

Pepperfry: Making Pepper*profitable*

EAST COAST GLOBAL CONSULTING

Agenda

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

Delia

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Allison

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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

Competitor	Offering
IKEA	<ul style="list-style-type: none">• Outside player• Large retail space (costly)• Non-local product offering
Amazon India	<ul style="list-style-type: none">• Outside player• Broad product offering
Flipkart	<ul style="list-style-type: none">• Broad product offering• Big box products
Pepperfry	<ul style="list-style-type: none">• Local artisan focus• Curated product listing

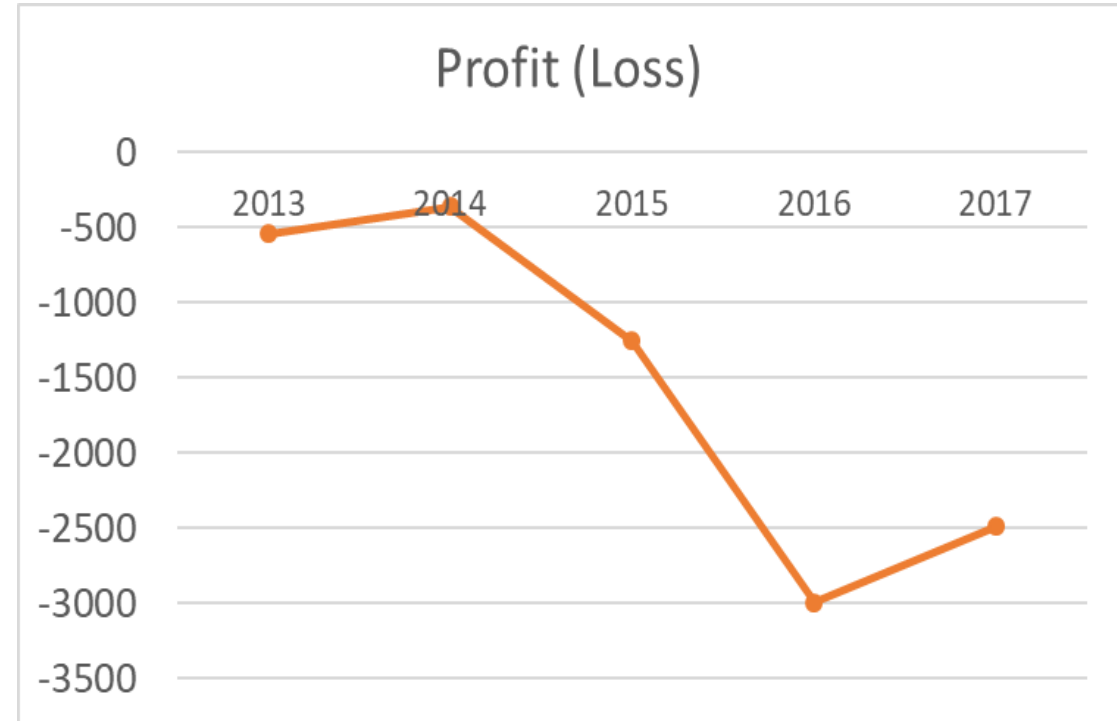
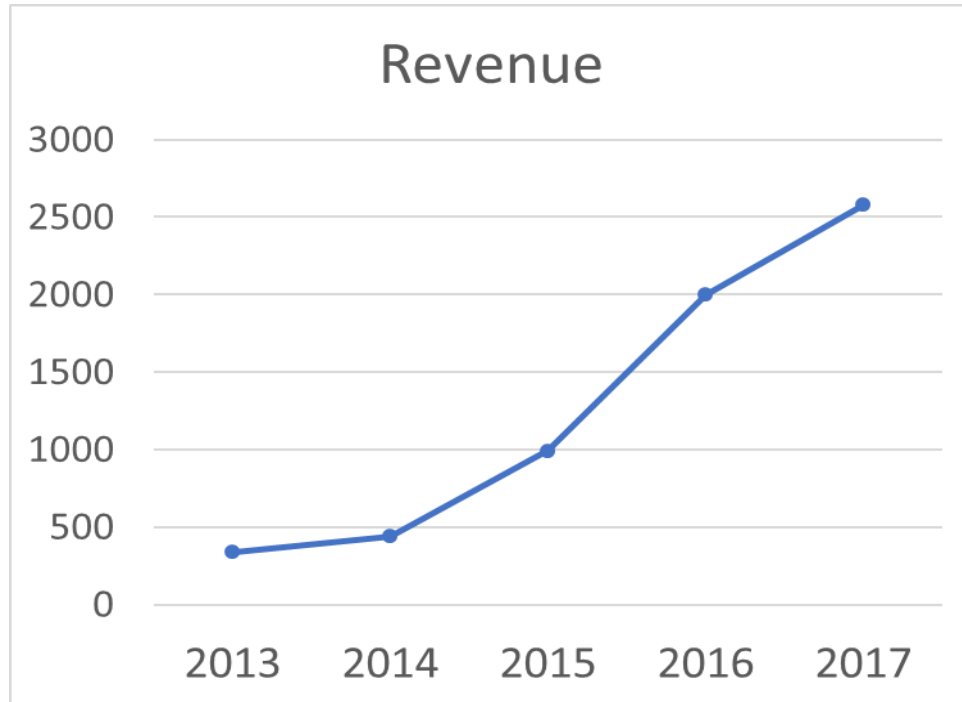
Value proposition:

