PEPPERFRY

UCT GSB CONSULTING

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 onmi-channel home and furniture player in the Indian Market

KEY ISSUES

1.	Current market place model is not profitable – Sales mix eroding profits
2.	Low upsell rates to higher value more profitable products (only 50% conversion
3.	Digital marketing not focused on CRM to drive repeat business

RECOMMENDATIONS

1.	Drive online conversion to higher value product sales – Upsell
2.	Expand retail footprint – Own Stores & Franchises

ANALYSIS

NICCOLO

FURNITURE SPACE BEFORE PEPPERFRY

Vendors

- Access to customers
  - Visibility
  - Fulfilment

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

Retail Furniture market chaotic

Customer

- Convenience
  - Variety
  - Value
  - Access

All furniture shopping is done offline

Before Pepperfry the supply and demand were not met

ENTER PEPPER FLY

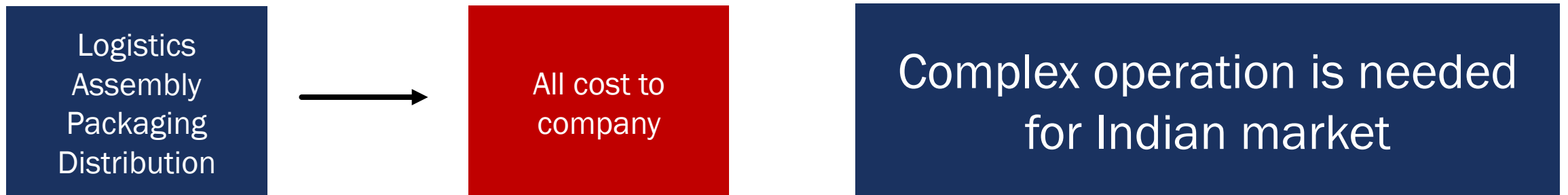| Vendors		Customer

✓ Access to customers
   ✓ Visibility
   ✓ fulfilment
	Pepper fly is the middle man	• Convenience
		   • Variety
		   • Value
		   • Access
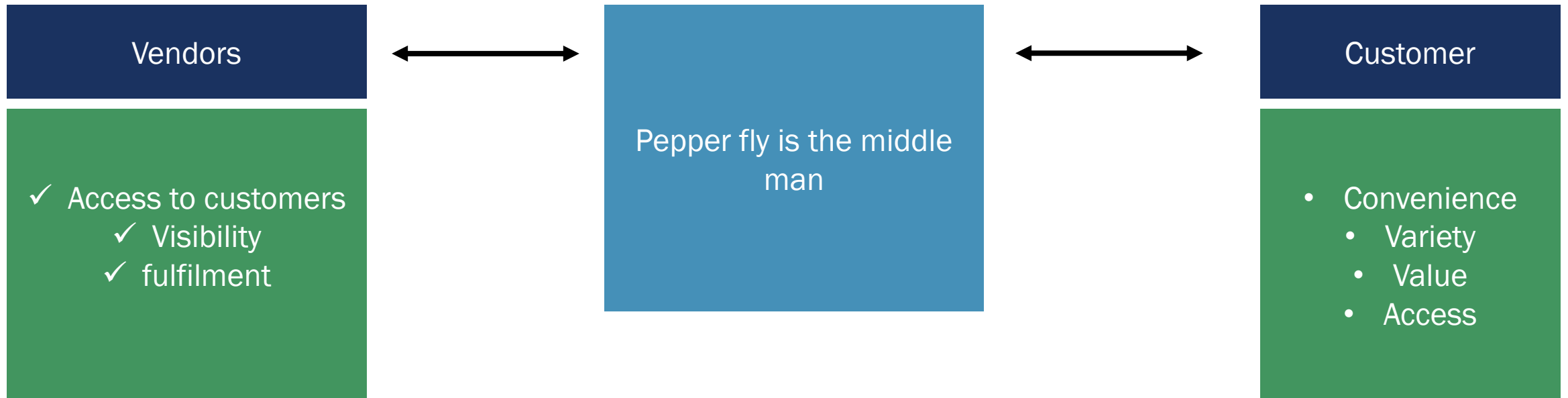
Their SCA is a shared value model → you have created an ecosystem

A DIFFICULT ENVIRONMENT

| supplier | → | Warehouse & Fulfilment center | → | Distribution center | → | customer |

