privilege program

## Price

- “Pocket-friendly” prices but not low prices: culture of fair compensation
- Financing program

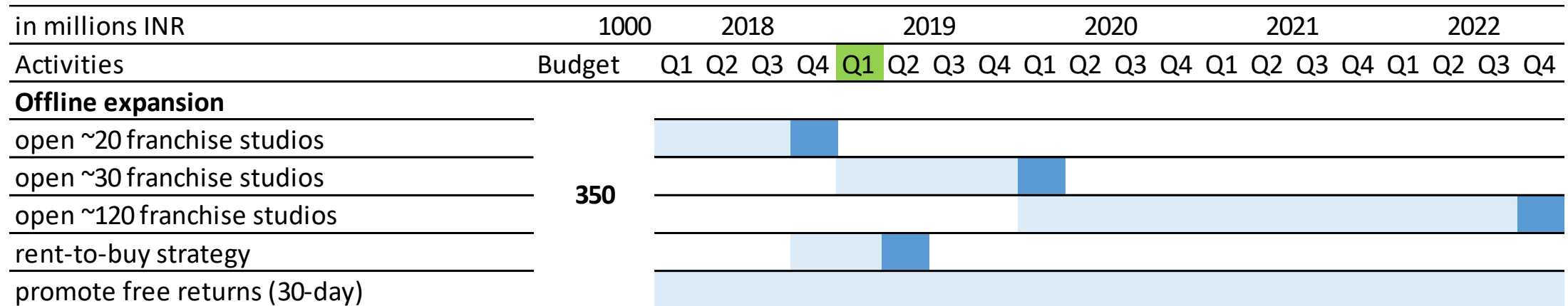
## Promotion

- Quality products “For India, by India”
  - Referral program: gift cards
  - Advertising (online + tv): increase
- Target three types of customers (30 yrs old, 22-29 yrs old, families)

## Place

- Online: optimization
- Offline: studio expansion

# 1. Aggressive offline expansion



➤ Increase conversion rate from 65% to 75% and customer base

## 2. Partnership building

| in millions INR                      | 1000   | 2018         |    |    |    | 2019         |    |    |    | 2020         |    |    |    | 2021         |    |    |    | 2022         |    |    |    |
|--------------------------------------|--------|--------------|----|----|----|--------------|----|----|----|--------------|----|----|----|--------------|----|----|----|--------------|----|----|----|
| Activities                           | Budget | Q1           | Q2 | Q3 | Q4 | Q1           | Q2 | Q3 | Q4 | Q1           | Q2 | Q3 | Q4 | Q1           | Q2 | Q3 | Q4 | Q1           | Q2 | Q3 | Q4 |
| <b>Partnerships</b>                  |        |              |    |    |    |              |    |    |    |              |    |    |    |              |    |    |    |              |    |    |    |
| expand privilege program to 10,000   | 500    | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    |
| social media contest (public voting) |        | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    |
| financing options with partner       |        | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    |
| commercialize Pepcart                |        | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    |
| supplier direct-shipping program     |        | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    | [Light Blue] |    |    |    |