Variety, value,
LOCAL

Financial Snapshot

JENNIFER BUTTON

Financial Snapshot

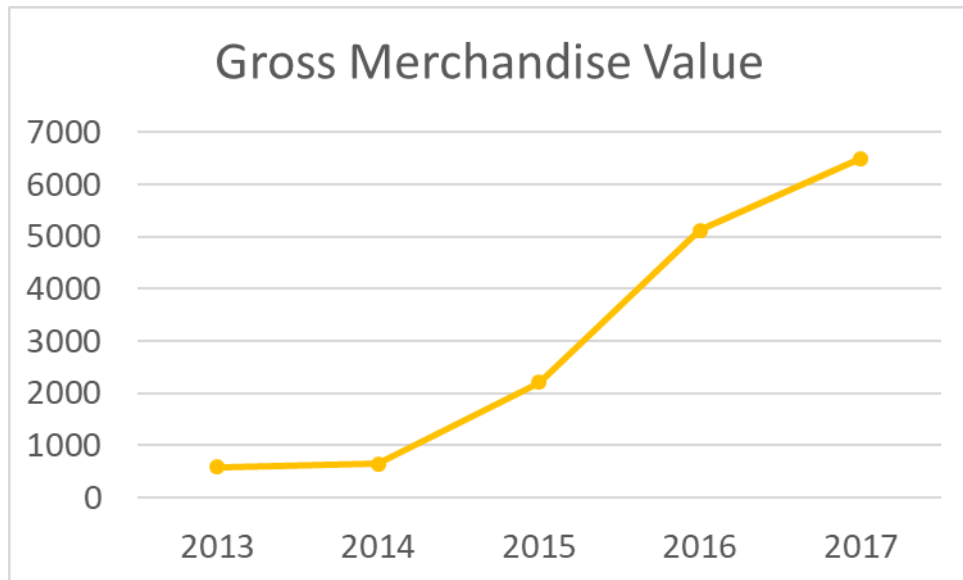


Revenue Increasing, Profits Decreasing
Goal to be EBITDA Positive in 12-18 Months

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

Product	Revenue	% of Gross Margin	% of Transactions
Furniture	80%	45 %-55 %	30%
Décor	20%	30 %-50 %	70%
Utilities		5 %-25%	

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

	Make Money	Cut Cost	Efficiency
Increase profitability	+	-	+
Strengthen brand & leadership position	-	-	+
Respond to competition	-	+	+
Maintain value proposition	+	-	+