Pepperfry Operations

| Logistics Assembly Packaging Distribution | → | All cost to company | | Complex operation is needed for Indian market |
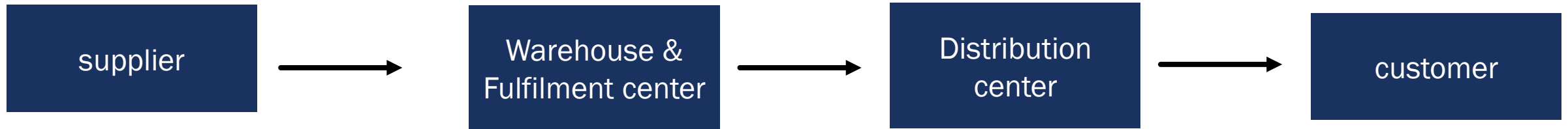
Cost of Running Pepperfry is too high

CURRENT MODEL NOT WORKING

Cost of Running Pepperfry is too high

	Utilities	Decor	Furniture
Avg Price	low	medium	high
margin	low	medium	medium
% Transaction	NA	70%	30%

Need to drive conversion to high value products

Margin on sales too low to cover operational expenses

+

All products – high value and low value – all require same complex logistics

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

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 Indian

→

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

GROWING ONLINE SALES

EXPANDING RETAIL FOOTPRINT

RECOMMENDATIONS

RIHANA

ALTERNATIVES

	Growth	Profitability	Risk	Complexity
Acquire Urban Ladder	🟩	🟥	🟥	🟥
Aggressively expand own stores	🟩	🟧	🟧	🟧
Outsource fulfilment components	🟧	🟩	🟧	🟥

