SITUATION ANALYSIS

Largest Furniture E-tailer in India

Disruptor Organized fragmented market
6 rounds of funding $195m
~4m orders
3 categories
Logistics, Assembly, Packaging, Warehousing
27 Own Stores 7 Franchises
Threat of New Entrants
Currently not profitable

How will Pepperfry ensure long term sustainable profitable growth whilst maintaining its market leader position?
MANDATE – OUR VALUE PROMISE

5 Year growth strategy for Pepperfry to ensure sustained market share gains and sustainable profitability by growing profitable revenue streams and expanding retail footprint.

HVP Product Sales 30% to 50%

Profitable by 2020

Expand Footprint to 69

Pepperfry – the leading omni-channel home and furniture player in the Indian Market
## KEY ISSUES

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
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<tbody>
<tr>
<td>1.</td>
<td>Current market place model is not profitable – Sales mix eroding profits</td>
</tr>
<tr>
<td>2.</td>
<td>Low upsell rates to higher value more profitable products (only 50% conversion)</td>
</tr>
<tr>
<td>3.</td>
<td>Digital marketing not focused on CRM to drive repeat business</td>
</tr>
<tr>
<td></td>
<td>RECOMMENDATIONS</td>
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<tr>
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<tr>
<td>1.</td>
<td>Drive online conversion to higher value product sales – Upsell</td>
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<td>2.</td>
<td>Expand retail footprint – Own Stores &amp; Franchises</td>
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</table>
Before Pepperfry the supply and demand were not met.

**FURNITURE SPACE BEFORE PEPPERFRY**

**Vendors**
- Access to customers
- Visibility
- Fulfilment

**Customer**
- Convenience
- Variety
- Value
- Access

Retail Furniture market chaotic

Do not have the capabilities to get their products to bigger market

All furniture shopping is done offline
ENTER PEPPER FLY

Vendors

✓ Access to customers  
✓ Visibility  
✓ fulfilment

Pepper fly is the middle man

Customer

• Convenience  
• Variety  
• Value  
• Access

Their SCA is a shared value model → you have created an ecosystem
A DIFFICULT ENVIRONMENT

Cost of Running Pepperfry is too high

Complex operation is needed for Indian market

- supplier
- Warehouse & Fulfilment center
- Distribution center
- customer

Pepperfry Operations

- Logistics
- Assembly
- Packaging
- Distribution

All cost to company
CURRENT MODEL NOT WORKING

Cost of Running Pepperfry is too high

<table>
<thead>
<tr>
<th>Utilities</th>
<th>Decor</th>
<th>Furniture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg Price</td>
<td>low</td>
<td>medium</td>
</tr>
<tr>
<td>margin</td>
<td>low</td>
<td>medium</td>
</tr>
<tr>
<td>% Transaction</td>
<td>NA</td>
<td>70%</td>
</tr>
</tbody>
</table>

Need to drive conversion to high value products

The problem is the product mix → consumers are not buying enough high value products

To run sustainable operations Pepperfry needs to shift the needle to furniture sales

Margin on sales too low to cover operational expenses

All products – high value and low value - all require same complex logistics
ONLINE STILL AN ISSUE

**Online**
- Indian consumer is still skeptical of online
- First purchase is low or middle value products
  - Only 50% go on to buy HIGH value

**Offline**
- Indian consumer still prefers to see product before purchase
- But the “try before you buy” model works in India

**Franchise Model**
- In store conversion rate = 65%
  - Customer buy more than one item

Franchise model needs to expanded to grow sales and drive conversion to high value products
<table>
<thead>
<tr>
<th></th>
<th>Growth</th>
<th>Profitability</th>
<th>Risk</th>
<th>Complexity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquire Urban Ladder</td>
<td>Green</td>
<td>Red</td>
<td>Red</td>
<td>Red</td>
</tr>
<tr>
<td>Aggressively expand own stores</td>
<td>Green</td>
<td>Orange</td>
<td>Orange</td>
<td>Orange</td>
</tr>
<tr>
<td>Outsource fulfilment components</td>
<td>Orange</td>
<td>Green</td>
<td>Orange</td>
<td>Orange</td>
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</tbody>
</table>
## RECOMMENDATIONS

<p>| | |</p>
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WHY

- High Value Products higher margins
- 50% conversion rate online, 65% in Retail
- Own Brand – 10% more profitable
- Higher propensity to purchase after 1st sale
- 5.5million customers
- Strengths – Logistics & Packaging
- Access to rich customer data and insights

WHAT

- CRM Sales Strategy – existing customers repeat business
- Use rich customer data to drive upsell
- Email, SMS, Call & Store Visit
- Target with relevant recommended products

Revenue & Profit Increase
CRM BASED UPSELL

New Customer enters the platform
Browses and eventually buys décor or utilities
Data recorded, sales preferences, activity
Data mined to match HVP to customer
Develop CRM Concept around recommended product
Email, SMS, Call to Upsell

Conversion Tactics to Use

Relevant Recommended Products
Design Concepts around HVP
Promotions & Discounts
Invitation to studio consults
EXPAND RETAIL FOOTPRINT

WHY

- 27 own stores – 7 Franchise
- Higher conversion to high value products
- 65% conversion vs 50% online
- Experiential purchase
- Higher number of products sold per sale
- Own brand makes 10% more margin
- Physical presence required to drive high value revenue & grow Brand

WHAT

Expand own stores from 27 to 32 over 2 years
Ramp up franchise recruitment
Expand Franchisees from 7 to 37 over 2 years
Own stores – Flagship and major metro cities
Franchisee – Tier 2 cities – Incentivize own product

