Furniture Start-ups and Trends

A REPORT RESEARCHED BY
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June, 2016

We help to knit your dreams

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Craft Driven Market Research Message

Economic recession of 2008 and dynamic conditions of market have hit the furniture industry strongly in the past. It negatively impacted the power of Indian consumers to spend money on furniture but after few years from the year 2011, start-up environment started gaining momentum in the industry and brought a wave of new trends and changes. Since then, several start-ups have been launched in this arena and have worked significantly better than the previous trend of locally manufactured products. Many companies have also entered the market with their branded products which have gained quite a lot of popularity.

This report has been written focussed on start-ups in the furniture industry and discusses changes brought by the start-ups. Some of the new emerging trends have been in the rental space of furniture, home designing and DIY which were not heard of or were thought of as a separate industry. These start-ups have collaborated information from different sectors and have combined it into furniture industry giving more options to the customers. This has revealed options of buying furniture through e-commerce which was earlier considered to be non-feasible option.

Currently there are very few start-ups in this domain. Craft Driven Market Research has identified 14 start-ups which are operating successfully but expect that there are no more than 25 (only dealing with furniture) if some of the regional start-ups are also included in the list. Some of these start-ups such as Urban Ladder, Pepperfry and Furlenco are market leaders while giving a boost to the economy. May new start-ups such as Get My Couch are also working in the domain and gaining market share. The noticeable point is that all these start-ups are located only in metro cities Delhi (NCR), Bangalore and Mumbai. The reason is quite clear that these cities have high corporate population which often keeps on moving and need new furniture with their job changes.

Craft Driven Market Research has made an effort to bring the attention of investors towards this industry and make their investment judicially considering the trends going in the furniture start-up industry. Although there are certain factors such as big inventory and warehouse requirements that limit the number of start-ups in this domain, but we believe that Government of India's efforts to launch Start Up India initiative will increase the number of start-ups in this industry as well in near future.

Craft Driven would like to thank the reviewers of this report who helped in editing and making it useful for readers. Craft Driven expects that start-ups in furniture industry continue to make progress and bring India in the forefront in this domain.

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About the report

Online shopping is increasingly becoming more vital to people and is providing solutions to ease everyday life struggles. There is an ever growing need of products and services that can be bought online while sitting at home. Furniture industry is one of the latest fads in start-up community. Earlier people used to go to local manufacturer and carpenters who could build furniture as per their needs and used to pay them exorbitant prices due to lack of availability and options. At times, people had to compromise on available designs and options. Now, with the advent of start-ups in this industry, people have options to select designs at competitive prices and also they can have customized furniture design while sitting at home within the reach of just few clicks. In this report, we address various parameters that are related to start-ups and also focus on trends that are emerging in this industry. Although, currently small, the start-up furniture industry is expected to grow in big numbers with increasing population in metro cities and growing real estate industry which is positively impacting furniture start-ups.

This report has several purposes and will interest a wide audience. It will support founders of furniture start-ups to understand the market better and strategize keeping in mind the analysis done in the report. The report will support them to understand new and emerging trends in the industry. Investors will be benefited by getting an insight to how companies need to be evaluated for promising future. This will help them to avoid futile investments. In addition, this report will be of tremendous support to those who are thinking to start a furniture start-up.

This report is mainly focused on current trends of food-tech industry and has been supported by various databases, market analysis and surveys to authenticate the results.

Introduction

With the growth of corporate and fast moving life, a new economy is emerging- the furniture economy. There are different start-ups that are working in the domain in different segments. Some are providing cheaper furniture options, others provide rental furniture and the latest one is of DIY furniture which reduces the cost of installation and setting up for the customer. The behaviour of millennials is changing drastically and instead of buying furniture the traditional way, they go for ready made goods which they can get at cheaper prices through many of the start-ups. The behaviour of companies working in this segment is highly different from other start-up industries since it involves working on inventories, supplying comparatively larger sized goods which makes its logistics more complex.