RECOMMENDATIONS

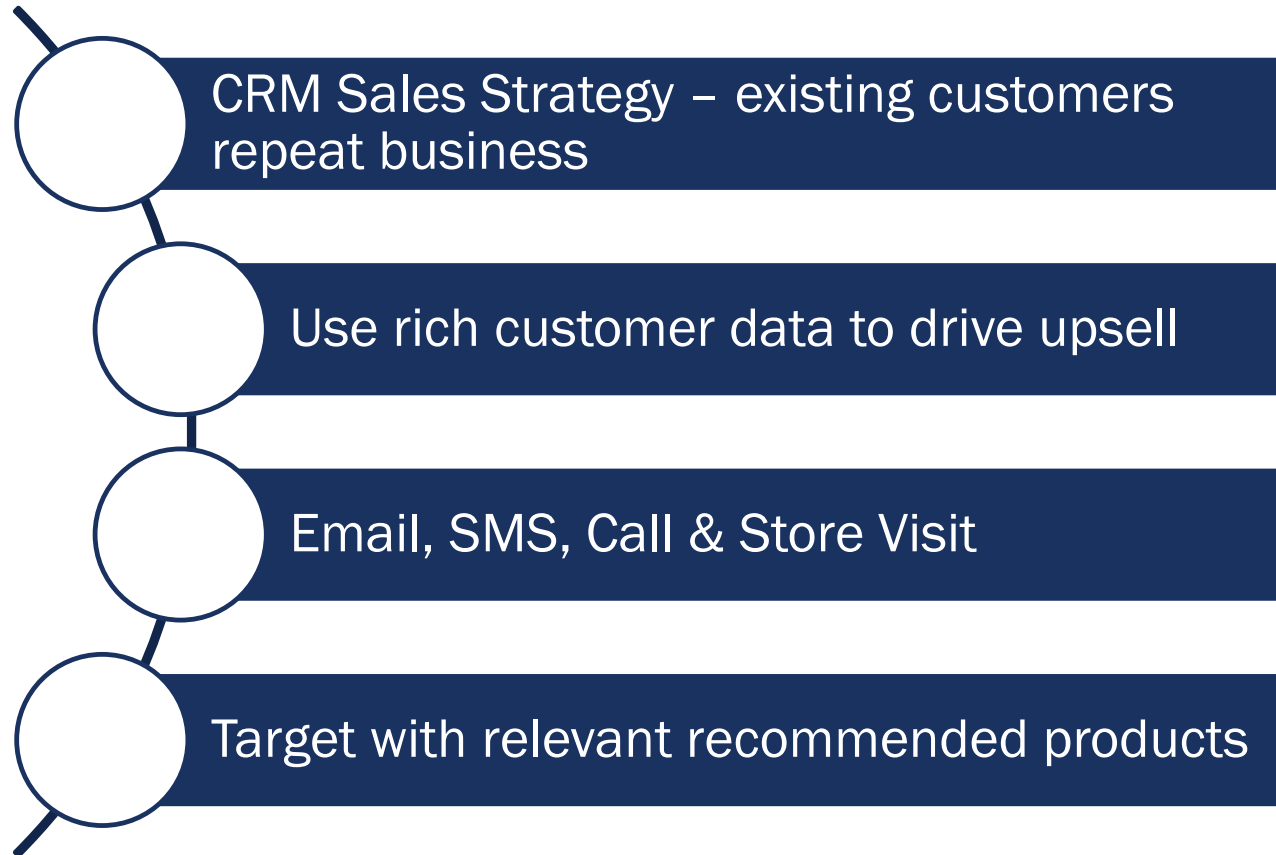| 1.	Drive online conversion to higher value product sales – Upsell
