

KAIST College of Business, KCB

# PEPPERFRY.com: Turning the table on disruption

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# Executive Summary

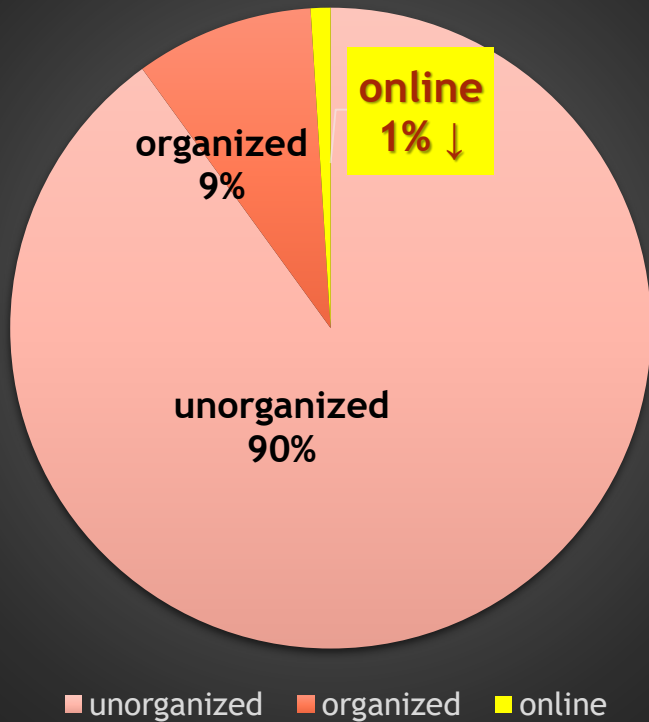
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Issue	Recommendation	Benefit
<b>High Costs Low Profits</b>	<ul style="list-style-type: none"><li>• <b>Logistics:</b> Better warehouse management, supply lines</li><li>• <b>Drop Utilities:</b> Costs too high, revenues too low</li><li>• <b>Reduce Costs:</b> Charge listing fee and slotting fee, furniture rental</li><li>• <b>Vertical Integration</b></li></ul>	Removed unnecessary cost / Increased revenue
<b>Maintaining and Growing Market Share</b>	<ul style="list-style-type: none"><li>• <b>Increase Economy of Scale:</b> Go to Vietnam and Middle East</li><li>• Expand offline studies around India</li><li>• <b>Aggressive Marketing Plan:</b> AI, Social Media</li></ul>	Increased market share / Lower cost per unit
<b>Product Differentiation</b>	<ul style="list-style-type: none"><li>• Drop Utilities → <b>Increase Investment in Rental Economy</b></li><li>• Embrace India brand and invest in local initiatives</li><li>• <b>Middle Class Millennials</b></li><li>• <b>Urban Focus</b></li></ul>	Niche market found / Focused target group

# Industry

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## Furniture Market



90% unorganized, 10% organized segment,  
1% was online

- ✓ Local vendors and small carpentry shops
- ✓ Far from a furniture retailer
- ✓ Based on a catalog without seeing the actual product



# Problem statement

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- ✓ Better utilize new revenue channels
- ✓ Strengthen its position as an omnichannel
- ✓ How could respond to competition

# Elevator pitch

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- **Product: narrow but abroad**
  - targeting, both sales and rentals
- **Money: lower cost, higher profit**
  - reduced fix cost, expanding revenue
- **Market: not share, gain more**
  - overseas, not only online both online and offline

# Analysis: Economic Position

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Revolutionized India Market for Online Furniture Sales  
80% of Revenue

Unparalleled logistics network across India  
3 Fulfillment Centers across 17 distribution Centers

PEPPERFRY.COM

Vertical Integration of Supply Lines  
Empowering Indian Manufacturers

\$37 Million in Series of F  
\$2.58 Million in Revenue  
\$6.5 Million in Gross Merchandise Value

# Analysis: How do we make money?

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- We are an e-commerce platform for Furniture, Décor, and Utilities
- We help Indian manufacturers produce, ship, and sell their goods
- We have an unparalleled logistics network in India that is unmatched in the Indian e-commerce market
- Clicks to Bricks: Our “try it out” stores increase sales and revenue
- Empowering Indians and supporting the local economy