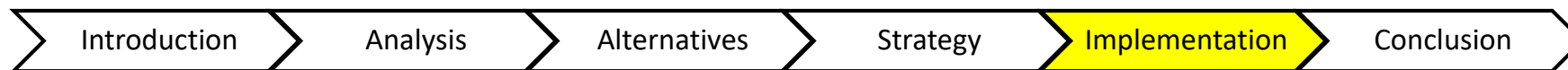
➤ Grow faster while sharing the risk

# 3. Optimize digital presence

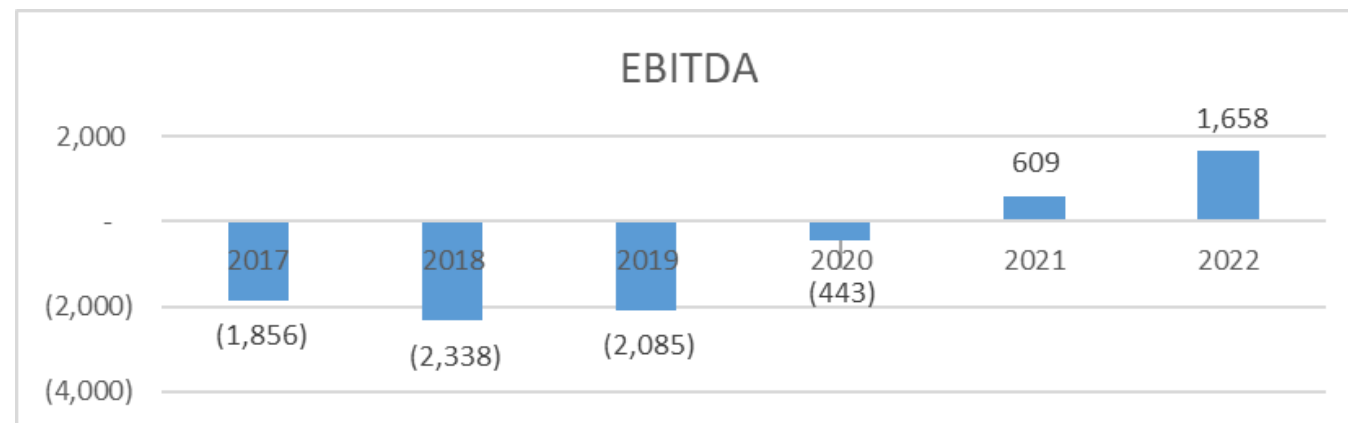
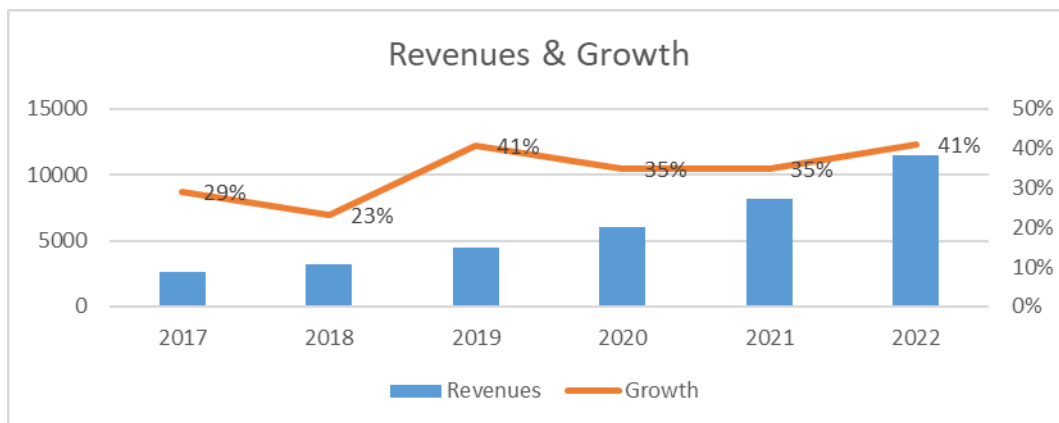
| in millions INR              | 1000   | 2018 |    |    |    | 2019 |    |    |    | 2020 |    |    |    | 2021 |    |    |    | 2022 |    |    |    |
|------------------------------|--------|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|------|----|----|----|
| Activities                   | Budget | Q1   | Q2 | Q3 | Q4 | Q1   | Q2 | Q3 | Q4 | Q1   | Q2 | Q3 | Q4 | Q1   | Q2 | Q3 | Q4 | Q1   | Q2 | Q3 | Q4 |
| <b>Digital optimization</b>  |        |      |    |    |    |      |    |    |    |      |    |    |    |      |    |    |    |      |    |    |    |
| top 50 influencer program    |        |      |    |    |    |      |    |    |    |      |    |    |    |      |    |    |    |      |    |    |    |
| build app                    | 250    |      |    |    |    |      |    |    |    |      |    |    |    |      |    |    |    |      |    |    |    |
| add AI visualisation feature |        |      |    |    |    |      |    |    |    |      |    |    |    |      |    |    |    |      |    |    |    |
| referral program             |        |      |    |    |    |      |    |    |    |      |    |    |    |      |    |    |    |      |    |    |    |