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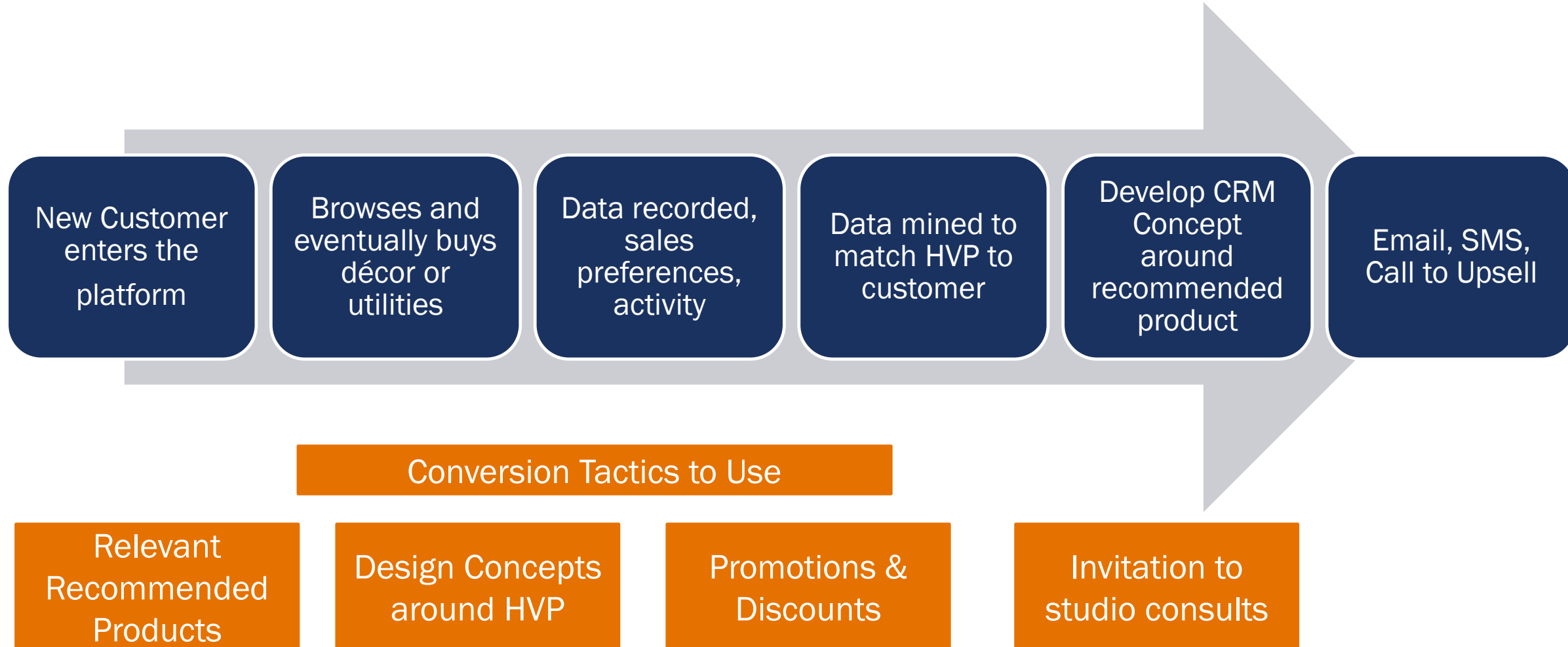# ONLINE CONVERSION - HIGHER VALUE PRODUCTS

