

# Refreshing our Home

Jacob Estrin  
Elizabeth Sackson

Graeme Whitaker  
Aleisha Dunn

**QUT Consulting**

# Problem

How do we realize the profitability from our disruptive initiative while maintaining market leadership?

# Key Issues

- Internal operations
  - **Costs 196% of revenue**
  - Core business costs
  - Distribution costs
  - Supplier relationships
- Market demands
  - End to end service
  - Potential for market disruption
  - Furniture rental market
  - **Customer value proposition**
- Competition
  - International
  - Domestic
  - Competitive advantage
  - **Value proposition**

# Solution

Simplify the business model to improve profitability while retaining supplier relationships.

Effective

Affordable

Achievable

Core Values

Overview

Analysis

Alternatives

Recommendation

Implementation

Conclusion

# Macro trends

- Growing middle class becoming more aesthetically home conscious
- Increased willingness to buy online – but want the option of touch and feel
- Large disorganised network of artisans – reduced digital literacy or means to scale product
- Increased number of horizontal platforms – but limited desire to discern quality of products or restrict offerings

# Strengths and weaknesses of Pepperfry

- Key strengths
  - Supplier relationships
  - Analytics driven inventory and pricing model
  - Building brand awareness and customer loyalty
  - Large foothold across India – 34 stores and 5M visitors
  - Governance and KPIs
  - Vertical integration
- Weaknesses
  - Currently running at a loss – driven by operational costs
  - Supplier complexity
  - Inability to pinpoint operational efficiencies

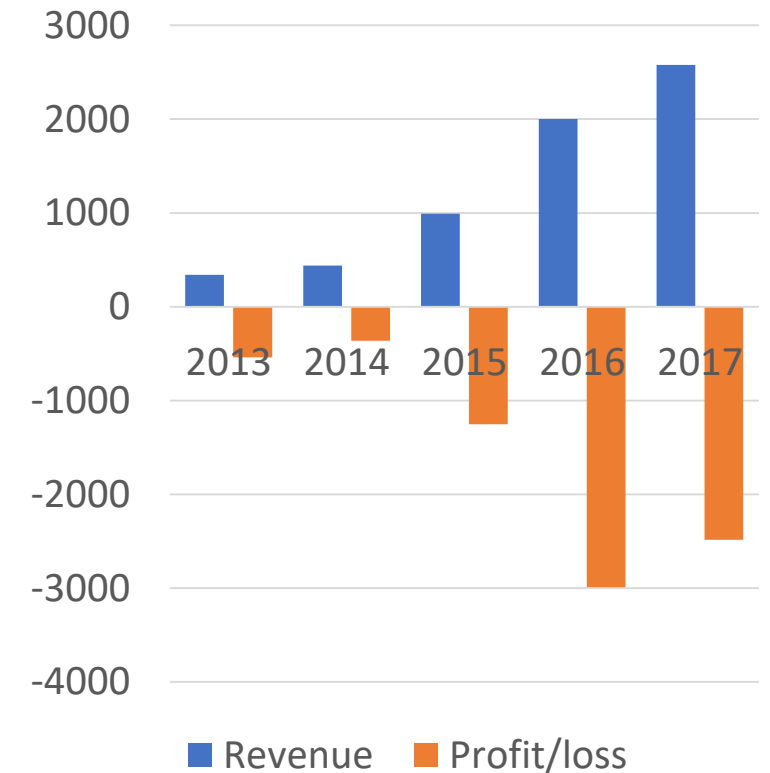
# Competitor analysis

Competitors	Customer experience	Product cost	Distribution network	Bespoke product	Product range	Product quality
Ikea	☐	✓	✗	✗	☐	☐
Flipcart	☐	☐	✓	✗	✓	☐
Amazon	☐	☐	✓	✗	✓	☐
Urban ladder	☐	✓	☐	✗	☐	☐
Livspace	✓	✗	✗	✓	☐	✓
Pepperfry	✓	✗	✓	✓	✓	✓

**Value proposition - status associated with bespoke artisan products delivered to your door and superior customer experience**

# Financial performance

	Utilities	Décor	Furniture
<b>Listings</b>		70,000	10,000
<b>Ave price</b>	1,500	2,500	18,000
<b>% revenue</b>		20%	80%
<b>% of transactions</b>	0.5%	70%	30%
<b>Gross margin</b>	15%	40%	50%
<b>GMV</b>		5,122	6,500
<b>Revenue</b>	\$ -	\$8,899,475	\$35,100,000
<b>Profit</b>	\$ -	\$3,559,790	\$17,550,000