Revenue & Profit Increase
## RETAIL EXPANSION MODEL

<table>
<thead>
<tr>
<th>Franchise Model</th>
<th>Own Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low capital investment required</td>
<td>Higher capital outlay</td>
</tr>
<tr>
<td>Pepperfy own the store design and experience</td>
<td>Pepperfy own the store design and experience</td>
</tr>
<tr>
<td>Franchisee covers cost of setup and in store build</td>
<td>Pepperfy covers cost of setup and in store build</td>
</tr>
<tr>
<td>Commercial model – 10% viable for franchisee</td>
<td>Higher returns (no profit share)</td>
</tr>
<tr>
<td>Lower Risk, Lower Returns, Higher Sales Volume</td>
<td>Higher risk, but strategic locations are critical for ownership</td>
</tr>
<tr>
<td>Expand footprint fast with lower risk</td>
<td>Expand footprint in major cities</td>
</tr>
</tbody>
</table>

Franchise model will be ramped up to expand presence fast with low risk whilst maintaining control of strategic locations.
IMPLEMENTATION

JOEL
INSIGHTS DRIVEN DATA

- Consumer
- Needs
- Trends
- Activities
INSIGHTS DRIVEN DATA

Team (Int. & Local)
PPE, SEO & Data analytics

Head Office (Mumbai)
Central to operations
Management visits

Agile methodology
Iterative process
Feedback for promotions
INSIGHTS DRIVEN DATA

Data Processing → Promotions email / ABL → Targeted marketing → Matchmaking
INSIGHTS DRIVEN DATA

Data Processing ➔ Promotions email / ABL ➔ Targeted marketing ➔ Matchmaking

Consumer Data Real time ➔ Mined for collection ➔ Linked to trend ➔ Immediate roll out
INSIGHTS DRIVEN DATA

Data Processing → Promotions email / ABL → Targeted marketing → Matchmaking

Consumer Data → Real time → Mined for collection → Linked to trend → Immediate roll out

Conversion from smaller to larger purchases from store and online
## EXPAND STUDIO MODEL

<table>
<thead>
<tr>
<th>Project management</th>
<th>Operations</th>
<th>2 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Allocate a dedicated PM team</td>
<td>• Assembly</td>
<td>• 2 flagship, 10 Franchise</td>
</tr>
<tr>
<td>• Corresponded in hubs</td>
<td>• Logistics</td>
<td>• 3 flagship, 20 Franchise</td>
</tr>
<tr>
<td></td>
<td>• Warehousing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Packaging</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Business support</td>
<td></td>
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EXPAND STUDIO MODEL

Project management
- Allocate a dedicated PM team
- Corresponded in hubs

Operations
- Assembly
- Logistics
- Warehousing
- Packaging
- Business support

2 Year
- 2 flagship, 10 Franchise
- 3 flagship, 20 Franchise

Franchisee’s
- Proven track record
- Business support
- Show the rich data
- Show the power of Pepperfry trends
MONITORING

Drive online conversion

Return buyer rate from small purchases

Expand studio model

Number of stores opened
MONITORING

- Drive online conversion
- Expand studio model
- Return buyer rate from small purchases
- Number of stores opened

Profitability, resulted from higher conversion to larger purchases
# RISKS & CONTINGENCIES

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Risk</th>
<th>Contingency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drive digital conversion</td>
<td>Insights not clear</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Slow rate of conversion</td>
<td></td>
</tr>
<tr>
<td>Expand studio model</td>
<td>Reluctancy to take up franchise model</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operations Scaling</td>
<td></td>
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</tbody>
</table>
FINANCIALS
KAVISHA
Rec 1: 2 years building CRM model & marketing - $5m
Rec 2: 2 years 67 stores - $11m
### ASSUMPTIONS

<table>
<thead>
<tr>
<th>Do Nothing</th>
<th>1. Online Drive</th>
<th>2. Franchises</th>
</tr>
</thead>
</table>
| • Revenue CAGR 65%  
• Deterioration in profits  
• 5.5m customers registered | • Current Conversion rate from 50% to 60% | • Profitable  
• Avg store 3500 sales per store pa  
• Operating Profit  
• 69 total stores by 2023 (37 franchise) |

**Continue to deteriorate value**  
**Increase conversion rate to high value furniture sales without going into a store**  
**Increase High value furniture sales, increase footprint, profitability**
## PROJECTIONS

<table>
<thead>
<tr>
<th>INR000</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Revenue Do nothing</td>
<td>2,001,000</td>
<td>2,580,000</td>
<td>3,096,000</td>
<td>3,715,200</td>
<td>4,458,240</td>
<td>5,349,888</td>
<td>6,419,866</td>
<td>7,703,839</td>
</tr>
<tr>
<td>New revenue</td>
<td>6,000,000</td>
<td>5,500,000</td>
<td>6,000,000</td>
<td>8,000,000</td>
<td>9,629,798</td>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rec 1: Online CRM Drive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P/L</td>
<td>(2,992,000)</td>
<td>(2,468,000)</td>
<td>(1,548,000)</td>
<td>(1,200,000)</td>
<td>(1,200,000)</td>
<td>300,000</td>
<td>640,000</td>
<td>770,384</td>
</tr>
<tr>
<td>P/L over revenue</td>
<td>-150%</td>
<td>-96%</td>
<td>-50%</td>
<td>-20%</td>
<td>0%</td>
<td>5%</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
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