

Case Study Title: Wakefit: Disrupting the Indian Mattress Market

Author: Dr. Simran Waraich

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Abstract

India's mattress industry estimated to reach USD 2000 million at a compound annual growth rate of 9% suffers from lack of innovation and low consumer awareness. Indians find buying mattress as a daunting chore that needs to be done. Wakefit was established in 2016 with an objective to make sleep a priority in people's lives and provide holistic sleep solutions. It specializes in providing just two varieties of mattresses that come in various sizes, to reduce the confusion and make decision making easy for its consumers. The company has filed a patent, invests extensively in R&D to maintain quality benchmarks and provide premium quality products to customers. Wakefit distributes its products through its own online platform as well as through marketplaces like Amazon, Flipkart and Pepperfry. The company gives customers attractive features like a 20 year warranty period, a 100 night risk-free trial, no cost EMI for its mattresses and free home delivery services. It has changed the game by adopting D2C business model and selling quality at almost 50% lower prices. This has put the market leaders like Sheela Foam and Kurlon in an uncomfortable position where in they have been forced to rework on their distribution models. With a good word of mouth and marketing campaign that is primarily digital, the company is delivering mattresses and sleep solutions even to smaller townships and hilly areas like Ladakh and Jammu & Kashmir. The company, in 2018, was granted a funding of about USD 9 million, from the venture capital firm Sequoia Capital, as their Series A funding. Wakefit owns 2-3% of the overall mattress market, but with respect to the online sleep solutions space, they command a whopping market share of almost 35-40%. At the end of its first year of operations, Wakefit recorded a turnover of USD 0.91 million; raising it further to USD 3.7 million in the next financial year and in the year 2019, Wakefit recorded a revenue of about USD 11 million. Wakefit is now aiming to achieve three times its annual growth in the year 2020 by clocking in a revenue of USD 32 million. Would Wakefit Succeed?

Discuss the business model and strategies that contributed for the growth of Wakefit?

With no barriers to entry in the mattress industry, what are the challenges that Wakefit may face?

With new D2C companies coming into the mattress business how can Wakefit keep up its growth momentum in the years to come?

Case Study

One fine day Ankit Garg, the cofounder and CEO of Wakefit Innovations Pvt. Ltd — an online sleep solutions startup — went for mattress shopping in the year 2014. During his search for the right mattress he observed two major trends in the mattress industry. The first one that the mattress industry in India is largely unorganized with no innovation and stagnant products. And the second one that the cost of end product was highly inflated because of middlemen and distributors involved in supply chain. He tapped on these loopholes as an opportunity and started with the journey of his entrepreneurial quest. To understand the market dynamics and cost economies, Ankit decided to experiment. In 2015 he bought a few hundred mattresses and sold them on Amazon at a profit of USD 0.82 million. Sometime later, Ankit partnered with his mentor and cofounder Chaitanya Ramalingegowda and Wakefit was founded in 2016 with an aim to transform the sleeping habits of millions of people.

Wakefit is a Bengaluru based mattress manufacturer that operates on D2C (direct to consumer) model. The brand worked on two factors – innovation and customer centricity. Ankit's father owned a chemical lab that validated and certified manufacturers of foam used in mattresses and pillows. During his stint at his father's lab Ankit discovered huge gaps in the mattress industry. Over the course of his time there, when he was busy helping his father, he found out that the mattress companies were deceiving the customers in the following ways:

- The foams used in the mattresses by these companies were mostly adulterated. Instead of using genuine foam the companies used a large amount of calcium carbonate, an inexpensive filler, to bulk up the mattresses. But the customers were charged the price of genuine foam only.
- The different layers of foams that were piled over one another (5 layer, 7 layer mattress etc.) provided no extra benefit at all. It was only the top layer that gave the maximum benefit.

- The mattresses being offered by these companies were exorbitantly priced. Manufacturing a genuine and high-quality foam mattress should ideally cost much less than what the current marketplace has been charging.

Taking a cue from these issues, the founders of Wakefit decide to sell premium quality mattresses at an affordable price directly to the doorstep of the customer. The company committed itself to provide its customers with mattresses that were:

- Made from genuine and pure foam that last a long time
- Of right density that adapted to body contour for greater comfort
- Cost efficient by up to 50% of the price charged in comparison with any other ‘renowned’ brand

The company took pride in its R&D and customer feedback system that had become the core of the business at Wakefit. The company had come up with their 15th upgraded model of mattresses. “If your iPhone can keep getting smarter, then why your mattress can’t?” said the founders.

To maintain world class quality standards Wakefit sourced much of the required raw material from European and the Middle East suppliers. Its manufacturing plant was located in Bengaluru and quality checks were carried out in Europe. They were certified under Certi-PUR process (for foam). The chemicals used for manufacturing mattresses were certified by Greenguard, an environmental institute that aims to reduce human exposure to pollutants. Wakefit boasted of German manufacturing equipment that has helped in achieving high efficiency and low cost. Company used vertical cutting and compression machines to enhance efficiency by reducing manual labour. Its manufacturing facility housed a testing lab for doing temperature testing, pressure and humidity mapping. Wakefit catered to customers far and wide throughout India where the weather conditions and customer specifications varied at large. These tests thus helped in manufacturing products and check their suitability according to varied climatic conditions and body types. Wakefit conducted a survey across India and the findings showed that around 48 percent of the sample population complained of back ache and related problems, and about 80 percent of the respondents felt sleepy at their workplace. To address these issues, Wakefit got innovative with its product design features. Only water based adhesives were used in mattresses

to prevent odours. According to Wakefit its mattresses were made of “**proprietary open-cell structure**” that kept cool during summers and “**high-density foam**” in mattresses adapted to **body contour** that gave pressure relief and complementary support.