# Alternatives

Sustainable re-  
leasing of used  
furniture

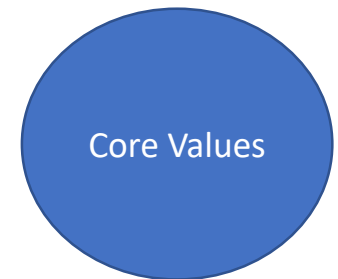
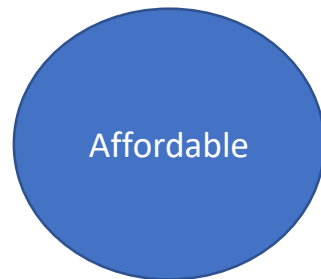
Move to a B2B  
model with  
distribution only

Create an interior  
design subscription  
model

Simplify the  
business model to  
improve  
profitability

# Alternative Analysis

Option	Cost	Timeframe	Success Criteria Factor
Sustainable re-leasing of used furniture	\$75M - \$100M INR	36 Months	2.3
Move to a B2B model with distribution only	\$200M - \$250M INR (Lost Revenue)	24 Months	2.0
Create an Interior Design Subscription model	\$25M – \$50M INR	12 Months	2.1
Simplify the business model to improve profitability	\$161M INR	15 Months	3.0



# Solution

Simplify the business model to improve profitability while retaining supplier relationships.

