Pepperfry: Building a stronger India

AMBAREESH MURTY, ASHISH SHAH COFOUNDBERS
MUMBAI, INDIA 2018
SHANNON SNADE, KATHLEEN BOSKILL, ALE BERMUDEZ, MORGAN HARPER
Our Recommendation

- Privilege Program: Grow program to 10,000 partners by offering 2-5% commission, host a preferred supplier conference yearly and invite our top 100 selling suppliers with networking opportunities.

- Lifestyle positioning: from #1 e-tailer of furniture to bricks and clicks for all life stages. Made in India marketing campaign.

- Suppliers – Pepper fry makes small businesses grow. Important to keep trust, help grow, building connections to our brand.
You asked:

- How could Pepperfr build and better utilize new revenue channels to pave the way to profitability and, eventually, an initial public offering (IPO)?
- How could it keep innovating to strengthen its position as an omnichannel powerhouse?
- How could it respond to competition from international entrants like Ikea and domestic platforms like Flipkart? Could the disrupter be disrupted?
### Executive Summary

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<th>Issue</th>
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| Growth                        | Franchises: 30 new stores by 2020 in tier ½ cities near existing distribution centers  
Suppliers: Entrepreneurial, bundle/slotting fee non-house brands  
Customers: Increase basket size from INR 2500 Bundle/product recommendations, referrals, reviews, suggested items  
Rentals: Target university students with student line |
| Revenue Channels              | Commission to members of Privledge program                                       |
| Responding to Competitors     | Strong first mover advantage buy growing physical locations                       |
| Innovation                    | Improve warehouse efficiencies through automation warehouse tracking, Kanban levels with automatic reorder suggested discontinue, data analytics |

**double number of physical stores to improve profitability**
10,000 foot view

- Delivery is a challenge in India
- Standardization and transparency on product, quality and pricing
- Tight cost control
- Helps small non-branded suppliers reach consumers
Assumptions

- Current supply chain software in place with re-order ability
- Customer data entered everytime they enter a physical store whether or not purchase an item
- Return policy and warranty in place
- Assume privilege program’s biggest market is 40-50 year old
- Assume app and website are mobile-friendly and effective for reaching suppliers as well as customers
- Assume small brands are interested in being house brands
- Assume 77 rupees to $1 USD
- Assume growth-hacking principles AARRR
Where are we now?

- Grew the online furniture business
- Growth stage
  - Growth rate of 65% CAGR to reach 2.58 billion
  - Still experiencing overall losses

Pepperfry is well positioned for growth
Suppliers
• Provide the products for customers
• Pepperfry: Sets them up, get them on their feet

Customers
• Provide new products out of their physical reach
• More value and variety to their lifestyles

Bridging the gap: Value and Variety

Pepperfry need to take care of both these channels for growth
Industry

- Word of mouth and trust are critical to success
- Have a local customer
- It is a 90% unorganized, highly fragmented, non-standardized and largely non-branded
- Only 1% online
Relationships are key

- People buy from who they trust
- Who they buy from
- What they buy

- Who they do business with
- How they engage in business

Building relationship is what establishes trust with suppliers and customers
### Decision Criteria

<table>
<thead>
<tr>
<th></th>
<th>Growth</th>
<th>Future Valuation</th>
<th>Competition</th>
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<tbody>
<tr>
<td><strong>Deep</strong></td>
<td><img src="Green.png" alt="Green" /></td>
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Building relationship is what establishes trust with suppliers and customers.
Deep – Home Decor and Furniture

- You have the expertise
- Need to focus to grow
- Complementary products and have not exploited it fully
- Keep developing trust
- Grow franchises
DO NOT DO – Broad

- Spread yourself too thin
- Will have variety but will it add value?

STOP!!!

DO NOT DO – It will spread you too thin
DO NOT DO – Go international

- Need to focus on home country and fix issues within first before diversifying

STOP!!!
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Filling the empty spaces
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Gross margins | 45 to 55%
Contribution margins | 25%
Costs | 33%
Marketing costs | 800 to 100 million INR
# Proposed revenue channels

<table>
<thead>
<tr>
<th>Home decor</th>
<th>Furniture</th>
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<tbody>
<tr>
<td><strong>Average sales price</strong></td>
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**Slotting fees**  
For not house brands

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Cost of implementation

- Marketing costs: 150 million
- Supplier conference
- Distribution automatization:
Expected performance

Haskayne Consulting

2018 - 50,000 BILLION INR
2019 - 100,000 BILLION INR
2020 - 17%
2021 - EBITDA MARGIN
2022 - 17%
Out of the box

- Create a financial arm to help franchisees spin off
- 5 years IPO
- 3rd party logistic operations
- Robotic process automation
Adding Charm

Morgan
Pepperfry.com a solution for life

Rental Market

Existing Pepperfry.com website

Privilege Program
Pepperfry.com website recommendations

- Word of Mouth is Key in Industry
  - Testimonials of customers and suppliers
- Increasing basket sizes
  - Product recommendations and reviews
  - Discounts for when you buy multiple products
- Adding pages for Rental and Privilege programs
Implementation: Building a Stronger India

- Adding page to website “Building a Stronger India”
  - Obtain bank loans
  - Educate on raw material procurement
  - Forecasting
  - Hiring the right people
Implementation: Made in India

- Using existing digital marketing channels and communicating the message of “Made in India”
- Increasing overall sales, of non house brand and house brand products
- House Brands
  - Provides great cost savings
  - Ties into government plan of Made in India campaign which provides manufactures with subsidies for making products in India
Implementation: Suppliers/Merchants

- Great model for building suppliers / merchants already
- Communicating this via your website will allow Pepperfry.com to attract new suppliers
- How to retain existing suppliers?
  - Annual Supplier conference
    - Top 100 sellers on the website
    - Continues education opportunities
    - Builds on the model of helping suppliers grow

Suppliers are a key component to the success of Pepperfry.com
Implementation: Growing Franchises

- Experience and feeling product is key in Industry
- Franchises provide a great model to allow customers to experience the product and build trust
- 30 new stores by 2020 in Tier 1 and 2 cities
- Achievable for existing team to source as franchise success will attract new potential franchise applicants
## Risks and Mitigation

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• Internal processes  
• Digital twins |
| Franchise Standards                | M      | M           | • Policies and Procedures  
• Cancellation clauses |
| Pepperfry.com brand reputation    | M      | M           | • Vetting new supplier products prior to launch |
| Logo on 3rd party trucks           | M      | M           | • Brand standards contracts  
• Ensuring |

Relationships with customers and suppliers are key to success.
Making it feel like home

MORGAN
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Feasible, implementable, realistic and achievable plan
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**FIVE-YEAR CAGR 65%**

### Gross margins
45 to 55%

### Contribution margins
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### Costs
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### Marketing costs
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### FUNDING
### Proposed revenue channels

#### Home decor

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**Furniture rental**
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  - INR 20%
  - 40%
Cost of implementation

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Expected performance

Expected revenue

BILLION INR

Expected revenue
GMV

YEARS
2018 2019 2020 2021 2022

EBITDA MARGIN
17%
Out of the box

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Pepperfry.com a solution for life

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