The Indian furniture industry is estimated to be around INR 35000 crores. 85% of this falls into un-organized sector (KPMG). Wooden furniture market has a share of INR 60 crores. India was the biggest furniture importer in 2004-05 with a share of 17% in worldwide imports. According to CSIL Milano, India is at the 14th position in the global furniture market. The market is continuously increasing and one of the reason behind this is rising income of middle class families in India. Currently, the furniture sector contributes about 0.5% of total country's GDP and the major players in the sector are Godrej & Boyce Manufacturing Co. Ltd., BP Ergo, Featherlite, Haworth, Style Spa, Yantra, Renaissance, Millennium Lifestyles, Durian, Kian, Tangent, Furniture Concepts, Furniturewala, Zuari, Truzo, N R Jasani & Company, V3 Engineers, PSL Modular Furniture, etc. (KPMG). This also includes highly unorganised hand crafted furniture in India, that includes heavily crafted and colonial style furniture.

Earlier furniture work was supposed to be highly intricate and people used to hire carpenters to do the work. Furniture carvings and intricate designs that depicted royalty were in more vogue but the trend is changing slowly. From intricate designs, it has changed to fine line and curves. People look for simpler options which are on one hand easier to upkeep with and on the other are cheaper and easily movable. In addition, the entry of IKEA in Indian market changed the perception of people towards quality and designs of furniture.

It is interesting to know that the industry trends are changing rapidly. Although, the trend of simpler and more sophisticated furniture started with IKEA, many start-ups have entered into this domain and provided customers a wide range to choose from. Not only they are providing customers the latest designs, but supporting their interest with customised products for their needs and choices. Many innovative solutions have been brought up in the market that make up for the demands of mobile consumer segments.

Industry Segmentation:

Home furniture: This is the largest consumer segment in furniture industry which gives around 65% of total sales. Earlier, people used to buy permanent and heavy wooden furniture that could last for hundreds of years, recently the trend has changed. People are now looking for simpler furniture which is readily movable and is light weight as well as cheaper. The start-ups in this segment are providing furniture catering to the demands of emerging customers.

Office furniture: The office furniture segment is slowly taking up pace with the increase in industrialization and increasing number of offices and co-working spaces in metro cities. This segment has witness fast paced growth over time in metro cities. This is expected to continue for more years with increase in office construction.

Rental furniture: the rental segment is increasingly garnering attention in metro cities. With more people working in corporate sector and having transferrable jobs, this segment is becoming popular among youth which finds it easy to rent furniture instead of buying new one.

DIY furniture: This is yet to be discoverable segment. In this segment, the furniture is to be assembled by the customer himself. It is said that many people are opting for this segment since the furniture comes out to be cheaper when delivered without assembling. In addition, it gives a sense of ownership to the people owning the furniture.

Start-up segmentation

Furniture industry is growing at a very high pace. There are number of online stores like PepperFry, Livspace, Furlenco offering services of e-commerce & Rental services and very few offer variety in term of design and colour. A study was done on 14 starts-ups in the furniture industry. Study highlighted that there are broadly three segments in which "start-up furniture" industry is currently working in rental, furniture customization and e-commerce. E-commerce and rental services are holding about 85% of market share. Start-up furniture industry is one of the fastest growing industry catering to young people who often have to change the cities and do not want the burden of transporting heavy furniture. Type of furniture used is highly dependent on the consumer's preferences and tastes. The rich and upper middle class is mostly attentive to design and quality of furniture. People don't change the furniture very frequently. In addition, increase in tourism in India increased the demand of furniture in hotels and guest houses. Indian range of furniture include both residential and commercial, with more concentration on office and kitchen furniture. Online furniture industry is mainly focused on metropolitan cities with targeted audience of people having transferrable jobs.

