Pepperfry.com: A company in need of remodeling

Amanda Rushton
Jesse Prent
Jonathan Faerman
Winnie Hu

JMSB Consulting
Agenda:

1. Introduction
2. Problem Statement
3. Recommendation
4. Analysis
5. Alternatives
6. Implementation
7. Financials
How can Pepperfry generate sustainable growth and attain profitability while retaining market lead?
Recommendations
Leverage capabilities to evolve business model and drive revenue
Leverage capabilities to evolve business model and drive revenue

Revamp supplier relations

- Stick to consistent set of suppliers
- In-house co-created designs based on consumer data
- Privilege program for unique seasonal designers
Revamp supplier relations
- Stick to consistent set of suppliers
- In-house co-created designs based on consumer data
- Privilege program for unique seasonal designers

Position to serve growing middle class
- Expand product catalog to curated tech offerings
- Consumer retention programs: Loyalty and Warranty
- Digital marketing strategy to target most profitable segments
Leverage capabilities to evolve business model and drive revenue

Revamp supplier relations
- Stick to consistent set of suppliers
- In-house co-created designs based on consumer data
- Privilege program for unique seasonal designers

Position to serve growing middle class
- Expand product catalog to curated tech offerings
- Consumer retention programs: Loyalty and Warranty
- Digital marketing strategy to target most profitable segments

Diversify revenue streams
- B2B logistics services
- Maintain studio growth plan → 46 in 2 years
Recommendations

- Stick to consistent set of suppliers
- In-house co-created designs based on consumer data
- Privilege program for unique seasonal designers

Analysis

- Expand product catalog to curated tech offerings
- Consumer retention programs: Loyalty and Warranty
- Digital marketing strategy to target most profitable segments

Alternatives

- B2B logistics services
- Maintain studio growth plan ➔ 46 in 2 years

Implementation

Financials

Leverage capabilities to evolve business model and drive revenue

Our plan will keep Pepperfry.com as industry leader and forge path to profitability
Variety and value alone won’t differentiate you

- UrbanLadder
- Pepperfry.com
- IKEA
- FabFurnish
- FlipKart
- Amazon
The market will demand greater tech integration backed by purchasing power

Trend Focused

Tech Solutions

- UrbanLadder
- IKEA
- FabFurnish
- Pepperfry.com
- FlipKart
- Amazon
The market will demand greater tech integration backed by purchasing power.

Trend Focused

- UrbanLadder
- IKEA
- FabFurnish
- Pepperfry.com
- FlipKart
- Amazon

Tech Solutions
The market will demand greater tech integration backed by purchasing power

**Trend Focused**

- UrbanLadder
- IKEA
- FabFurnish
- FlipKart
- Amazon

Tech Solutions

- Pepperfry.com
Middle class segment in India is beginning to reflect western counterpart

- Tech-savvy
- Style-conscious
- Indian Consumer
- Buying Power
- Urban and mini-metro
Middle class segment in India is beginning to reflect western counterpart

- Style-conscious
- Indian Consumer
- Tech-savvy
- Buying Power
- Urban and mini-metro
Middle class segment in India is beginning to reflect western counterpart

- Tech-savvy
- Indian Consumer
- Buying Power
- Style-conscious
- Urban and mini-metro
Middle class segment in India is beginning to reflect western counterpart

- Tech-savvy
- Style-conscious
- Indian Consumer
- Urban and mini-metro
- Buying Power
Middle class segment in India is beginning to reflect western counterpart

- Tech-savvy
- Indian Consumer
- Buying Power
- Style-conscious
- Urban and mini-metro
Middle class segment in India is beginning to reflect western counterpart

- Tech-savvy
- Indian Consumer
- Buying Power
- Style-conscious
- Urban and mini-metro

Movement towards embracing e-tail

Engaged consumers on mobile – Smart home growing trend

80% of market untapped by Pepperfry.com
Middle class segment in India is beginning to reflect western counterpart

- Tech-savvy
- Indian Consumer
- Buying Power
- Style-conscious
- Urban and mini-metro

Movement towards embracing e-tail

Engaged consumers on mobile

80% of market untapped by Pepperfry.com

Pepperfry.com must continue to use its tech capabilities to penetrate
Many potential mobile-friendly touchpoints in target consumers’ day

- Wake up: Mobile (social media)
- Commute: OOH (public transportation)
- At Work: Web, ECRM
- Lunch: OOH / Mobile
- Dinner: Social Media, OOH
- Relaxation / Family Time: Social Media, Web
Many potential mobile-friendly touchpoints in target consumers’ day