# Solution Pillars

Divest  
container  
manufacturing

Franchise the  
last mile  
delivery

Simplify  
onboarding of  
New Suppliers

Operational  
efficiency  
review

Overview

Analysis

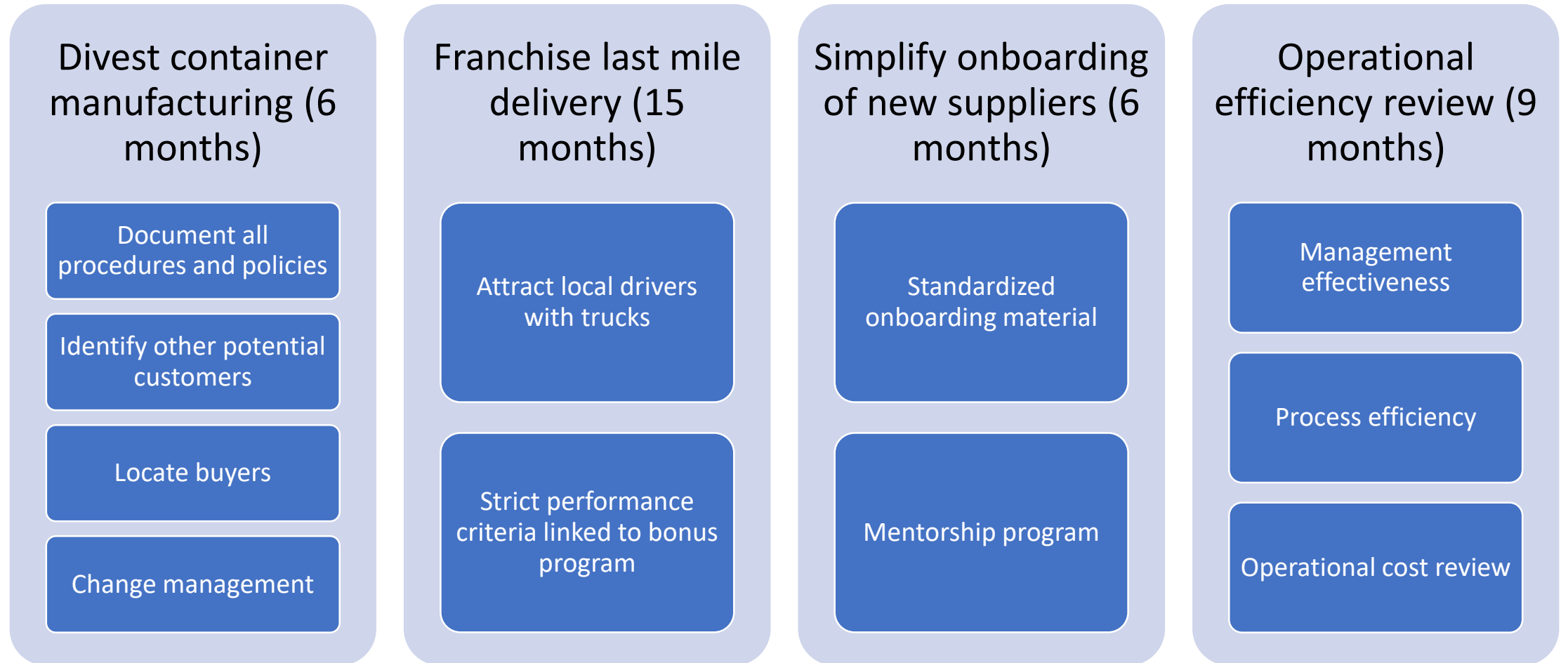
Alternatives

**Recommendation**

Implementation

Conclusion

# Implementation Overview



Divest container manufacturing

Franchise the last mile delivery

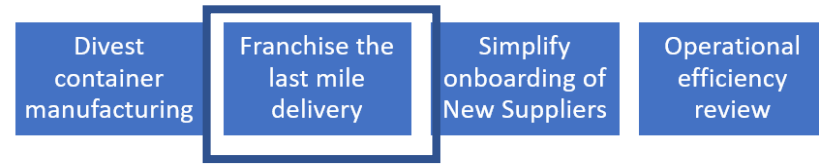
Simplify onboarding of New Suppliers

Operational efficiency review

# Divest Container Manufacturing

Item	Timeframe
Define and document as-is	3 months
Identify and contract other potential customers	3 months
Locate potential buyers	3 months
Prep conditions for sale	3 months
Negotiation and sale	3 months
Ongoing change management	6 months

Total Cost: 25.6 INR  
(6 Months/ 6 FTE)



# Last Mile Delivery

Item	Timeframe
Develop standards Develop terms and conditions	3 months
Locate 1 <sup>st</sup> round of franchisees	3 months
Training and onboarding	1 month
Monitoring and post implementation support	3 months
Check and adjust period	1 month
Locate 2 <sup>nd</sup> round of franchisees	6 months

Total Cost: 64M INR  
(10 Months/ 8 FTE)

Divest container manufacturing

Franchise the last mile delivery

**Simplify onboarding of New Suppliers**

Operational efficiency review

# Simplify onboarding of new suppliers

Item	Timeframe
Create online learning	3 months
Create supplier manual	1 month
Vet with existing suppliers	1 month
Check and adjust	1 month
Develop a network of coaches	3 months
Train customer service staff	1 month
Go Live	◆
Check and adjust	3 months

Total Cost:58.7 INR  
(6 Months/ 4 FTE)



Divest container manufacturing

Franchise the last mile delivery

Simplify onboarding of New Suppliers









Operational efficiency review

# Operational efficiency review

Item	Timeframe
Develop activity based costing model	6 months
Process map all core processes	6 months
Identify target areas for improvement	2 months
Develop Solutions	1 month
Develop business case	1 month
Go/No Go	

Total Cost: 12.8 INR  
(9 Months/ 10 FTE)

# Risk Analysis

Risk	Risk Rating		Mitigation	Mitigated Risk Rating	
Can't find a buyer for container manufacturer	Medium		Identify other potential customers	Low	
Degradation of delivery quality	Medium/High		<ul style="list-style-type: none"> <li>• Strict performance Criteria</li> <li>• Monitoring the system</li> <li>• Training</li> </ul>	Low/Medium	
Loss of stickiness with suppliers	Medium		<ul style="list-style-type: none"> <li>• Pulse Surveys</li> <li>• Monitor Attrition Rate</li> </ul>	Low/Medium	
Operational costs not reduced	Medium		<ul style="list-style-type: none"> <li>• Close analysis of operational costs</li> <li>• Dedicated project team</li> </ul>	Low	

# Contingency Plan

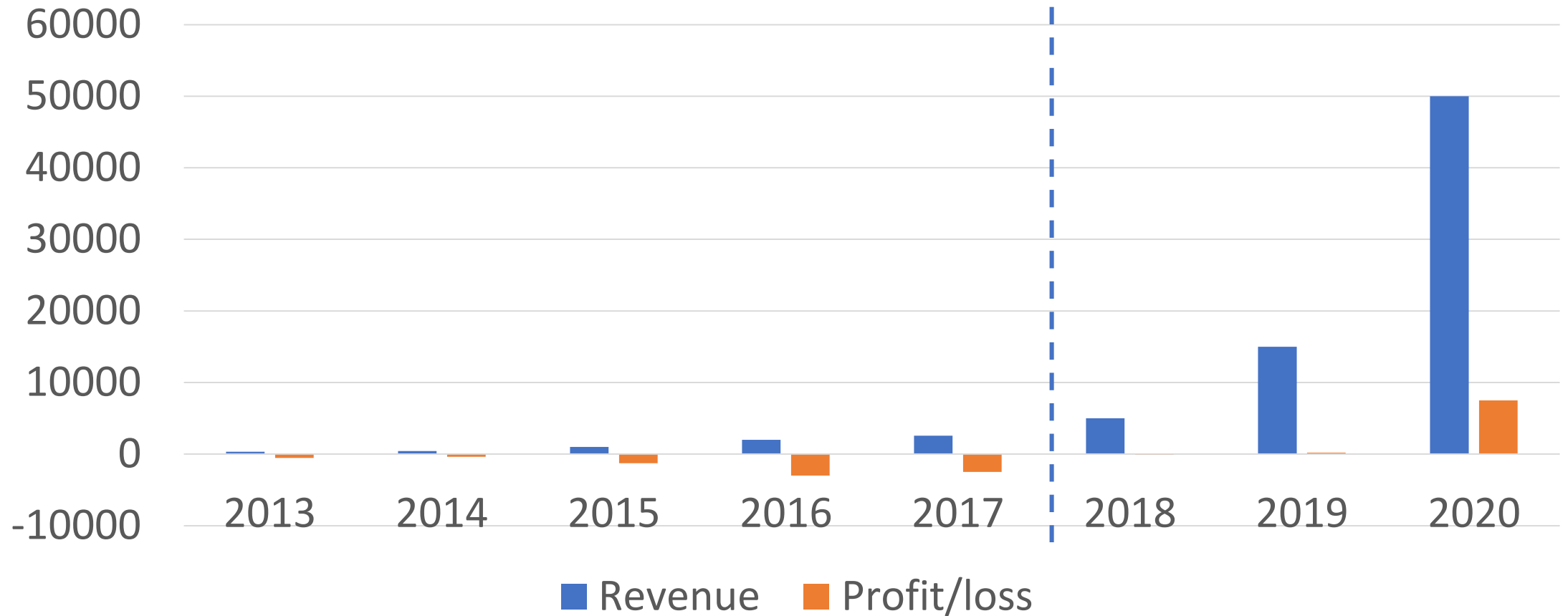
If we cannot divest the container manufacturing business, split it off to become its own entity and expand the business to include other companies.