This startup gave paramount importance to customer feedback in order to customize and improve upon its products on a regular basis. During its initial days, the founders made the initial deliveries themselves and interacted with the customers personally. This helped them in identifying the issues like longevity, aesthetics, thickness etc. that customers were facing. During these interactions they came to know how the comfort levels on a mattress changed over a period of time and how salespeople had little knowledge about the products that were being sold in the market. It was then that they started an extensive Customer Experience Team (CET) that catered to customers 24x7. The start-up worked with a sales force of only ten people whereas the after sales team was twelve times the size of its sales force. This team had great understanding of the manufacturing processes and the science of sleep which helps in gauging the root cause of a customer problem and provides feedback to the R&D and product development teams.

Today when most companies launch a range of variants of their products to target customers from all the segments, Wakefit stuck to only two variants of their core product - an Orthopaedic Memory Foam Mattress and a Dual Comfort Mattress. This was a major decision that the company took and the reason behind it was to help customers in avoiding “decision fatigue”.

According to sleep experts the comfort and adaptability to a mattress can only be judged by an individual only when they sleep on it at least 14 days. A quick visit to a physical store cannot reveal a mattress’s quality and comfort. Also, most people, especially women, don’t feel comfortable lying on a mattress in front of people. This is why Wakefit provided a **100 day free trial with no questions asked 100% refund policy**. Also, it satisfies the consumers’ need to touch and feel the mattress. It also offered a 20 year warranty period on its mattresses which no other market player did. This helped Wakefit to create confidence in an unknown brand operating in online space.

Wakefit operated in a D2C business model. It existed in the e-commerce world and all the products were displayed and sold on Wakefit's website, Amazon, Flipkart and PepperFry. Since no middlemen were involved, Wakefit was able to quote prices that were 50 percent lower than their competitors (between USD 70 – USD 345 million). According to founders, the cost of

customer acquisition was USD 10 – USD 12, and the average ticket size was USD 150. This further helped in rationalizing costs and there was no cash burn. The company had a satisfaction rate of 96% and a meager return rate of 4%. Wakefit shipped about 300 mattresses a day, adding up to 7,500-9,000 mattresses in a month. During sale period the number went upto 800 units a day. It delivered to over 19000 pincodes across India, including remote towns and hilly areas like Ladakh, and Jammu & Kashmir. The company had tie ups with BlueDart, FedEx, and other local companies for transport and delivery. Although the mode of marketing had been primarily digital, the company claimed that it's the word of mouth that has added immensely to the sales volume.

Four years later, Wakefit boasted of a community of over 400 thousand customers and over 12,000 positive reviews online that added to the growth of the business. The company had not invested heavily on advertisement. It was through word-of-mouth marketing that helped Wakefit in building a steady and sustainable business. The firm ran a blog and did a lot of online content marketing on the importance of sound sleep and health. Wakefit delved into the marketing strategy of educating people and creating awareness towards the significance of a good sleep. Recently, it launched the Wakefit Sleep Internship, where youngsters are assigned the task to sleep for nine hours every night, for a hundred nights, on Wakefit mattresses in the comfort of their homes and earn USD 1300 as stipend. The idea behind this concept was to encourage people to take pride in sleeping well and help Indians make informed decisions to enjoy better sleep health. Wakefit never advertised on Facebook and Google. It opted for Vantage Circle to promote its products. Vantage Circle has over 1,000,000 corporate employees and because of the presence of serious and well paid professionals the clicks to sales ratio are much higher. So picking Vantage Circle was a smart move. Also, the cost per sales in Google and Facebook ads was much higher as compared to Vantage Circle.

Wakefit claimed to be the market leaders in the D2C mattress segment and held about 60 per cent of the online market share in India. The company that started as a mattress company transitioned into a sleep solution company by launching beds, beddings, pillows, wardrobes and tables. The company was now aiming to become a bedroom solution company soon by launching maternity and nursing range, pet beds and baby beds. Ever since its inception Wakefit was on a profit making spree. This four-year old start-up raised USD 9 million in December 2018

by Sequoia Capital for a 31 per cent stake. The funding was used to build up product innovation and R&D capabilities. The funding was not used to open an offline store or for over the top advertising campaigns.

About 75 per cent of the Wakefit clientele came from tier I cities. Wakefit planned to open experience centres and increase its clientele from tier II and tier III cities. Young professionals now a day's keep shifting cities and prefer renting rather than owning spaces. Wakefit tied up with online furniture and home appliances rental platform Rentomojo to provide Wakefit's mattresses along with their beds. Wakefit planned to expand in the B2B space and was already in talks with more players.

Several new start-ups such as Cuddl, Sunday Mattress, SleepyCat and Wink&Nod had entered the race in last few years. Similar to Wakefit's ways, industry leaders like Sheela Foam were looking at its exclusive branded stores as "complete sleep solutions" centres. However, Sheela Foam and other players like Kurl on were still relying on a network of distributors to sell to its exclusive dealers. In spite of the competition from start-ups, unorganized players and biggies such as Kurl-On and Sleepwell, the firm had been growing. It closed FY2018-19 with revenues of USD 11 million, a whopping 200 per cent jump from previous year. Wakefit was now targeting an almost three times revenue of USD 32 million by FY2020.

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