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 an insights

Revenue & Profit Increase

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

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

Revenue & Profit Increase

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

RETAIL EXPANSION MODEL

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

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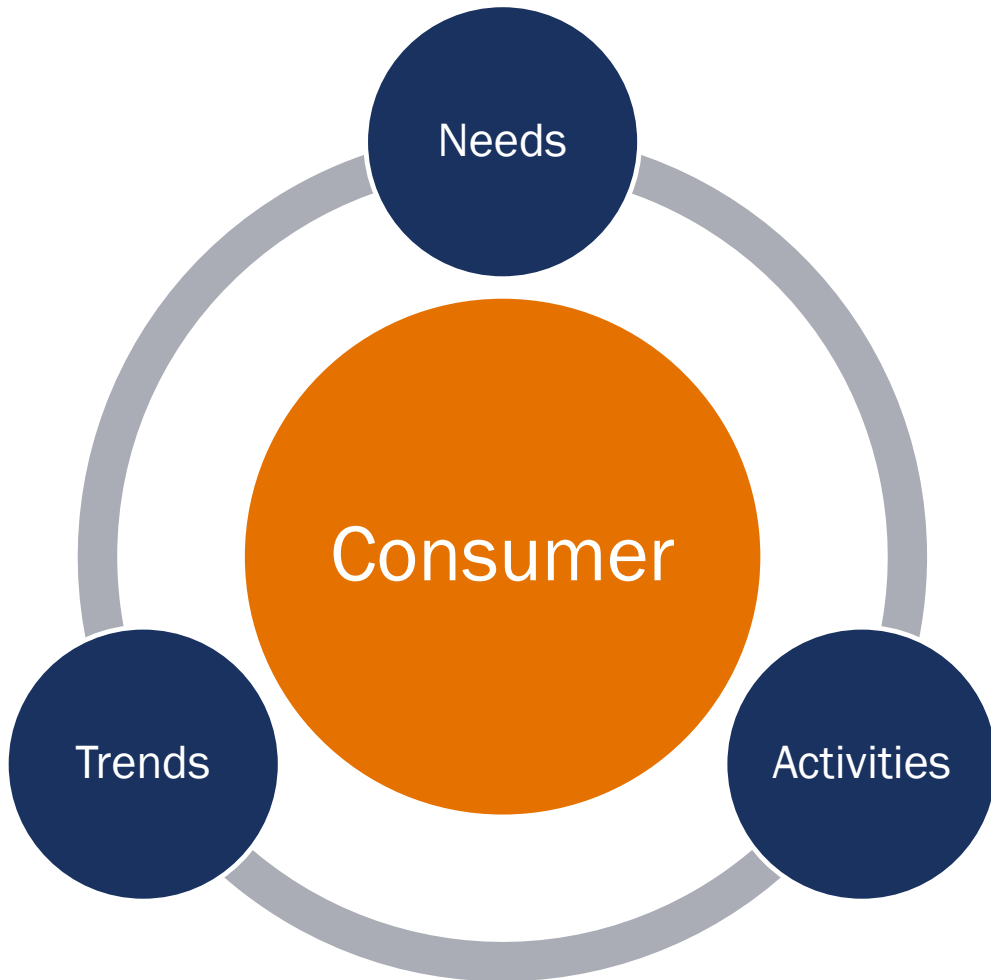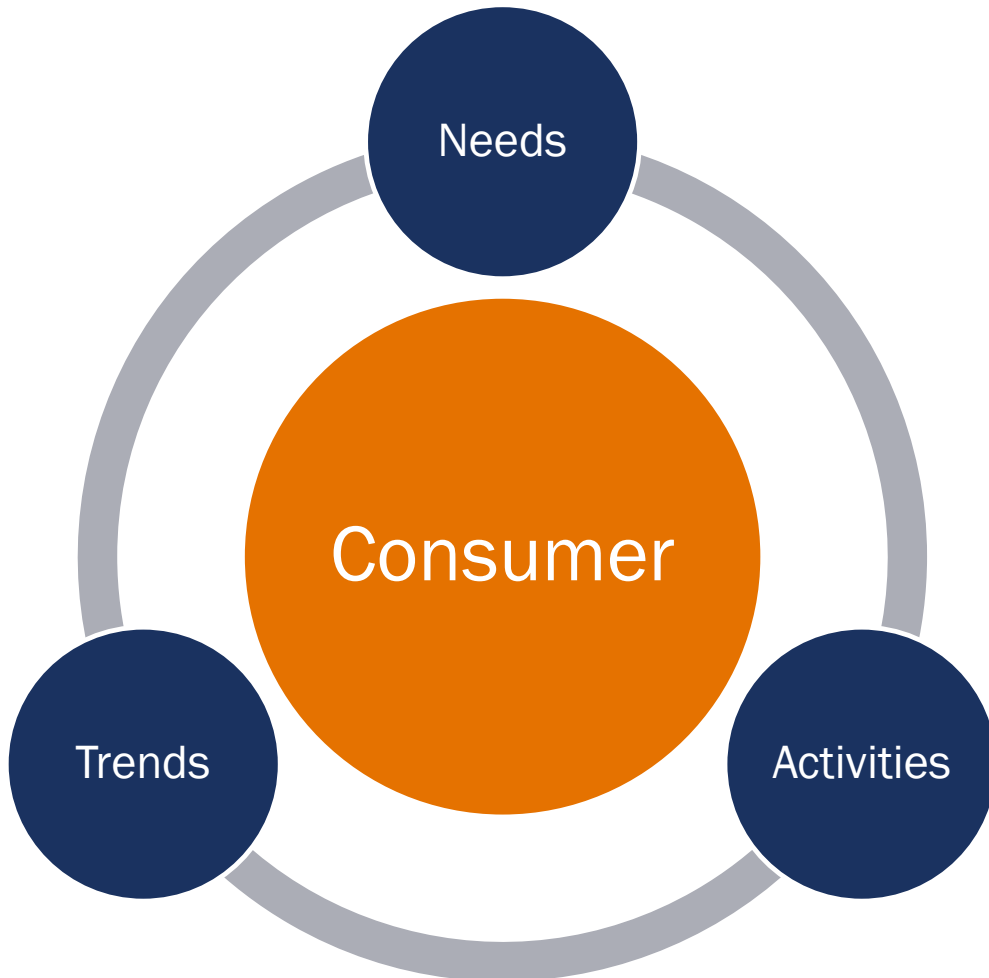
IMPLEMENTATION