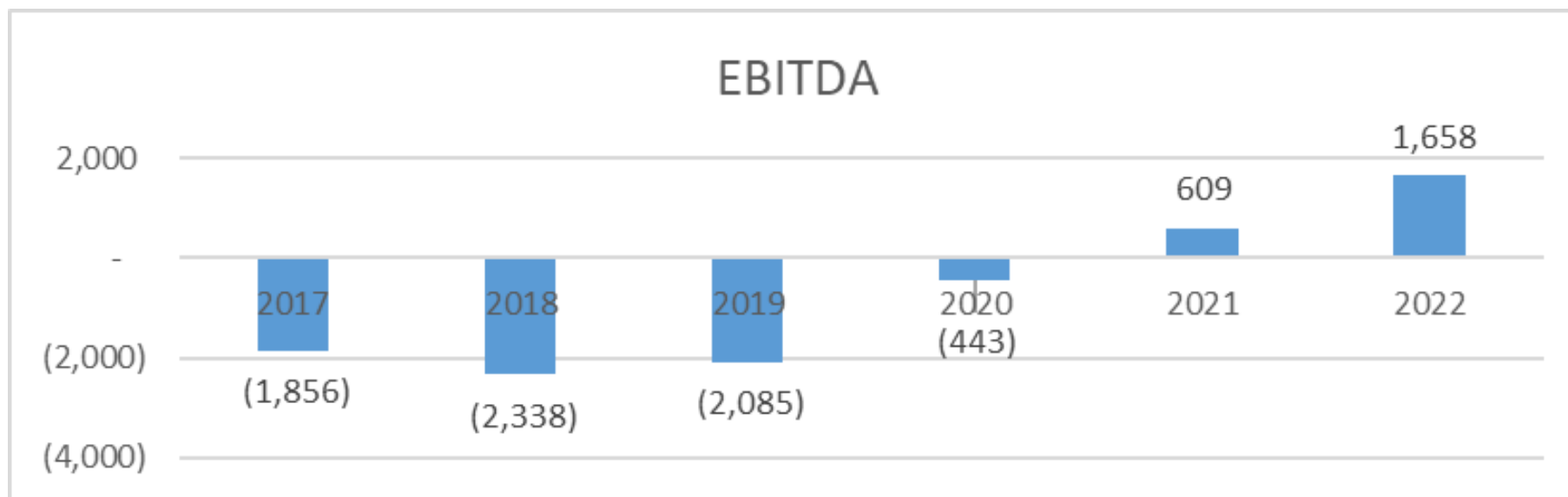
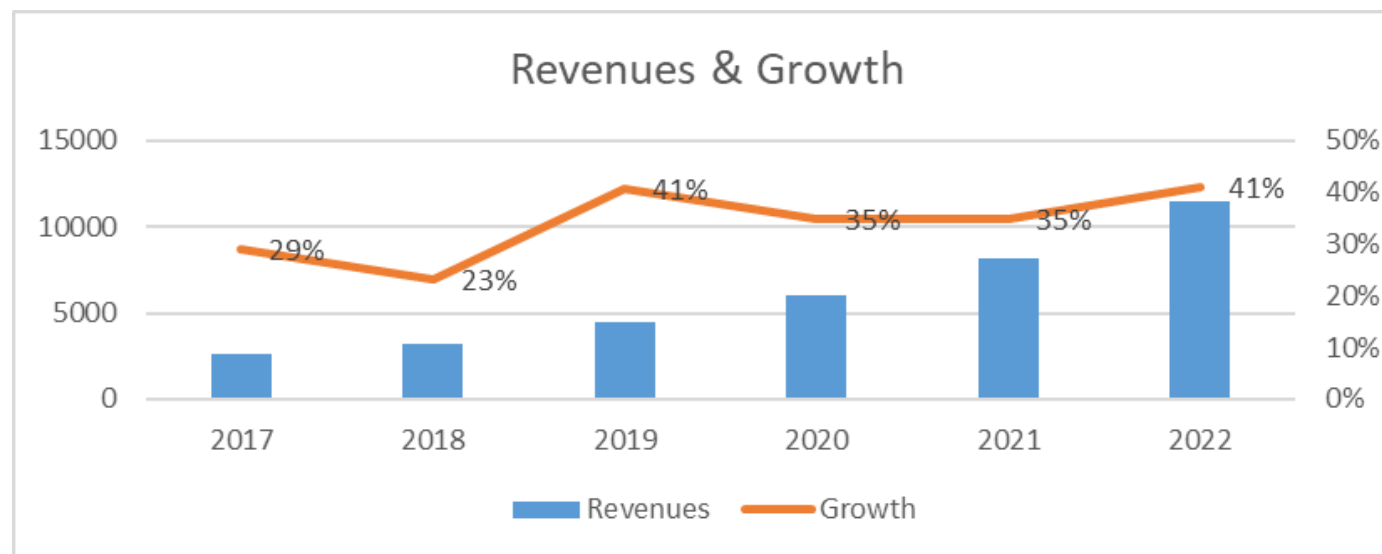
- Increase conversion rate and order value
- Reduce time to purchase

