Pepperfry: Making Pepperprofitable

EAST COAST GLOBAL CONSULTING
Agenda

- Challenge
- Key Issues & Objectives
- Recommendation
- Analysis
- Alternatives
- Implementation Plan
- Financials
- Risks & Mitigations
- What Success Looks Like

Delia
Chelsey
Allison
Jennifer
Delia
Challenge

Be EBITDA positive in 12-18 months.
Key Issues

- Loss-making company
- Under-utilized capacity
- Increasing competition
- Unorganized industry
Key Objectives

- Increase profitability
- Strengthen brand and leadership position
- Respond to competition
- Maintain value proposition
Recommendation

Improve supply chain efficiencies by repurposing sourcing hub into fulfillment center and maximizing short haul delivery capacity.
Analysis

DELIA WARREN
Target Market

Modern, tech-savvy, upwardly-mobile, young professionals in cities
Indian Furniture Market

OPPORTUNITIES:
- Largely disorganized
  - 10 km shopping radius
- Target market growing rapidly
  - Changing purchasing behaviours
- Strong loyalty to local producers

THREATS:
- Market highly fragmented
- Big players entering market
- Skepticism re: quality, delivery, assembly
- Lower than average access to technology

Disruption of Indian furniture market holds **HUGE** potential
Pepperfy’s Unique Position

STRENGTHS:
- Unique value proposition
- Excellent data management
- Strong relationships
- Better margins
- Transportation record:
  - <2% damaged goods
  - 92% first time delivery rate

WEAKNESSES:
- Loss-making company
- Broad focus – auxiliary services are costly
- Complicated long-haul delivery
- Utilities are low margin

Trim the fat - Focus on CORE competencies
## Competitive Landscape

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>IKEA</td>
<td>• Outside player&lt;br&gt;• Large retail space (costly)&lt;br&gt;• Non-local product offering</td>
</tr>
<tr>
<td>Amazon India</td>
<td>• Outside player&lt;br&gt;• Broad product offering</td>
</tr>
<tr>
<td>Flipkart</td>
<td>• Broad product offering&lt;br&gt;• Big box products</td>
</tr>
<tr>
<td>Pepperfry</td>
<td>• Local artisan focus&lt;br&gt;• Curated product listing</td>
</tr>
</tbody>
</table>

Value proposition:  

**Variety, value, LOCAL**
Financial Snapshot

JENNIFER BUTTON
Revenue Increasing, Profits Decreasing
Goal to be EBITDA Positive in 12-18 Months
Financial Snapshot

▪ Operating Costs approximately 5 Million in 2016/2017 – Double Revenue

▪ Important to Grow Revenue & Cut Costs

▪ Revenue Growth Opportunities

▪ Need to take Cost Cutting measures
  ▪ Supply Chain costs initially 20-25% of Cost of Goods Sold (COGS). Now at 8-10% COGS through optimization

▪ Need to Pave the Way for an IPO
Financial Snapshot

- GMV - Merch sold over customer exchange site
- Goal to increase GMV Seven Fold to 50,000 million in 2020
Financial Snapshot

- 1/3 of Annual Costs allocated to Décor & Utilities
- Seen as intro items to draw in consumers

<table>
<thead>
<tr>
<th>Product</th>
<th>Revenue</th>
<th>% of Gross Margin</th>
<th>% of Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture</td>
<td>80%</td>
<td>45 % - 55 %</td>
<td>30%</td>
</tr>
<tr>
<td>Décor</td>
<td>20%</td>
<td>30 % - 50 %</td>
<td>70%</td>
</tr>
<tr>
<td>Utilities</td>
<td>5 % - 25%</td>
<td></td>
<td></td>
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</tbody>
</table>
Alternatives
CHELSEY PIKE
Alternatives

1. Make More Money
2. Cut Big Cost
3. Better Utilize Existing Channels
Alternative 1: Make More Money

*Increase Sales Volume / Increase Price*

Advantages

- Increase in revenue
- No items sold at loss

Disadvantages

- Already performing well in terms of sales
- Price sensitive customer
- Does **not** address operating practices
Alternative 2: Cut Big Cost

Axe Delivery Services

Advantages

• Elimination of 400 trucks, drivers & other direct cost
• Focus on core business

Disadvantages

• Demographic challenges
• Unique products and services
• Transportation is a key differentiating factor
Alternative 3: Utilize Existing Channels

*Streamline Supply Chain / Max. Short-Haul Delivery Capacity*

**Advantages**

- Existing capacity
- Builds on Pepperfry competencies
- Eliminates inefficiency
- Creates excitement around online furniture purchases

**Disadvantages**

- Risk of competitor disruption
# Decision Matrix

<table>
<thead>
<tr>
<th></th>
<th>Make Money</th>
<th>Cut Cost</th>
<th>Efficiency</th>
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</thead>
<tbody>
<tr>
<td>Increase profitability</td>
<td>🟢</td>
<td>🟥</td>
<td>🟢</td>
</tr>
<tr>
<td>Strengthen brand &amp; leadership position</td>
<td>🟥</td>
<td>🟥</td>
<td>🟢</td>
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<tr>
<td>Respond to competition</td>
<td>🟥</td>
<td>🟢</td>
<td>🟢</td>
</tr>
<tr>
<td>Maintain value proposition</td>
<td>🟢</td>
<td>🟥</td>
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Recommendation