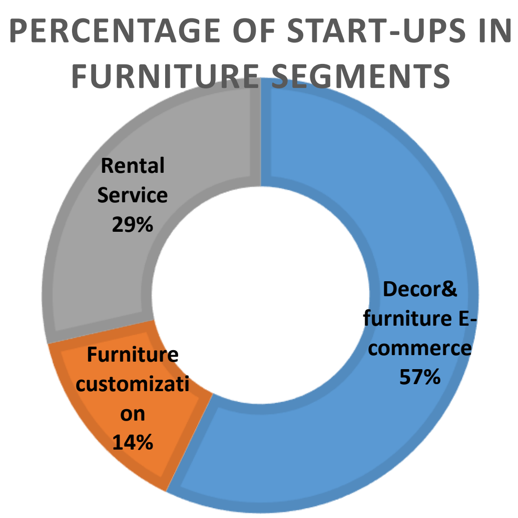

Figure 1 Percentage of start-ups in different furniture segments

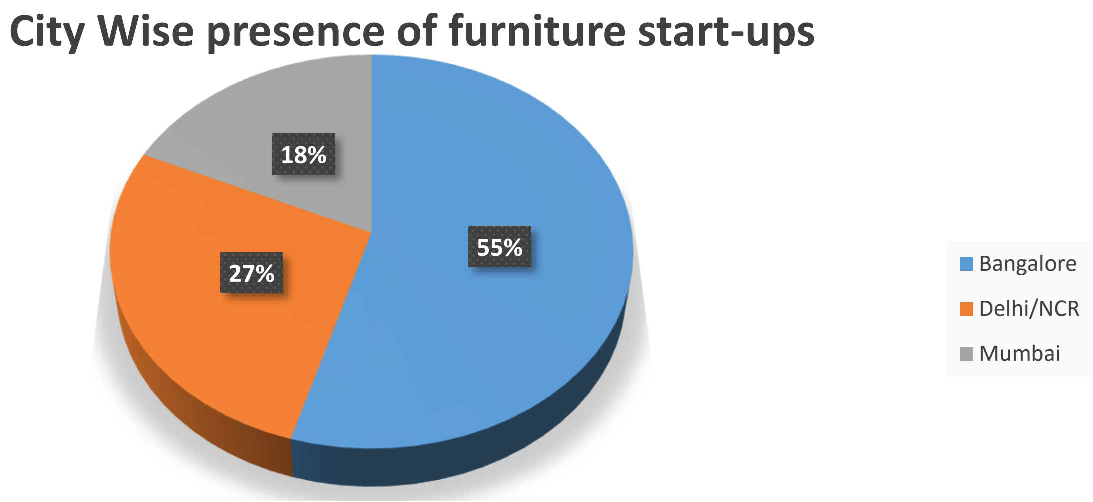

Figure 3 City wise presence of furniture start-ups

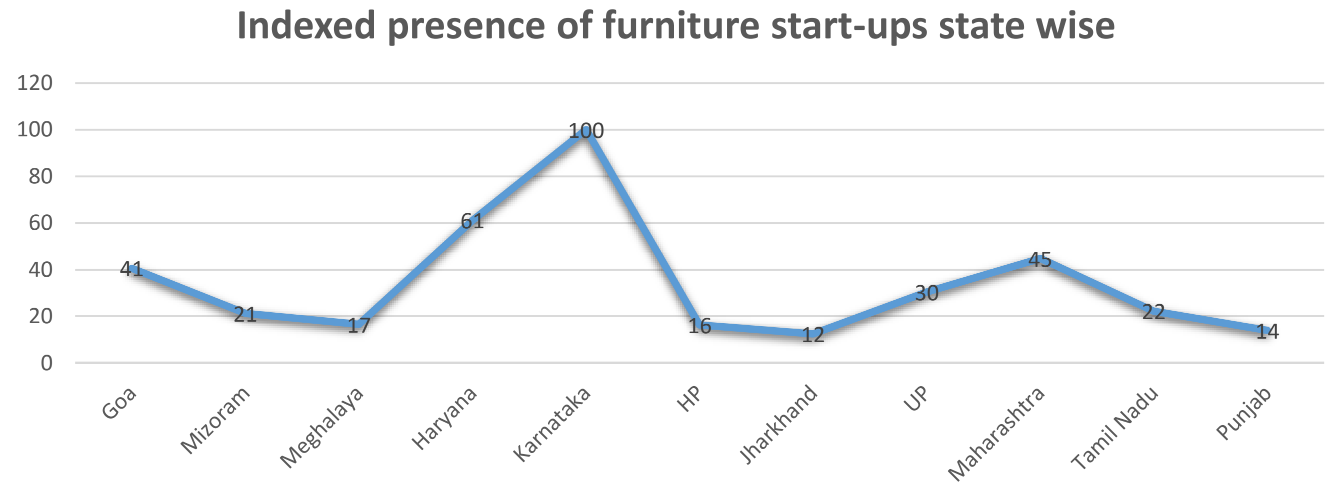

Figure 2 State wise presence of furniture start-ups

India offers a great opportunity to domestic as well as international players in furniture market. Demand of furniture is increasing day by day due to factors such as increasing income, increase in purchasing power, increasing urbanization, changing lifestyle and availability of wide opportunities in Tier-II and Tier-III cities. Domestic manufactures are also tying up with e-commerce in order to increase the sales and availability of furniture. Furniture manufactures are now focusing on Tier-II and Tier-III cities. Furniture industry in India is mainly dominated in wooden furniture in the house-hold furniture followed by office and institutional furniture. With the collaboration of domestic manufacturers and e-commerce, quality and design has improved drastically. Changing lifestyle, customization and availability of affordable range in furniture are the prominent factors of rapid increase in furniture industry.

India being a developing country, increase in furniture industry is more prominent in metro cities followed by other big cities. From research done on 14 start-ups in furniture industry, Bangalore comes out to have largest growth with 55% of furniture companies residing in Bangalore followed by Delhi/NCR with 27% and Mumbai with 18%. These figures can be directly related to increase in urbanization in these cities.

Presence of Start-ups in Indian Market

A study was done on 14 furniture start-ups and based on their online trends, an index has been assigned to different states. In the graph, an index 100 depicts the highest number while other states have been assigned an index in comparison to the highest number. From the study done by Craft Driven Market Research, it is clear that Karnataka occupies the maximum space in the furniture industry owned by start-ups while Haryana (Gurgoan) and Maharshtra are near competitors. Some states like Goa has shown a good trend in case of Furlenco, Urban Ladder and PepperFry while Karnataka is among the top rated destination for LivSpace, HomeLane, Mebelkart, Ubyld and Rentongo. Haryana has been a top destination for FabFurnish. These trends do not indicate the numbers rather show the market penetration of furniture start-ups in these states.

