Building the Pepperfry portfolio

LUSEM Consulting Group
Lund University School of Economics and Management
Ella Zhao, Hanna Rasmusson, Samuel Spjuth & Erik Mansson
1/8/2019

Presenting to:
The Board of Pepperfry
“To stay the same you need to change”
Creating a powerful portfolio to hedge market position

- Leveraging core competences
- Focusing brand identity
- Creating strong position to resist global competition
Portfolio growth resulting in financial uplifts

- Revenue 10 b INR
- 25 000 m GMV
- Profitable in 1 year

Profitable in 1 year
<table>
<thead>
<tr>
<th>Situation as of right now</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pepperfry</strong></td>
</tr>
<tr>
<td>Disruptive startup</td>
</tr>
<tr>
<td>Integrated supply chain</td>
</tr>
<tr>
<td>Capitalizing on growing digital class</td>
</tr>
</tbody>
</table>
How did we end up here?

Growing online market in India

Technology capturing fragmented market

Major global players coming into India
Main current challenges

Profitability
- Positive EBITA in 12-15 months

Market position
- Keep market leadership

Brand focus
- Leverage brand differentiation
Main Challenge

• How can Pepperfry drive stable bottom line growth to sustain competitive advantage in a changing market

Recommendation

• Creating the Peppery brand portfolio: Driving curated Indian heritage furniture, private label furniture and delivery as a spin off.
The analysis outlook

- Trends
- Customer
- Market

- Situation
- Analysis
- Alternatives
- Recommendation
- Implementation
- Financials
- Risks
- Conclusion
Starting with the customer

• Young professionals in growing urban areas
• Tech-savvy, m-commerce friendly
• Growing desire for interior design and homed furnishing

• 55-60% repeat purchases
• +60 NPS
• Behavior synergies with secondary target group
Market forces of a growing Indian furniture industry

Consumers demanding more quality and shorter lead times

Indian furniture industry

Market value
$35b (2020)

Consumers demanding more quality and shorter lead times

Online penetration
Prognosis 121 million shopper (2020)
CAGR: 10%
First glance on the Indian competitive landscape

- **Vertical**
  - IKEA
  - Livespace, Homeland
  - Online startups
  - Online rental
  - Amazon, Flipkart

- **Horizontal**
  - Pepperfry
  - Online startups
  - Online rental
  - Amazon, Flipkart

- **Offline**
  - IKEA
  - Horizontal players with limited focus on furniture

- **Online**
  - IKEA
  - Livespace, Homeland
  - Online startups
  - Online rental
  - Amazon, Flipkart

- **Recommendation**
Building Indian heritage as competitive advantage

**Situation**

**Analysis**

**Alternatives**

**Recommendation**

**Implementation**

**Financials**

**Risks**

**Conclusion**

- Indian heritage

- Online

- Offline

- Large domestic retailers

- Livespace, Homeland

- IKEA

- Pepperfry

- Amazon, Flipkart

- Global outlook
The possible routes forward

- **Vertical integration**
  - Driving value chain synergies by acquiring manufacturers and driving bottom line

- **Private label**
  - Tracking consumers behavior and developing private label (house brand) accordingly

- **Build portfolio**
  - Refocus Pepperfry to Indian heritage, drive private label through separate acquired brand and create spinoff with big box delivery
The evaluation criteria's for alternative routes

1. Drive brand engagement and stickiness
2. Sustain competitive advantage
3. Drive bottom line growth
Evaluating the routes forward for Pepperfry

1. Drive brand engagement and stickiness
2. Sustain competitive advantage
3. Drive bottom line growth
Main Challenge

• How can Pepperfry drive stable bottom line growth to sustain competitive advantage in a changing market

Recommendation

• Creating the Peppery brand portfolio: Driving curated Indian heritage furniture, private label furniture and delivery as a spin off.
Explaining the recommendation in three steps

**Situation**

Refocus pepperfry to Indian heritage driving engagement through manufacturing stories