If franchising of last mile does not receive sufficient uptake, review options for selling.

# Projected financial metrics

	2017	2020
<b>Last mile delivery</b>		
Damage cost	2.0%	2.0%
Operational cost	6.0%	
Supply cost		4.0%
<b>Total</b>	<b>8.0%</b>	<b>6.0%</b>
<b>Container Manufacturing</b>		
Damage cost	0.0%	0.5%
Operational cost	2.0%	
Supply cost		0.5%
<b>Total</b>	<b>2.0%</b>	<b>1.0%</b>
<b>Supplier relationship</b>		
Operational cost	40.0%	4.0%
<b>Core operations</b>		
Operational costs	146.0%	74.0%
<b>TOTAL</b>	<b>196.0%</b>	<b>85.0%</b>

# Projected revenue and profit/loss



Overview

Analysis

Alternatives

Recommendation

**Implementation**

Conclusion

- Focus resources on our key value creation

## What's New

## What's Dead

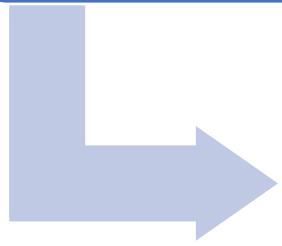
- Vertical Integration of the supply chain

- Our core value creation with a focus on strength
- Our Supplier Relationship – but streamlined and efficient

## What's Staying

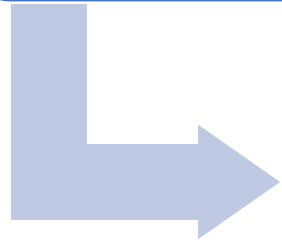
**Problem**

How do we realize the profitability from our disruptive initiative while maintaining market leadership?



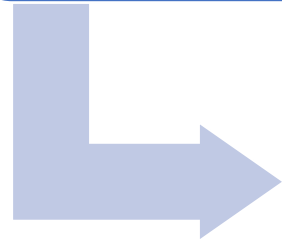
**Solution**

Simplify the business model to improve profitability while retaining supplier relationships



**Outcome**

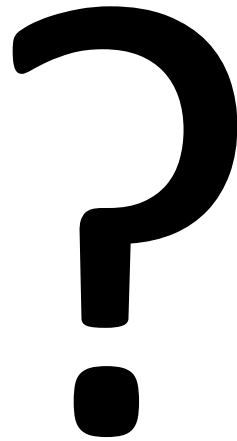
The ability to focus our resources and increase profitability  
Realize benefits from increased revenue



**Future**

The ability to generate more revenue which will result in more profit and potential for a successful future IPO by 2025

# Questions





# Options Selection Matrix

Option	Effective	Affordable	Achievable	Core Values (Variety and Value)	Total
Sustainable re-releasing of used furniture	2	2	2	3	2.3
Move to a B2B model with distribution only	3	3	1	1	2.0
Create an Interior Design Subscription model	1	2	2.5	3	2.1
Simplify the business model to improve profitability	3	3	3	3	3.0

# Assumptions

- Distribution partners can deliver the same service level
- Rental furniture market is less attractive and will be slow to gain traction as a substitute in the market
- Indian artisan products will continue to remain attractive to the consumer
- House brands will continue to grow and remain profitable
- We will be able to maintain gross profit margins for the interim – buyers will be willing to pay for a superior product
- Existing suppliers will be reluctant to engage with new entrants due to the nature of the Indian business relationships

# Competitive landscape