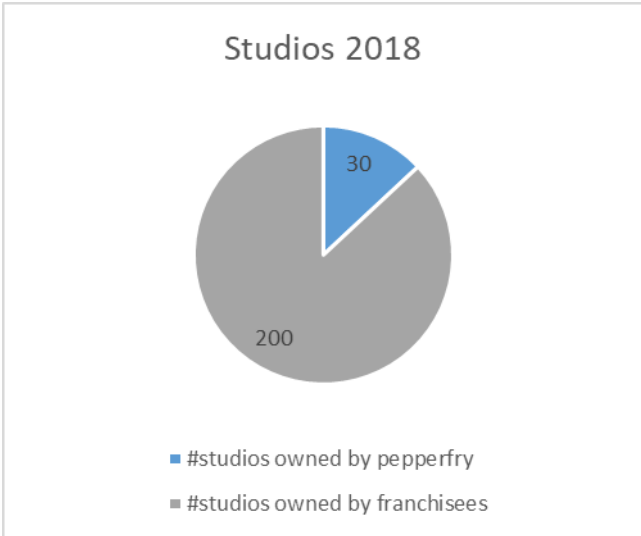
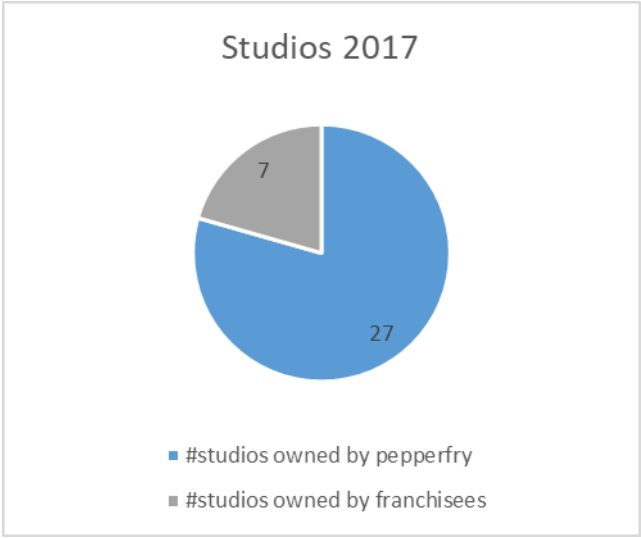