Aquire HomeLane to drive Pepperfry private labels through

Create Spin-off of Pepperfry delivery

**Key objectives**

GMV: 7 fold
Conversion rate: Increase 20%

Synergy: INR 57 Million

Being no 1 in large box distribution
The three implementation building blocks

- **GMV**: 7 fold
  - Conversion rate: Increase 20%
  - Pepperfry brand

- **Synergy**: IHR 63 Million
  - Homeland by Pepperfry

- **Being no 1 in large box distribution**
  - Pepperfry Delivery
## Separating Pepperfry from House Brands

### Situation
- Pepperfry “For India, by India”
- Integrate house brands by acquiring HomeLane

### Analysis
- Marketing
- IT

### Alternatives
- Video campaign
- Bloggs
- Website content
- Designer story

### Recommendation
- 2 million
- 0.8 million
- 100,000

### Implementation
- Refocus Pepperfry Brand

---

<table>
<thead>
<tr>
<th>INR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 million</td>
</tr>
<tr>
<td>0.8 million</td>
</tr>
<tr>
<td>100,000</td>
</tr>
</tbody>
</table>

---
Tech-driven Growth with acquisition

HomeLane by Pepperfry

- Aquire HomeLand & rename to HomeLane by Pepperfry
- Integrate 10 house brands into HomeLane
- Investment, bank, law firm & investors
- Post acquisition management
- Culture integration
- Synergy
- Showrooms in 10 cities
- 3D virtual platform
- 5% x aquisition
- Reconstructing 33 million
- Synergy 57 million
- Growth of synergy

INR
Grow B2C big-box logistic arm

Pepperfry delivery

• Prepare “big-box” department for spinoff
• Secure department manager
• Workshops
• Hub & Spoke distribution model
• Smaller cities
• 5 million manager salary
• Organic growth

INR

Situation
Analysis
Alternatives
Recommendation
Implementation
Financials
Risks
Conclusion
Timeline

<table>
<thead>
<tr>
<th>INR</th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing &amp; IT</td>
<td>3m</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition 2.5 billion</td>
<td></td>
<td></td>
<td>Synergy: 57 million/year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spinoff</td>
<td>334 m</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Timeline

<table>
<thead>
<tr>
<th>INR</th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing &amp; IT</td>
<td>3m</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Investments

<table>
<thead>
<tr>
<th></th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refocus Pepperfry brand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rearrange website</td>
<td>6,670,000.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>2,000,000.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8,670,000.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Timeline

### Acquisition 2.5 billion
- **Acquisition of Homelane**
  - **17/18**: 3,825,000,000.00 INR
  - **18/19**: 
  - **19/20**: 
  - **20/21**: 
  - **21/22**: 

- **Reorganisation**
  - **17/18**: 33,350,000.00 INR
  - **18/19**: 
  - **19/20**: 
  - **20/21**: 
  - **21/22**: 

- **Integration of Housebrands**
  - **17/18**: 33,350,000.00 INR
  - **18/19**: 
  - **19/20**: 
  - **20/21**: 
  - **21/22**: 

### Synergy: 57 million/year
- **17/18**: 57,602,800.00 INR
- **18/19**: 69,995,416.00 INR
- **19/20**: 85,058,407.52 INR
- **20/21**: 103,368,057.17 INR
- **21/22**: 125,625,189.75 INR

### Total costs
- **17/18**: 3,891,700,000.00 INR
- **18/19**: 
- **19/20**: 
- **20/21**: 
- **21/22**: 

### Net costs
- **17/18**: 3,834,097,200.00 INR
- **18/19**: (69,995,416.00) INR
- **19/20**: (85,058,407.52) INR
- **20/21**: (103,368,057.17) INR
- **21/22**: (125,625,189.75) INR
## Timeline

<table>
<thead>
<tr>
<th>INR</th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spinoff costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pepperfry delivery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spin-off costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organisational matters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Implementation costs