- **Wake up**: Mobile (social media)
- **Commute**: OOH (public transportation)
- **At Work**: Web, ECRM
- **Lunch**: OOH / Mobile
- **Dinner**: OOH / Mobile
- **Relaxation / Family Time**: Social Media, Web

Focus on digital touchpoints throughout customer’s day
Financial challenges originate at start of supply chain

- Pepperfry.com supplier consulting
- Suppliers
- Operations (Warehousing, packaging)
- Distribution
- Technology
- Marketing
- Follow Up
Recommendations

Analysis

Alternatives

Implementation

Financials

Financial challenges originate at start of supply chain

Pepperfry.com supplier consulting

Suppliers

Operations (Warehousing, packaging)

Technology

Distribution

Marketing

Follow Up

Average turnover
~ 1000 suppliers/yr

High setup / maintenance costs
Financial challenges originate at start of supply chain

- **Suppliers**
  - Average turnover ~ 1000 suppliers/yr
  - High setup / maintenance costs

- **Operations (Warehousing, packaging)**
  - Low inventory
  - Automated sourcing
  - Industry-leading packaging solutions

- **Distribution**
  - Logistic capabilities

- **Marketing**
  - Last-mile coverage

- **Technology**
  - Pepperfry.com supplier consulting

- **Follow Up**
  - Top management hands-on delivery
Financial challenges originate at start of supply chain

**Pepperfry.com supplier consulting**

**Suppliers**
- Average turnover: ~ 1000 suppliers/yr
- High setup / maintenance costs

**Operations (Warehousing, packaging)**
- Low inventory
- Automated sourcing
- Industry-leading packaging solutions

**Distribution**
- Logistic capabilities
- Last-mile coverage
- Top management hands-on delivery

**Marketing**
- Content creation
- 50:50 digital / offline
- Brand recognition

**Technology**
- Consumer data capture

**Follow Up**
- 55 – 60% of transactions are repeat customers

---

- **Recommendations**
- **Analysis**
- **Alternatives**
- **Implementation**
- **Financials**
Recommendations

Analysis

Alternatives

Implementation

Financials

Financial challenges originate at start of supply chain

Pepperfry.com supplier consulting

Suppliers

Operations (Warehousing, packaging)

- Average turnover ~ 1000 suppliers/yr
- High setup / maintenance costs
- Low inventory
- Automated sourcing
- Industry-leading packaging solutions

Distribution

- Logistic capabilities
- Last-mile coverage
- Top management hands-on delivery

Marketing

- Content creation
- 50:50 digital / offline
- Brand recognition

Technology

- Consumer data capture

Follow Up

- 55 – 60% of transactions are repeat customers

Reduce costs related to supplier and leverage strong logistics
Financial Analysis
Attract customers through simple products and upsell to furniture

Revenue: INR 2.5Bn

- Décor: 20%
  - INR 500M

- 3rd party Furniture
  - INR 700M

- House Brands
  - INR 700M

- Studios
  - INR 500M

Transactions: 300K

- 200K
  - 43K
  - 14K

- 43K

- Entry Point
- Lot’s of suppliers
- Low Basket Size: INR 2.5K
- Value Added
- Possibility to streamline
- Large Basket Size: INR 18K/36K

Concentrate on value added products and simplify supply chain
Business still loses money in line with revenue growth

**Revenue and Losses**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>341</td>
<td>-</td>
</tr>
<tr>
<td>2014</td>
<td>439</td>
<td>-</td>
</tr>
<tr>
<td>2015</td>
<td>992</td>
<td>-</td>
</tr>
<tr>
<td>2016</td>
<td>2,001</td>
<td>-</td>
</tr>
<tr>
<td>2017</td>
<td>2,580</td>
<td>-</td>
</tr>
</tbody>
</table>

Profit Ratio: -96%

200K customers
12,900 INR rev/customer
5,000 Acquisition cost

Turnaround the business with value added products and simplification
Alternatives
No profit resulting from reliance on retail

Evolve business model

Supply Chain
- Costs too much to organized disorganized marketspace

Revenue Streams
- Current revenue streams do not overcome costs

Competition
- New competition entering the home décor and furniture market
Enter B2B Marketspace

Criteria
- Feasibility
- Growth
- Profitability

Become a manufacturing company

Monetize Logistics Center

Streamline Operations

Position for growth by simplifying supply chain
Suppliers stop working with you: Source other suppliers with Retrench and grow house brands

International Competition: Marketing of artisanal furniture Reposition and change catalogue

Lack of capacity for logistics: Add more trucks Retrench and return to B2C
Implementation Plan

JMSB Consulting
Our plan will keep Pepperfry.com as industry leader and forge path to profitability
Immediate action is needed to decrease costs and maintain business viability.