Funding:

Similar trend has been observed in the funding of start-ups with more than $150M funding only in Bangalore from the 14 start-ups. Traction is more in online space with mostly the young buyers who either are looking for more & affordable options, furniture on rent or used furniture.

Furniture import in India

The imports of furniture as a percentage of total imports is decreasing slowly. Although no regular trend is observed, the number is decreasing continuously. In the year 2013, the total imports of furniture decreased by 63% from USD 1141.91 million in 2012 to USD 716.88 million in 2013. However, it increased by 1.8% in 2015, yet it clearly depicts decreasing market. In 2015, the Indian furniture market is expected to be USD 17,922 million out of which 40% is imports. A total of 10,476 importers are working in the industry and they mainly import from different countries including Italy, Germany, Spain, China, Korea, Malaysia, Indonesia, Philippines and Japan. Start-ups coming up in this sector are working on a different business model and they in addition to providing furniture on retail also provide it on rent and on DIY. However, the trend is yet to gain momentum. If we observe the above graph, then percentage share of start-ups in total furniture imports is less than 5% and remaining is in the unorganised sector and the companies similar to Godrej which are working in furniture industry. However, it is expected to increase in coming years with increasing number of furniture start-ups and changing preferences of people.

Value chain of furniture start-ups

Currently, more than 5000 companies are actively working in the furniture industry out of which only 1% are start-ups. This segment is very tough for start-ups as a value chain since it involves big warehouses and heavy funding. In addition to this, delivery of products requires high performing logistics such that margins are equally distributed throughout. With these start-ups, 65% of the furniture is wooden, 25% of metal and remaining 10% comprises of accessories and furnishing items in plastic. Overall, in India, in the wood used, teak makes 50% and is the highly demanded raw material for furniture industry. Along with this, Sal and Deodar make up 20% which are also being used by start-ups. If compared with other industries like food-tech and edu-tech, there are not many start-ups working in this domain. The reason is its costlier value chain which involves inventory and higher liquidity.