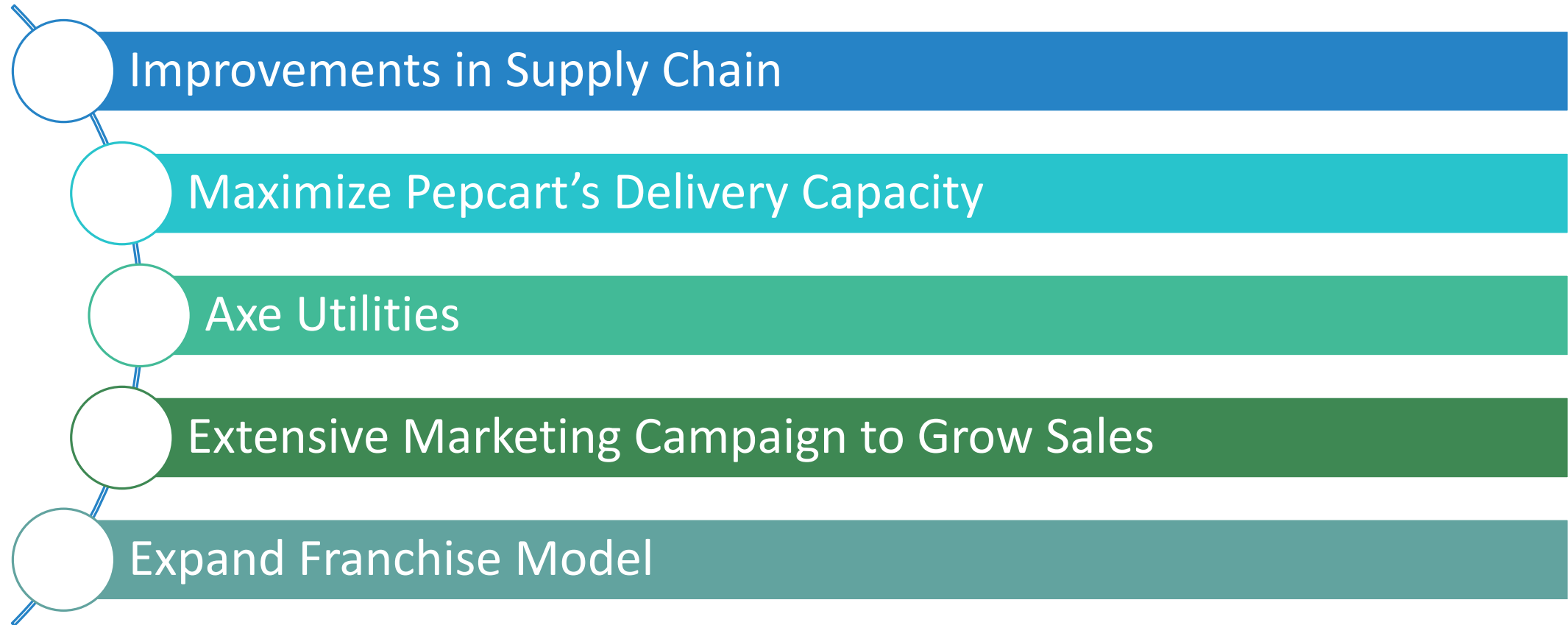
Recommendation

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

Implementation Plan

ALLISON PENTON

Implementation Plan



Timeline

Phase 1: 0-12 months

- Improvements in supply chain
- Maximize Pepcart's delivery capacity