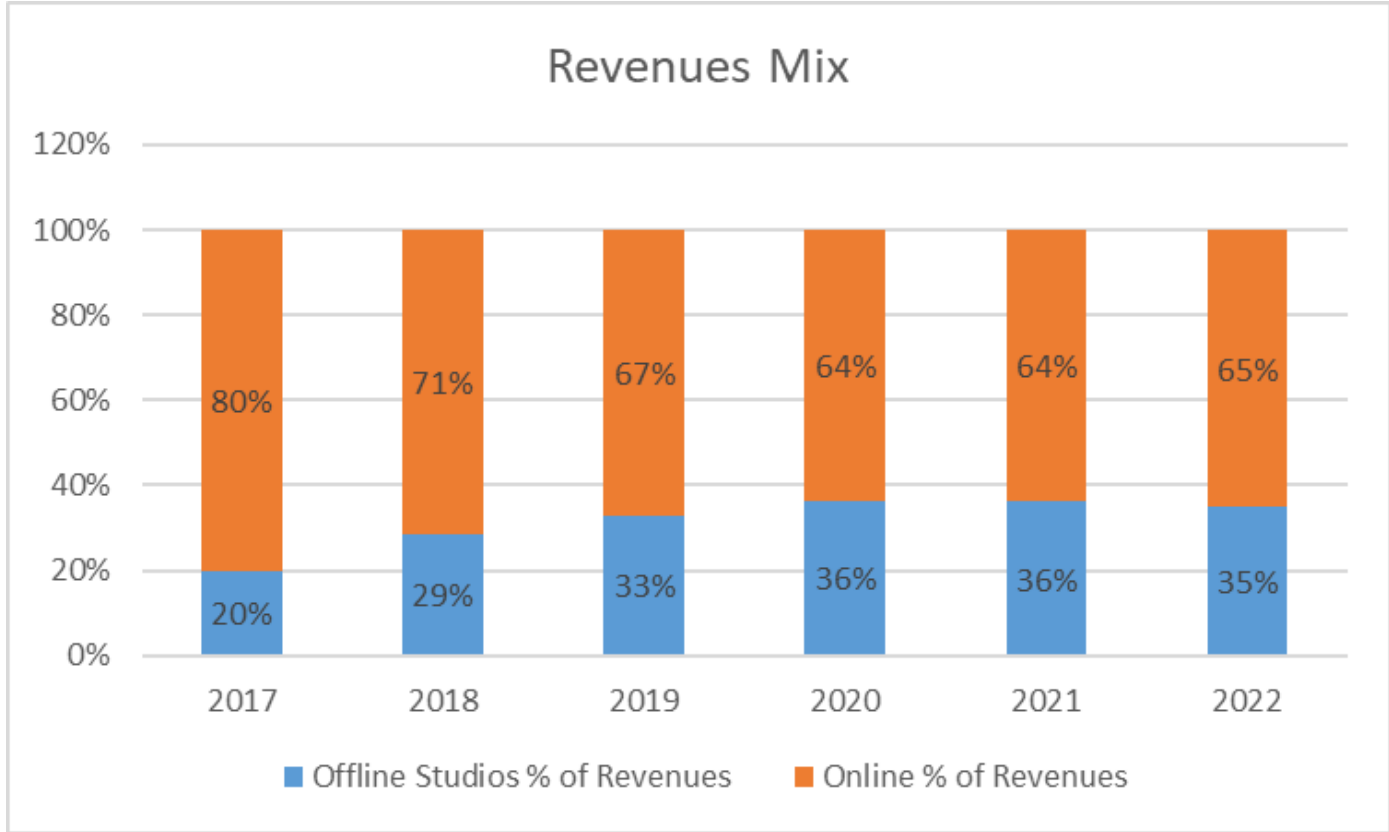