The industry covers various

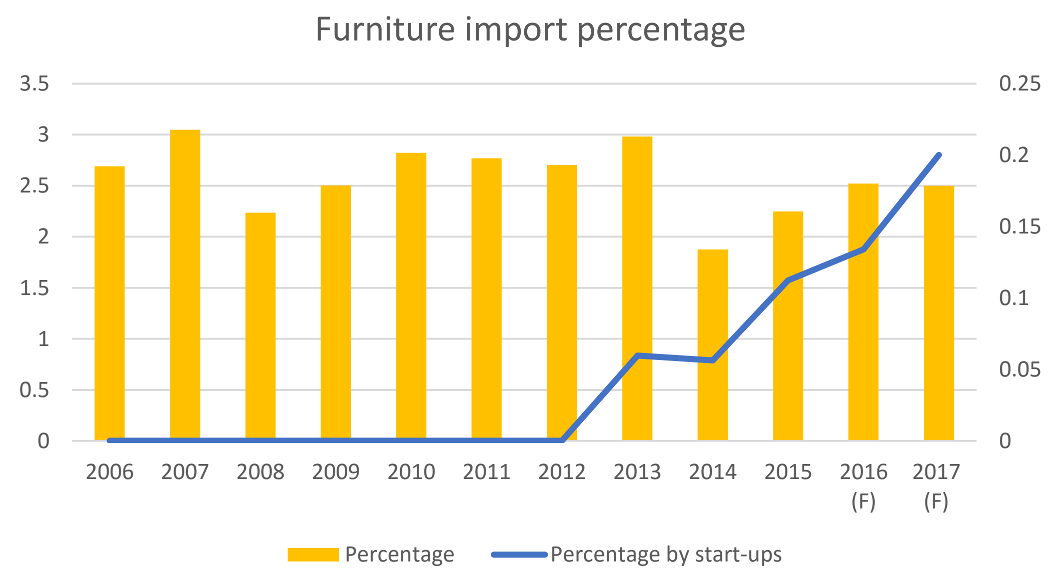

Figure 4 Furniture Import Percentage

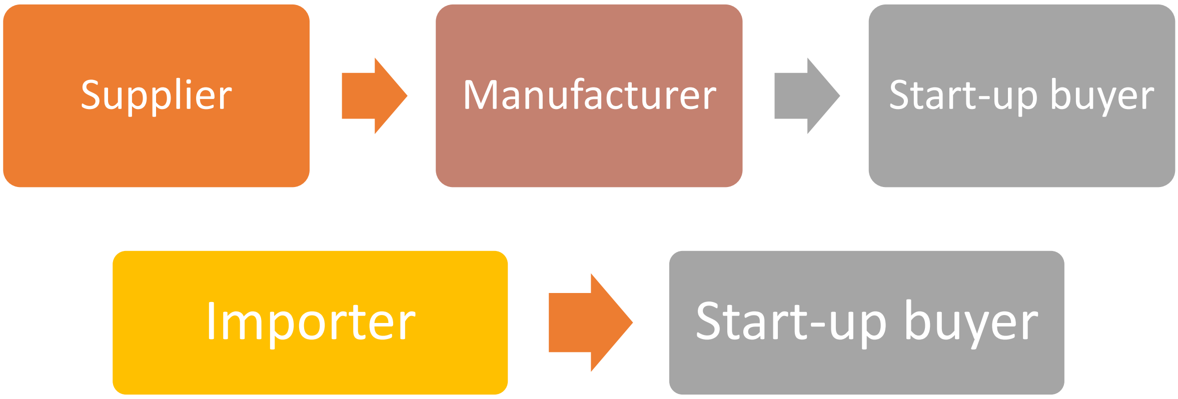

Figure 5 Value chain for start-ups

segments of value chain that includes sourcing, manufacturing, importing, distribution, inventory/ warehousing and delivery. The difference with start-ups is that they are highly organised with the help of technology used at every end unlike the unorganised sector in this industry. These start-ups are mainly engaged with e-commerce of furniture and also work through mobile apps. All the steps involved it their supply chain are organised through technology which gives them a leverage above the unorganised sector and also provides them a margin which supports these start-ups to make their place in the market and seek attention of customers.

Also, these start-ups unlike the unorganised sector provide furniture through different segments that includes rental, customization according to the customer and a recent trend of do it yourself furniture that is garnering attention in metro cities.