# Analysis: Micro Strategies & Target Market

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## MICRO STRATEGIES

- Target Products: Selected and specific
- Online Store: E-Commerce, Clicks to Bricks, Targeting Indians
- Rental Business: Embracing the rental economy
- Vertical Integration: Owning the supply lines and logistics

## TARGET MARKET

- Millennials, 24-38 → Young Adults
- Middle Class and Migrating Workers
- Tech Savvy and Online individuals





# Analysis: Our Recommendation

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- Will Increase Profits and Reduce Costs
- Will Maintain and Grow our Market Share
- Will Differentiate Ourselves from Others

# Snapshot

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2012/13

Online market  
GMV INR582

Rev/Loss -158%

- Easy to access and sell

2016/17

Curated service and  
delivery

GMV INR6,500

Rev/Loss -96.3%

- Reliable product and  
delivery

~ 2020

Disruptive innovation  
GMV \$50,000

Rev/Loss To be positive

- Better service
- Increased CM and  
reducing fixed cost by  
margin

# Implementation : Increasing the profit

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Short term

Expect positive EBITDA within 12 ~ 18 months

# Implementation : Increasing the profit

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- **Warehouse management**
  - Promote suppliers to stock more inventory in “Pepperfry” warehouse
  - Suppliers pay certain amount for the warehouse usage
  - Advertise their products in return as an incentive
- **Benefits**
  - Better inventory forecast
  - Increased utilization of the warehouse
  - Lower fixed cost per unit
  - Increased earning
  - Increased revenue from warehouse usage fee

# Implementation : Increasing the profit

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- Charge listing fee/slotting fee
  - Categorize supplier subscriptions
    - Premium
    - Business
    - Economy
- Benefits
  - Increased revenue

# Implementation : Increasing the profit

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- Long term

# Implementation : Increasing the profit

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- **Increase market share**
  - To be mentioned in the next few slides in detail
- **Benefits**
  - Economy of scale for other investment and fixed cost
  - Better warehouse utilization
  - Lower cost per unit

# Implementation : Increasing the profit

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- **AI Utilization**
  - For customer demand anticipation
- **Benefits**
  - Supply & demand forecast
  - Better inventory management
  - Better warehouse utilization
  - Wise investment for capex (warehouse)
  - Efficient logistics
  - Lower cost per unit



# Implementation : Increasing the profit

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- **KPI management**
  - For vertical integration management
  - Intended to decreased damaged goods
  - Intended to decrease returned materials
- **Benefits**
  - Lower failure rate
  - Higher product delivery success rate
  - Lower cost per unit
  - Maintain customer loyalty

# Implementation

## : How to increase market share

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- Short term

# Implementation

## : How to increase market share

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- **Marketing through social media**
- **Benefits**
  - Increased customers in the target group
  - Techsavvy people

# Implementation

: How to increase market share

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- Long term

# Implementation

## : How to increase market share

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- **Expand offline studios around India**
  - Footfall conversion rate > 65%
  - Average order value 80~100% higher than online only
  - 20% of the total revenue

# Implementation

## : How to increase market share

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- **Global market expansion**
  - Target Vietnam and Middle Asia
- **Pros**
  - Close to India
  - Efficient logistics
- **Cons**
  - Cultural differences
  - Politics

# Implementation

## : Product/Service differentiation

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- **Focus on target groups**
  - Exclude country side/Urban only
    - Low IT penetration in the country side
- **Drop utilities service**
  - Only 5~25% gross margin (while décor 30~50%, furniture 45~55%)
  - Negative profit with already high fixed cost
- **Focus on décor/furniture**
  - Ideal bundled service
  - Service differentiation

# Implementation : Product/Service differentiation

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- **Increase rental furniture**
  - IKEA/Amazon not involved
  - Increasing market with estimated \$3 billion
  - Blue ocean
  - Appropriate target group
    - Growing middle class
    - Young
    - Move often
    - Niche market



# Risks and Mitigations

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Risk	Likelihood	Damage	Mitigation
Cyber Security	Medium	High	Firewalls, Two Factor Authentication, Digital Twin, A.I.
Warehouse Logistics	Low	High	Computers, Automation, A.I., Oversight Programs
Foreign Corruption	Medium	Medium	Country Expert, Government Specialists, Reinforce Ethics Campaign
Unsustainable Growth	Low	Medium	Country expert, culture expert, geo strategies, diversify portfolio, product differentiation, rental company, new markets

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