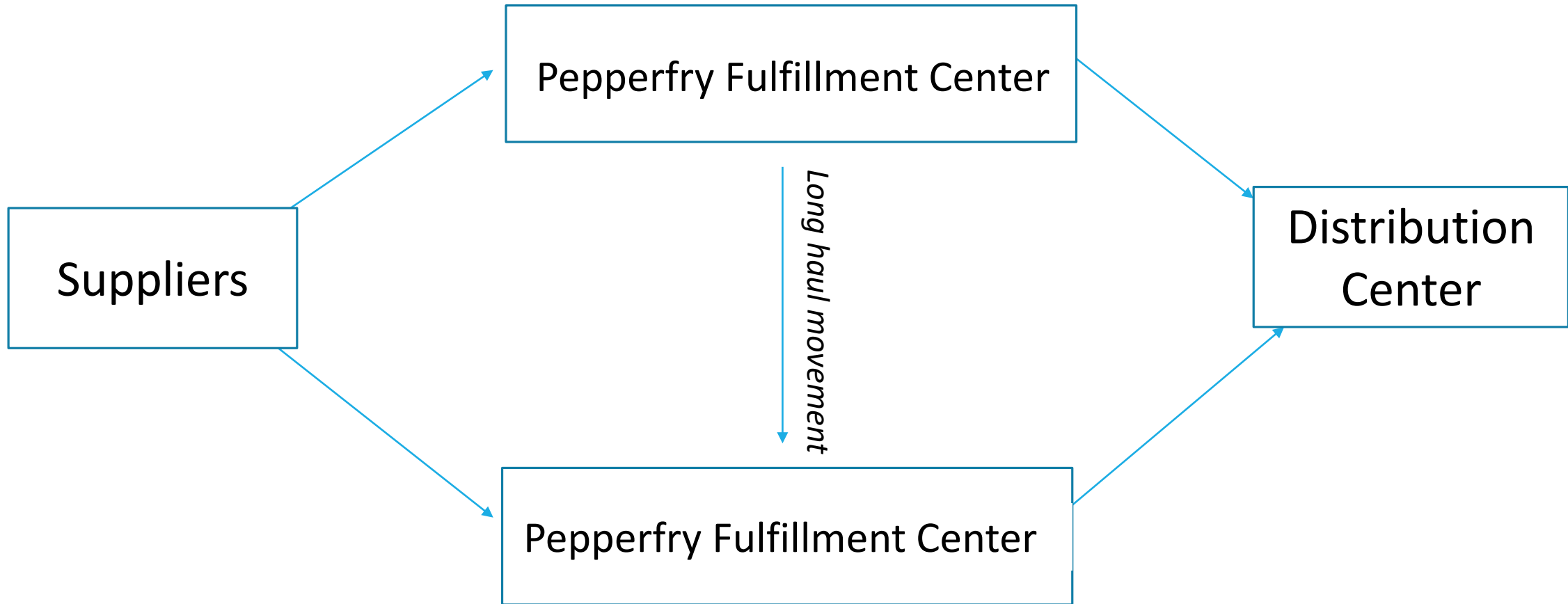
Phase 2: 12-18 months

- Focus on décor and furniture
- Roll out digital marketing campaign

Phase 3: 18-24 months

- Expand franchise model

Supply Chain



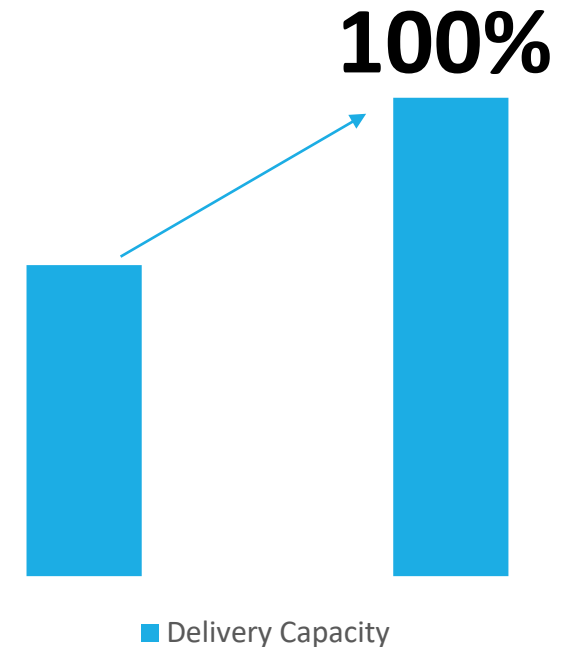
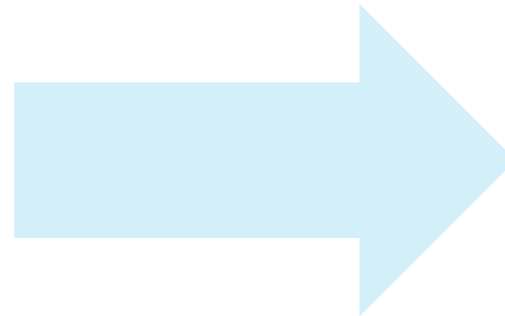
Pepcart Push