**Recommendations**

**Implementation Plan at a Glance**

<table>
<thead>
<tr>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revamp supplier relations</td>
<td>Reduce # suppliers</td>
<td>Set list of suppliers</td>
<td>Privilege Program for seasonal designers</td>
<td>Co-creation design feature on app</td>
</tr>
<tr>
<td>Position to serve growing middle class</td>
<td>Tech/Smarthome product offerings</td>
<td>Trust program to increase revenue per customer</td>
<td>App-based loyalty program</td>
<td></td>
</tr>
<tr>
<td>Diversity revenue streams</td>
<td>Digital campaign to target profitable personas</td>
<td>Offer B2B logistics: trucking, pick-up services</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>20 studios</td>
<td>26 studios</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Revamp supplier relations
  - Reduce # suppliers
  - Privilege Program for seasonal designers
  - Co-creation design feature on app
- Position to serve growing middle class
  - Tech/Smarthome product offerings
  - Trust program to increase revenue per customer
  - App-based loyalty program
- Diversity revenue streams
  - Digital campaign to target profitable personas
  - Offer B2B logistics: trucking, pick-up services
  - 20 studios
  - 26 studios
Immediate action is needed to decrease costs and maintain business viability.
**Cut costs by changing sourcing structure**

- **Top 20% of suppliers**
- **Privilege program for seasonal designers**
- **Pepperfry to provide design**
- **Co-creation of designs on website**

**Variety:** Limited run seasonal designs through unique collaborations

**Value:** Use data and crowdsourcing to identify popular design trends

- **Reduce first mile pick-up costs**
- **Reduce supplier training and set-up costs**

Maintain oversight and offer in-demand products at a lower cost
Target profitable personas through expanded catalog and digital marketing

Product portfolio: audio, video, home theatre, smart-home devices

Targeted digital campaign based on lifestyle: Facebook and Instagram (videos, content, influencers)

Targeted digital marketing is best way to reach your consumers
Customer engagement through loyalty and trust programs

**Loyalty Program**
- App-based: sign-in required
- Point-based: $1 = 2 points
- Trade points for discounts or digital interior design consultations

**Trust Program**
- 100-day full money back guarantee
- Encourage product testing
- Small percentage of returns

Relationship-building will keep consumers loyal as competitors enter market
**Introduce new revenue stream by leveraging logistics capabilities**

- **Hire 2 sales people**
- **Offer long-haul services, pickup services**
- **Increase revenue**

Target: Hometown

New key activity will provide additional revenue and maximize asset utility
Maintain studio expansion plan: 46 studies in ~2 years

2019: 20 studios → 2020: 26 studios

Additional studios showcase expanded product offerings and send strong signals prior to IPO.
Financials
Diversify and expand revenue sources

- 50% Gross Margin
- 2.6 Bn INR
- 0.2Bn

- Electronics
- 0.5Bn

- Furniture
- 2Bn

- Decor
- 0.5Bn

- Trust Program
- 0.2Bn

- Marketing
- 0.2Bn

- 2B2
- 0.2Bn

- 4.3 Bn INR

65% Gross Margin
19,500 INR per Customer

Improve profitability by simplifying operations and expanding revenue sources
**Year 1 break even and ready for sustainable growth**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>4.3</td>
<td>6.4</td>
<td>7.1</td>
<td>7.8</td>
<td>8.6</td>
</tr>
<tr>
<td>Cost</td>
<td>1.5</td>
<td>2.2</td>
<td>2.5</td>
<td>2.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Extra Cost</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Overheads</td>
<td>2.7</td>
<td>4.0</td>
<td>4.4</td>
<td>4.8</td>
<td>5.3</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>0</td>
<td><strong>1.25</strong></td>
<td><strong>1.6</strong></td>
<td><strong>2.1</strong></td>
<td><strong>2.6</strong></td>
</tr>
</tbody>
</table>

**IPO:**
- Value: 8Bn INR
- 2K INR Share Price
- 4MM Shares
Our plan will keep Pepperfry.com as industry leader and forge path to profitability

**Recommendations**

**Revamp supplier relations**
- Stick to consistent set of suppliers
- In-house co-created designs based on consumer data
- Privilege program for unique seasonal designers

**Position to serve growing middle class**
- Expand product catalog to curated tech offerings
- Consumer retention programs: Loyalty and Warranty
- Digital marketing strategy to target most profitable segments

**Diversify revenue streams**
- B2B logistics services
- Maintain studio growth plan → 46 in 2 years

**Leverage capabilities to evolve business model and drive revenue**