JOEL

INSIGHTS DRIVEN DATA

INSIGHTS DRIVEN DATA

Needs

Trends

Consumer

Activities

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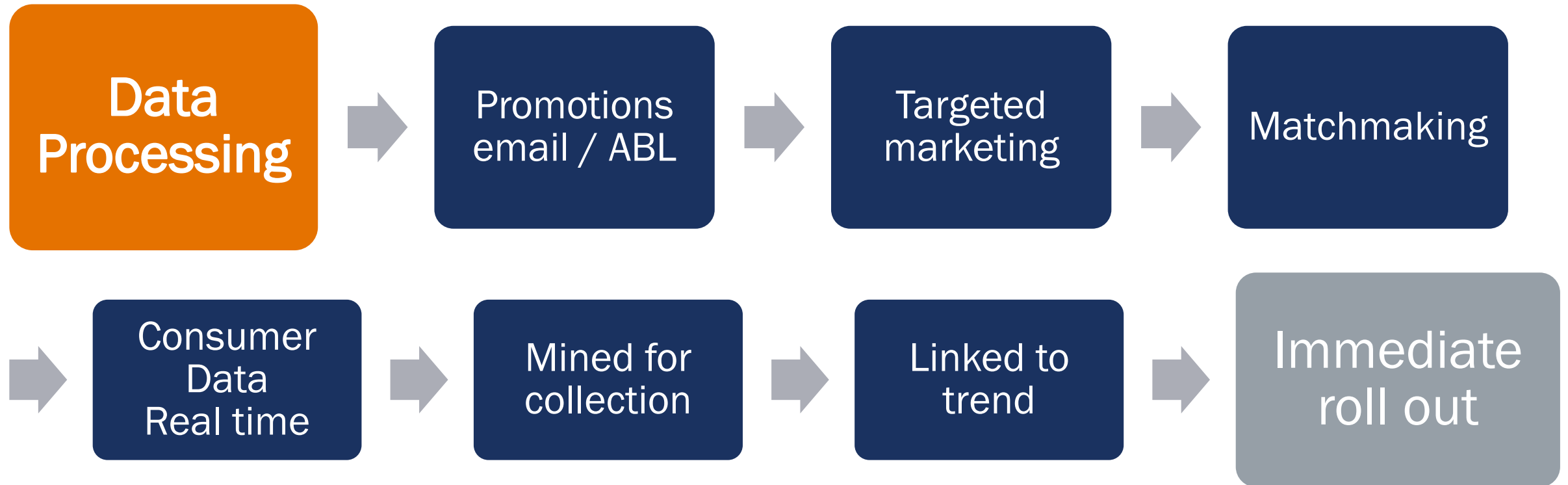
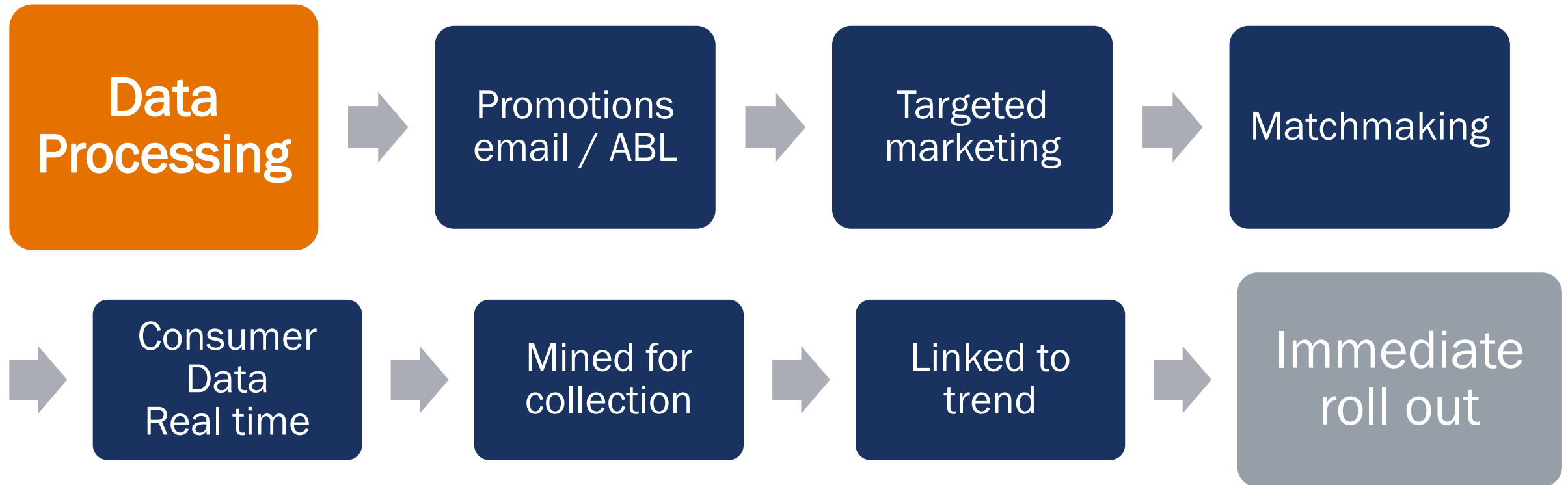**Data Processing** → Promotions email / ABL → Targeted marketing → Matchmaking

INSIGHTS DRIVEN DATA

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Conversion from smaller to larger purchases from store and online

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

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Franchisee's → Proven track record → Business support → Show the rich data → Show the power of Pepperfry trends

MONITORING

Drive online conversion

Expand studio model

Return buyer rate from small purchases

Number of stores opened

RISKS & CONTINGENCIES

Recommendation	Risk	Contingency
Drive digital conversion	Insights not clear Slow rate of conversion	
Expand studio model	Reluctancy to take up franchise model Operations Scaling	

FINANCIALS

KAVISHA

BUDGET

Rec 1: 2 years building CRM model & marketing - $5m

Rec 2: 2 years 67 stores - $11m

ASSUMPTIONS

Do Nothing

- Revenue CAGR 65%
- Deterioration in profits
- 5.5m customers registered

Continue to deteriorate value

1. Online Drive

- Current Conversion rate from 50% to 60%

Increase conversion rate to high value furniture sales without going into a store

2. Franchises

- Profitable
- Avg store 3500 sales per store pa
- Operating Profit
- 69 total stores by 2023 (37 franchise)

Increase High value furniture sales, increase footprint, profitability

PROJECTIONS

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

CONCLUSION