Suppliers: The raw material required is either imported or supplied directly through indigenous suppliers. India itself has many reserves of tropical wood which are for commercial purpose and can be used to manufacture furniture but when the supply is inadequate, wood is imported from Malaysia, Myanmar, Russia, Europe, USA and Indonesia. In India itself, there are many suppliers and most of them are concentrated in Gujarat, Jammu & Kashmir, Punjab, Uttar Pradesh and Kerala. These have major wood markets which are also known for its carvings and intricate work.

Manufacturer: Currently in India, manufacturing is being done at two levels. One by higher level brands, which have their in house design teams and manufacturing units. The second section is that of local manufacturers which design and manufacture based on trends going on in the market. In context of start-ups, the supply is taken from both the ends. Some of the start-ups are working in the field of providing branded furniture and they have to procure it directly from brand manufacturers. On the other hand, the start-ups which are involved in selling non branded and local produced furniture or DIY furniture often procure it directly from the manufacturers and sell them at a margin. This removes a layer of retail and distribution channel which makes it cheaper for start-up sellers.

Importer: As has been discussed in a section before, the furniture imports for start-ups are increasing with increasing revenue of these start-ups. The key driver is the increasing demand of furniture in metro cities and emerging trends such as furniture rental and DIY. The booming real estate sector is also giving leverage to the furniture industry and thus to the start-ups working in this domain. Currently, companies are importing from Europe which was started very early in this industry. Also, imports from Asian countries is taking place. Start-ups buy from importers directly and thus save margins from retailing of furniture.

Demand Drivers

a. *Real estate boom:*

In India, real estate sector is growing rapidly with an expected growth of 30% over the next decade. The Indian real estate market is expected to reach USD 180 billion by 2020 and out of this housing sector has a big

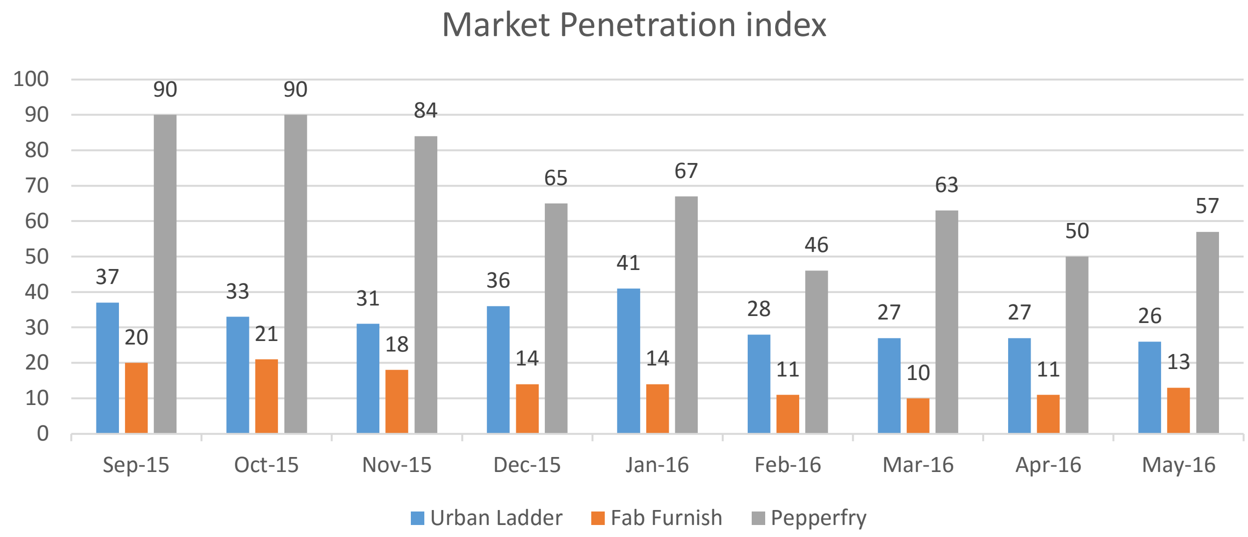

Figure 6 Market Penetration Index

share. It alone contributes 5-6 % to country's GDP. In housing sector alone, CAGR is expected to remain near 11.2% for the period until 2020. Mumbai is currently the best city showing large number of investments in real estate sector which is followed by Bangalore and NCR. In the study done in the previous section, majority of start-ups in furniture industry are present in these three cities only. Thus, there is a direct correlation of real estate sector growth and furniture industry growth (IBEF).