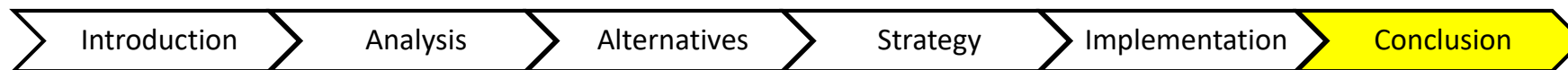


| All numbers in INR 000 000          | 2017           | 2018           | 2019           | 2020         | 2021         | 2022          |
|-------------------------------------|----------------|----------------|----------------|--------------|--------------|---------------|
| <b>Revenues</b>                     | <b>2580</b>    | <b>3,178</b>   | <b>4,467</b>   | <b>6,025</b> | <b>8,127</b> | <b>11,467</b> |
| Growth                              | 29%            | 23%            | 41%            | 35%          | 35%          | 41%           |
| Current Studios Revenues            | 516            | 568            | 624            | 687          | 755          | 831           |
| Additionnal from franchisees        |                | 340            | 842            | 1,496        | 2,244        | 3,609         |
| Online Revenues                     | 2,064          | 2,270          | 2,952          | 3,542        | 4,427        | 5,977         |
| Pepcart                             |                |                | 50             | 300          | 700          | 1,050         |
| <b>Costs projections</b>            | <b>4,436</b>   | <b>5,516</b>   | <b>6,553</b>   | <b>6,468</b> | <b>7,518</b> | <b>9,809</b>  |
| COGS                                | 1,342          | 1,652.56       | 2,234          | 2,952        | 3,901        | 5,389         |
| D&A                                 | 645            | 953.40         | 893            | 904          | 1,219        | 1,147         |
| Pepperfry's Studios operating costs | 11             | 11             | 11             | 11           | 11           | 11            |
| Franchisees Commission              | 12             | 37             | 71             | 118          | 173          | 272           |
| Delivery (8%)                       | 107            | 132            | 156            | 177          | 195          | 269           |
| Marketing                           | 900            | 1,000          | 1,000          | 900          | 800          | 800           |
| Other SGA                           | 1,419          | 1,430          | 1,787          | 1,205        | 1,219        | 1,720         |
| Proposed Strategy Budget            |                | 300            | 400            | 200          |              | 200           |
| <b>EBITDA</b>                       | <b>(1,856)</b> | <b>(2,338)</b> | <b>(2,085)</b> | <b>(443)</b> | <b>609</b>   | <b>1,658</b>  |



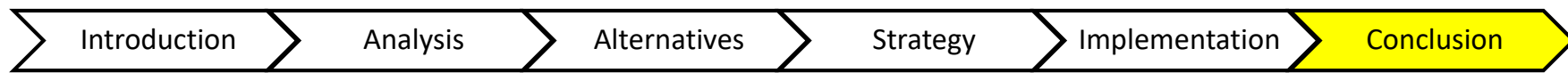






# Risks

| Risks   | Mitigation   |
|---|--|
| Low Franchisee adoption due to commission                             | Pick franchisees carefully and highlight payback period for studios (2-3 years)                                    |
| Consumers switch to global leaders as they enter India (IKEA, Amazon) | Marketing effort focus on India-made, local suppliers, and quality of service                                      |
| Logistics disruption from Pepcart expansion                           | Careful control of Pepcart activities and prioritize Pepperfry deliveries to ensure continue uninterrupted service |



# Conclusion

## Key Points

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5-year growth plan

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Profitability in 2021 of INR 600M

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Total budget of INR 1B

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Commercialize Pepcart

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Expand studios via franchising

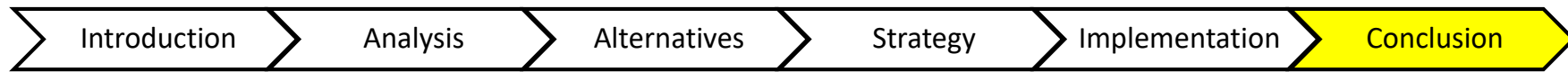
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New financing and purchasing options

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Target new non-metro customers

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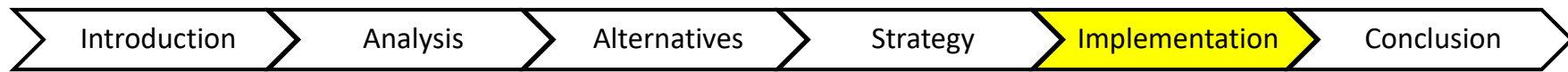


Questions?