Offer delivery services to other companies for transporting large electrical goods

Utilize 400 trucks

Sign contract with Pepcart

Companies must delivery items to the Pepperfry's delivery warehouse



Axe Utilities

Creates more efficiencies by removing low margin products

Increased focus on high performing product categories

Pepcart still delivers utilities through auxiliary services

Marketing

Video Mini Series

CSR

Entrepreneurial

Highlight
Craftsmanship

Emphasize
Artisinal Value

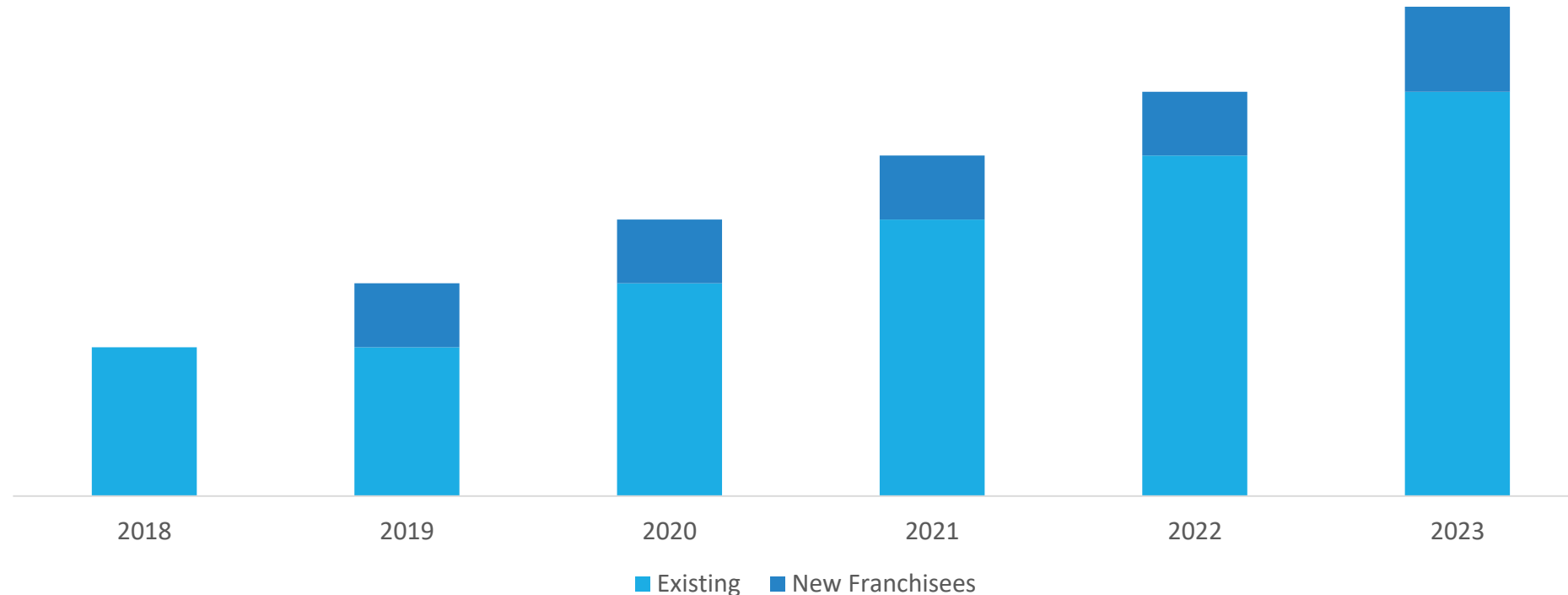
Marketing

*Made Locally,
Loved Locally*

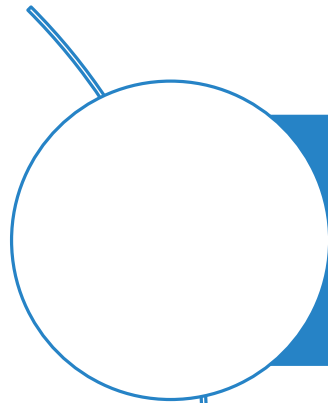


Expand Franchisee Model

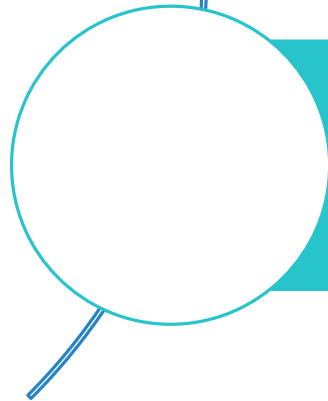
- 16 new studios by 2025
- Pepperfry defines interior store design
- Stores dictate showcase items
- 1,000-1,500 square feet



Talent Management



Strong vetting of new franchisee owners with aligned values



In-house interior design consultants

Financials

Risks & Mitigations

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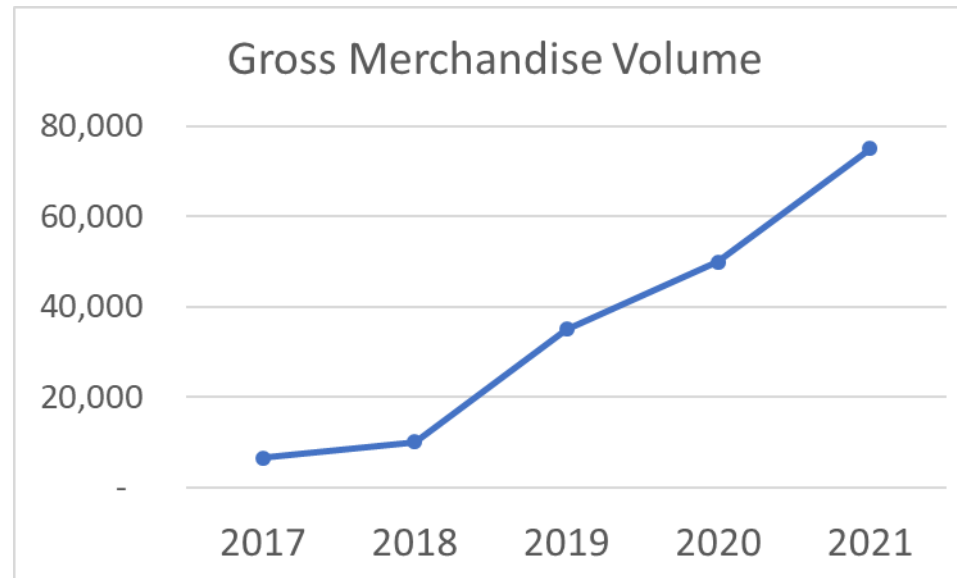
Financial Analysis

	2017	2018	2019	2020	2021	2022	2023
Revenue	2,580	2,967	3,412	3,753	4,129	4,541	4,996
Ad Franchise Fee Revenue	-	-	3	6	9	12	16
Ad New Store Revenue	-	5	15	30	45	60	80
Ad Delivery Service Revenue		30	40	50	60	70	80
Less: Utility Revenue		(1)	(1)	(1)	(1)	(1)	(1)
Total Revenue	2,580	3,001	3,469	3,838	4,242	4,682	5,171

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

Financial Analysis

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



Financial Analysis

	2018	2019	2020	2021
Operational Cost Improvements				
Improved Supply Chain	1,000	1,500	1,500	2,000
Dropping Utilities	1,000	1,000	1,000	1,000
Gross Margin	1	469	838	1,242
EBITDA	0	94	168	248

- Return to Profitability by 2019
- Return to Positive EBITDA by Q4 2019

Where is the money coming from?

Funds required	
Marketing	300
Talent Management	500
Logistics	150
Total	950

- **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

Increase profitability

Increased supply chain efficiency; additional revenue streams
EBITDA position by Q4 2019

Strengthen brand and leadership position

Capitalizing on core competencies
Expanding franchisees studios

Respond to competition

Focused on value proposition: **“Made Local, Loved Local”**

Maintain value proposition

Continuing to offer unique artisanal products

Questions?

THANK YOU!



Contingency Plan

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