b. More transferrable jobs

A study done on current employment statistics clearly state that non-farm employment increased by 160,000 in April, 2016 and over the three months from February, 2016 to April, 2016, the average job growth has been 200,000 per month. Moreover, professional and business services were added by 65000 in April alone. Over a period of 12 months, the jobs in this segment have increased by 51,000 per month average. This is to be noted that increase in jobs directly influence the growth of furniture industry. The growth of start-ups in furniture industry is highly dependent upon the corporate sector jobs. With the growth in corporate sector, this industry also sees growth and thus increased sales. (BLS)

c. *High population in age segment of 25-54:*

Indian demographic profile of July 2014, state that 40.6% of Indian population comprises of age group 25-54. This is the major segment in the Indian population and also the major age segment that buys furniture. Their high population is supporting start-ups in this industry since this age group uses internet media more actively and spend money through e-commerce as well. In addition, the census of 2011 mentions that rate of urbanization is close to 2.5% which makes it a supporting point for start-ups in this industry. (Indexmundi)

Market Penetration

Currently, home improvement and furniture industry is being seen as a huge opportunity and apart from start-ups there are very few big players who come under organized sector. The sector has been a dicey platform for many investors since the industry is new to start-ups and has never been tried before by venture capitalists. However, with increasing demand from metropolitan population, the sector is witnessing steep growth with some of the start-ups experiencing growth of more than 100% month on month basis. These start-ups have built user friendly apps and desktop access which makes it easier for customers to choose and order furniture while sitting at their homes.

The three top start-ups in the segment are Pepperfry, Urban Ladder and Fab Furnish. Craft Driven attempted to analyze the market penetration index of the three start-ups based on trends on google searches. The trend depicts the customers' interest over period for the three companies. It is to be noted that Pepperfry has highest penetration in this segment. However, the trend clearly depicts the decreasing popularity of the company. This could be attributed to entry of several new start-ups in the domain such as Get My Couch which are slowly increasing their market place in localised market. Pepperfry has also witnessed tough periods lately due to increasing competition. On a similar pattern, market penetration index of Urban Ladder and Fab Furnish has decreased 30% and 35% respectively over a period of only 9 months

Start-ups in furniture industry

Furniture industry is seeing several emerging trends lately and customers are also demanding changes in the industry which is being actively provided by the start-ups. Earlier the furniture industry was targeted only to local manufacturers which used to manufacture according to the trends and then retailed. This made the whole business model very costly and also made it a hectic job for the customers to find the apt furniture and then get it delivered at their place. Now a day, many start-ups have come up which are not only providing more services in terms of delivery, interior designing, home décor and even rental in the furniture industry. Craft Driven has researched 14 start-up companies in this domain which are working efficiently in this industry while bringing up different services.

FURLENCO

Furlenco is Bangalore based start-up started by Ajith Karimpana. The start-up works on rental monthly subscription business model and puts on rent furniture and appliances. Ajith, founder of Furlenco believes that buying things in a conventional way is going to be less popular in coming years and there will be more movement towards online buying of things which will include furniture. The company received $6 million funding in series A from Lightbox Ventures. The company claim to deliver the furniture along with expert advice within 72 hours. Additional services like setting up and then cleaning up are also provided by the company. Currently, the company is offering its services in Bangalore, Mumbai and Pune.

PEPPERFRY

The company was among the frontrunners in this industry and was founded in July 2011 by Ambaresh Murty and Ashish Shah. The company has so far received $128 million in four rounds of investments from Goldman Sachs, Bertelsmann India and Norwest Venture Partners. The company has a business model of selling home and lifestyle products. The company has around 2.6 million registered customers and 50% are repeat customers. The company caters to over 5000 sellers and sells furniture at an average price of Rs. 14,000. The company has currently seen turbulent times with record losses of Rs. 114 crores in 2014-15. The company claims to cover more than 1000 cities in India with order fulfilment of more than 1 million. The company also boasts of 17 fulfilment centres across India.