# Annexes

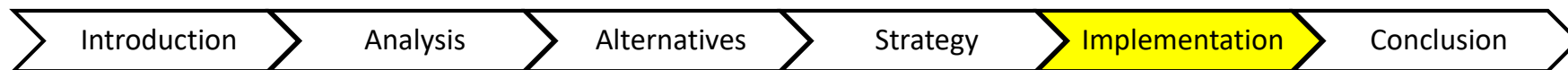
## Assumptions

|                               |     |       |       |       |       |       |
|-------------------------------|-----|-------|-------|-------|-------|-------|
| Offline Studios % of Revenues | 20% | 29%   | 33%   | 36%   | 37%   | 39%   |
| Online % of Revenues          | 80% | 71%   | 67%   | 64%   | 63%   | 61%   |
| COGS% of Revenues             | 52% | 52%   | 50%   | 49%   | 48%   | 47%   |
| D&A % of Revenues             | 25% | 30%   | 20%   | 15%   | 15%   | 10%   |
| SGA % of Revenues             | 55% | 45%   | 40%   | 20%   | 15%   | 15%   |
| #studios owned by pepperfry   | 27  | 30    | 30    | 30    | 30    | 30    |
| #studios owned by franchisees | 7   | 27    | 52    | 87    | 127   | 200   |
| Total Studios                 | 34  | 57    | 82    | 117   | 157   | 230   |
| Average Revenues of a studio  | 17  |       |       |       |       |       |
| Operating costs by studios    | 0.4 | 0.375 | 0.375 | 0.375 | 0.375 | 0.375 |
| Marketing % of Revenues       | 35% | 35%   | 35%   | 35%   | 35%   | 35%   |
| Delivery % of COGS            | 8%  | 8%    | 7%    | 6%    | 5%    | 5%    |



|           | Gross Margin | % of Rev         |        |
|-----------|--------------|------------------|--------|
| Decor     | 40%          | 20%              | 8.00%  |
| Furniture | 50%          | 80%              | 40.00% |
|           |              | Avg Gross Margin | 48.00% |
|           |              | Avg COGS         | 52.00% |





| in millions INR                      | 1000   | 2018         |    |             |    | 2019         |    |             |    | 2020         |    |             |    | 2021         |    |             |    | 2022         |    |             |    |             |  |  |  |
|--------------------------------------|--------|--------------|----|-------------|----|--------------|----|-------------|----|--------------|----|-------------|----|--------------|----|-------------|----|--------------|----|-------------|----|-------------|--|--|--|
| Activities                           | Budget | Q1           | Q2 | Q3          | Q4 | Q1           | Q2 | Q3          | Q4 | Q1           | Q2 | Q3          | Q4 | Q1           | Q2 | Q3          | Q4 | Q1           | Q2 | Q3          | Q4 |             |  |  |  |
| <b>Offline expansion</b>             |        |              |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| open ~20 franchise studios           | 350    | [Light Blue] |    |             |    | [Dark Blue]  |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| open ~30 franchise studios           |        | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Dark Blue]  |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| open ~120 franchise studios          |        | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Dark Blue] |  |  |  |
| rent-to-buy strategy                 |        | [Light Blue] |    |             |    | [Dark Blue]  |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| promote free returns (30-day)        |        | [Light Blue] |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| <b>Partnerships</b>                  |        |              |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| expand privilege program to 10,000   | 500    | [Light Blue] |    |             |    | [Dark Blue]  |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| social media contest (public voting) |        | [Light Blue] |    |             |    | [Dark Blue]  |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| financing options with partner       |        | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Dark Blue]  |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| commercialize Pepcart                |        | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Dark Blue]  |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| supplier direct-shipping program     |        | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Dark Blue]  |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| <b>Digital optimization</b>          |        |              |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |
| top 50 influencer program            | 250    | [Light Blue] |    | [Dark Blue] |    |              |    | [Dark Blue] |    |              |    | [Dark Blue] |    |              |    | [Dark Blue] |    |              |    | [Dark Blue] |    |             |  |  |  |
| build app                            |        | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Dark Blue]  |    |             |    |              |    |             |    |             |  |  |  |
| add AI visualisation feature         |        | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Light Blue] |    |             |    | [Dark Blue]  |    |             |    |              |    |             |    |             |  |  |  |
| referral program                     |        | [Light Blue] |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |              |    |             |    |             |  |  |  |