<table>
<thead>
<tr>
<th>Total investments</th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
<th>Column2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refocus Pepperfry brand</td>
<td>8,670,000.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of Homelane</td>
<td>3,834,097,200.00</td>
<td>(69,995,416.00)</td>
<td>(85,058,407.52)</td>
<td>(103,368,057.17)</td>
<td>(125,625,189.75)</td>
<td>-</td>
</tr>
<tr>
<td>Pepperfry delivery</td>
<td>-</td>
<td>338,500,000.00</td>
<td>5,000,000.00</td>
<td>5,000,000.00</td>
<td>5,000,000.00</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>3,842,767,200.00</strong></td>
<td><strong>268,504,584.00</strong></td>
<td><strong>(80,058,407.52)</strong></td>
<td><strong>(98,368,057.17)</strong></td>
<td><strong>(120,625,189.75)</strong></td>
<td><strong>3,812,220,129.55</strong></td>
</tr>
<tr>
<td>Total investments wihout synergy</td>
<td>3,900,370,000.00</td>
<td>338,500,000.00</td>
<td>5,000,000.00</td>
<td>5,000,000.00</td>
<td>5,000,000.00</td>
<td>4,253,870,000.00</td>
</tr>
</tbody>
</table>

**Total investments needed:**
IRN 4.3 bn

**Funding:** use 2.5 bn new funds plus old funds
Revenue growth

**Revenue per brand**

- Total Pepperfry
- HomeLane by Pepperfry
- Pepperfry delivery

**Total CAGR of 30%**

**IRN 10 billion in 2022**
Improving margins

Profit margin

- 0%
- 5%
- 10%
- 15%
- 20%
- 25%

17/18 18/19 19/20 20/21 21/22

Profit margin
Increased GMV

<table>
<thead>
<tr>
<th>Year</th>
<th>GMV</th>
</tr>
</thead>
<tbody>
<tr>
<td>17/18</td>
<td>9,678.48</td>
</tr>
<tr>
<td>18/19</td>
<td>12,517.88</td>
</tr>
<tr>
<td>19/20</td>
<td>15,510.57</td>
</tr>
<tr>
<td>20/21</td>
<td>19,270.40</td>
</tr>
<tr>
<td>21/22</td>
<td>24,017.21</td>
</tr>
</tbody>
</table>
Investments paid back in 3 years

<table>
<thead>
<tr>
<th>Financials</th>
<th>Situation</th>
<th>Analysis</th>
<th>Alternatives</th>
<th>Recommendation</th>
<th>Implementation</th>
<th>Financials</th>
<th>Risks</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>(4,000,000,000.00)</td>
<td>(3,000,000,000.00)</td>
<td>(2,000,000,000.00)</td>
<td>(1,000,000,000.00)</td>
<td>Payback</td>
<td>Profit</td>
<td>(1,000,000,000.00)</td>
<td>(2,000,000,000.00)</td>
<td>(3,000,000,000.00)</td>
</tr>
<tr>
<td>17/18</td>
<td>18/19</td>
<td>19/20</td>
<td>20/21</td>
<td>21/22</td>
<td>17/18</td>
<td>18/19</td>
<td>19/20</td>
<td>20/21</td>
</tr>
</tbody>
</table>
Building the Pepperfry portfolio

Situation

Alternatives

Recommendation

Implementation

Financials

Risks

Conclusion

Risks

Mitigation

1. Employee resistance post acquisition
   - Invest in culture work

2. Investor impatience pre IPO
   - Driving stable growth through 3 separate entities

3. Mallfunctioning brand cross synergies (Pepperfry and HomeLane)
   - Brandbuild as separate entities, benefit from internal consumer insight synergies
Main Challenge

• How can Pepperfry drive stable bottom line growth to sustain competitive advantage in a changing market

Recommendation

• Creating the Peppery brand portfolio: Driving curated Indian heritage furniture, private label furniture and delivery as a spin off.
Current challenges catered with recommendation

- **Profitability**
  - Positive EBITA in 12

- **Market position**
  - Strong market portfolio position

- **Brand focus**
  - Leveraging brand differentiation
Creating a powerful portfolio to hedge market position

- Leveraging core competences
- Focusing brand identity
- Creating strong position to resist global competition

The Pepperfry portfolio

- Pepperfry.com
- HomeLane by pepperfry
- Pepperfry delivery

Leveraging core competences
Focusing brand identity
Creating strong position to resist global competition
“To stay the same you need to change”
Appendix 1: Bail-out plan

Divest in Homelane with existing private label portfolio

-> Reinvest:
  60% Delivery
  40% Pepperfry