URBAN LADDER

The company was started in July 2012 and has received much attention from customers and industry. It was started by Ashish Goel and Rajiv Srivastava in Bangalore. The company's attention from investors is evident from the four rounds of funding of total worth $77 million Which includes investors of the likes of Sequoia Capital, TR Capital and Steadview Capital, SAIF Partners, Kalaari Capital and Indo-Us Venture Partners. The company is simply into selling furniture but they have wide options on cheaper prices which gives them a leverage over other start-ups and domestic manufacturers in this segment.

STITCH WOOD

The company caters to the customizable furniture for the customers. Customers can design their own furniture and get it delivered from the company. The company was started in June 2014 by Ajit Shegaonkar and Vikas Vikraman Nair. The company has already received funding of $ 394 K from Ajeet Khurana and Powai Lake Ventures. The company is similar to Urban Ladder in business model with providing products in furniture and home décor. They also have their own look book to help customers decide what kind of furniture they need. The founder says in one of the interview that home furniture market is highly unorganized with 75% catering to domestic customized manufacturers. The rest deal with readymade furniture.

LIVSPACE

Livspace is again a Bangaore based start-up which was started by a team of three Anuj Srivastava, Shagufta Anurag and Ramakant Sharma. The company was set up in June 2014. It is the online shopping destination from where the homes can be furnished and designed according to the customer needs and aesthetic requirements. The company has raised $12.6 million in 2 rounds of funding and the investors involved are Helion Venture Partners and Bessemer Venture Partners. The company aims at providing end to end home designing online. The founders are continuously aiming at scaling up the business and integrating more technology driven resources within the company to provide a better experience to the customers.

There are other companies as well which Craft Driven studied and put an emphasis on it. Some are new and are on a way to build a market share. The list includes start-ups such as Homelane, Mebelkart, Ubyld, Cityfurnish, Get my Couch, rentongo, rentomojo and roomstory.

Upcoming start-up: ***Get My Couch***

Craft Driven Market Research talked to Mayank Srivastava, co-founder of Get My Couch and discussed the changes he is witnessing in the industry.

Mayank Srivastava, Co-founder

Get My Couch (GMC) is an e-commerce platform for buying and selling pre-owned home furnishings and appliances (furniture as of now). In today's time, when people are moving in and out of homes frequently, furnishing your home becomes an expensive affair. You buy expensive furniture, then get relocated after 2 years and selling off furniture is a huge problem due to challenges around refurbishing, delivery and installation. That's where Get My Couch comes in. The company provides beautiful furniture at 50% of MRP with a buyback option in addition to free delivery, free installation, free returns, 6-months service warranty, online payments, COD and EMI option.

The company experience competition from OLX and Quicker from supply end while on demand side, there are companies which offer rentals. Company's major target market is that of millennials and their major buyer is urban city dweller between the age of 22-40 who live in rental homes and moves between cities due to changing career opportunities. To handle logistics, the company has efficiently tied up with Delhivery and local vendors. In addition, the company also has its own in-house team of carpenters and loaders who can handle installation and enhance customer experience.

Company's 80% of the furniture consists of sofa, beds, dining and wardrobe. Most of these products are made from wood. In the data that Get My Couch has gathered from e-commerce and classifieds websites - 70% furniture is made of wood (solid/engineered wood), 20% is made of metal and the rest comprises of cane, bamboo.

Mayank Srivastava, co-founder of Get My Couch, says that Delhi/ NCR is one of the biggest market for start-ups in furniture industry. Other metros are also picking up momentum due to increasing industrialization. He adds that people today are looking for more of minimalistic and modern aesthetics since it is easier to disassemble and move as compared to contemporary furniture. According to him, furniture industry is witnessing drastic shifts from made-to-order furniture to ready-made furniture.

The company says that furniture industry is highly unorganised. In the affordable segment there are many small local vendors who offer affordable furniture but lack in quality and after-sales services. If you buy from an individual, you can't be sure of what you are buying. There is a lot of false selling in the industry based on the type of wood, durability of the furniture and the finish. If you go for made-to-order furniture, what you ask for and what you get eventually will be completely different. That is why we decided to do all of this in-house and standardize the furniture assessment process. We kept an in-house team of experts who would check the products for quality, type of wood, durability and stability of the product. We offer service warranties for any product that we sell. And in case you want to sell it later, we offer a minimum price guarantee on all our products.

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