Improve supply chain efficiencies by repurposing sourcing hub into fulfillment center and maximizing short haul delivery capacity.
Implementation Plan

ALLISON PENTON
Implementation Plan

- Improvements in Supply Chain
- Maximize Pepcart’s Delivery Capacity
- Axe Utilities
- Extensive Marketing Campaign to Grow Sales
- Expand Franchise Model
Timeline

Phase 1: 0-12 months
• Improvements in supply chain
• Maximize Pepcart’s delivery capacity

Phase 2: 12-18 months
• Focus on décor and furniture
• Roll out digital marketing campaign

Phase 3: 18-24 months
• Expand franchise model
Supply Chain

Phase 1

Suppliers

Pepperfry Fulfillment Center

Distribution Center

Pepperfry Fulfillment Center

Long haul movement
Pepcart Push

Offer delivery services to other companies for transporting large electrical goods

Utilize 400 trucks

Sign contract with Pepcart

Companies must deliver items to the Pepperfry’s delivery warehouse

Phase 1

Delivery Capacity

100%
Axe Utilities

Phase 2

Creates more efficiencies by removing low margin products

Increased focus on high performing product categories

Pepcart still delivers utilities through auxiliary services
Marketing

Phase 2

Video Mini Series

CSR

Entrepreneurial

Highlight Craftsmanship

Emphasize Artisinal Value
Marketing

Made Locally, Loved Locally
Expand Franchisee Model

- 16 new studios by 2025
- Pepperfry defines interior store design
- Stores dictate showcase items
- 1,000-1,500 square feet

Phase 3

### Phase 3

- Stores dictate showcase items
- 1,000-1,500 square feet

### Expansion Timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>Existing</th>
<th>New Franchisees</th>
</tr>
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<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td></td>
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</tbody>
</table>
Talent Management

- Strong vetting of new franchisee owners with aligned values
- In-house interior design consultants
Financial Analysis

- Double Revenue by Adding 16 Franchise Stores to 2023 & Delivery Service
- Organic Revenue Growth Year over Year 10-15%

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<tr>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,580</td>
<td>2,967</td>
<td>3,412</td>
<td>3,753</td>
<td>4,129</td>
<td>4,541</td>
<td>4,996</td>
</tr>
<tr>
<td>Ad Franchise Fee Revenue</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>6</td>
<td>9</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Ad New Store Revenue</td>
<td>-</td>
<td>5</td>
<td>15</td>
<td>30</td>
<td>45</td>
<td>60</td>
<td>80</td>
</tr>
<tr>
<td>Ad Delivery Service Revenue</td>
<td>30</td>
<td>40</td>
<td>50</td>
<td>60</td>
<td>70</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Less: Utility Revenue</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>2,580</td>
<td>3,001</td>
<td>3,469</td>
<td>3,838</td>
<td>4,242</td>
<td>4,682</td>
<td>5,171</td>
</tr>
</tbody>
</table>
Financial Analysis

- Increased Traffic from New Stores & Growth will increase GMV to 50,000 by 2020.
### Financial Analysis

<table>
<thead>
<tr>
<th>Operational Cost Improvements</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved Supply Chain</td>
<td>1,000</td>
<td>1,500</td>
<td>1,500</td>
<td>2,000</td>
</tr>
<tr>
<td>Dropping Utilities</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>1</td>
<td>469</td>
<td>838</td>
<td>1,242</td>
</tr>
<tr>
<td>EBITDA</td>
<td>0</td>
<td>94</td>
<td>168</td>
<td>248</td>
</tr>
</tbody>
</table>

- Return to Profitability by 2019
- Return to Positive EBITDA by Q4 2019
Where is the money coming from?

<table>
<thead>
<tr>
<th>Funds required</th>
<th></th>
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<tbody>
<tr>
<td>Marketing</td>
<td>300</td>
</tr>
<tr>
<td>Talent Management</td>
<td>500</td>
</tr>
<tr>
<td>Logistics</td>
<td>150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>950</strong></td>
</tr>
</tbody>
</table>

- Equity Investment – Success with IPO
Risks & Mitigations

Competition
- Medium risk
- Focusing on target audience and providing locally sourced artisanal products

Insufficient Cost-Cutting Measures
- Low risk
- Off-set by increase in revenue stream and constant evaluation of supply chain

Lack of Sales Growth
- Low risk
- Increased marketing campaign and loyal customer base
Conclusion

DELIA WARREN
## What Success Looks Like

<table>
<thead>
<tr>
<th>What Success Looks Like</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Increase profitability</strong></td>
<td>Increased supply chain efficiency; additional revenue streams EBITDA position by Q4 2019</td>
</tr>
<tr>
<td><strong>Strengthen brand and leadership position</strong></td>
<td>Capitalizing on core competencies Expanding franchisees studios</td>
</tr>
<tr>
<td><strong>Respond to competition</strong></td>
<td>Focused on value proposition: “Made Local, Loved Local”</td>
</tr>
<tr>
<td><strong>Maintain value proposition</strong></td>
<td>Continuing to offer unique artisanal products</td>
</tr>
</tbody>
</table>
Questions?

THANK YOU!
Contingency Plan

- Expand delivery services to Sri Lanka
  - Booming population
  - Neighboring country
  - Cultural similarities