

EXCLUSIVE  
INTERVIEW

## IRexchange is disrupting the traditional supply chain to empower IRs and suppliers

Technology company IRexchange, which describes itself as an intelligent digital marketplace, is changing the economics for independent retailers and suppliers by allowing them to deal and trade direct, thereby removing what it terms the “inefficiencies” of the traditional wholesale model.

By Hailey Settineri.

**I**Rexchange was established in September 2015 to provide independent retailers and suppliers a platform to better compete against FMCG retail chains by improving market access, removing terms of trade and increasing returns. The company began trading in January this year and has built a national supply-chain footprint servicing more than 300 independent retail stores.

Speaking exclusively with *Retail World*, IRexchange CEO Clive Yoxall and Chief Financial Officer/Chief Operating Officer Andrew Maitland discuss the development of the digital-trading platform and why it comes at such a critical time.



**Clive Yoxall**

Chief Executive Officer

Clive is a senior executive with a track record in building successful new businesses and leading complex operations. He has held senior leadership roles and direct accountability for large P&L (ASX top 50), M&A, strategy and corporate development within the retail, logistics, commodities and digital sectors. His positions have included vice-president distribution and commercial for Incitec Pivot Ltd (ASX top 50), general manager corporate development for Australia Post, and member of the management board at StarTrack Express and Australian Air Express

**Can you take me through the process of how the digital-trading platform works?**

**CY:** An independent retailer that orders from us will order from either a POS interface or a portal that ranges our products, prices and offers. Once they place an order at their store, or if it's a multi-store owner structure,



**Andrew Maitland**

Chief Financial Officer/Chief Commercial Officer

Andrew is CFO/CCO with a proven record of business delivery in the expansion of established organisations, turnaround of underperforming businesses, execution of major transformational programs and the development of new innovative and disruptive opportunities. He has held senior leadership positions at NAB as a member of the Australian bank leadership team, and Australia Post as part of the management committee. His positions have included group general manager business development for Australia Post, chairman of Loyalty Pacific, trading as FlyBuys, and regional general manager consumer banking for National Australia Bank.

we aggregate all those orders and place it back with the supplier.

The most critical point for us is that the relationship between the independent retailer and the supplier is completely transparent. There's no 'black box' of cost

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structures in terms of trade and mark-ups. If the retailer would like to negotiate with the supplier directly then they're absolutely capable of doing that. They also see, very transparently, the supply-chain costs.

**AM:** What's unique about this business is the integration of the technology. Not only is it a platform that's integrated into the retailer POS systems, or they can access it via portal, it's also integrated back into the supplier's system including through the GS1 interface.

More importantly, the trading platform then integrates seamlessly into our supply-chain capability, which allows us to manage the product end to end. So, there are lots of marketplaces globally, particularly in the B2C space, but there aren't many examples of a marketplace integrated into a distribution platform that manages the product from the ordering all the way through to the delivery in the B2B space, including how it passes through the supply chain. That's the unique capability that we've developed over the last couple of years.

#### Because the orders need to be aggregated, is there any delay between placing and receiving the order compared with traditional models?

**CY:** We carry inventory, we stock fast-moving goods, so that's an immediate dispatch of product out of our distribution centres, but we also work with DHL, our exclusive partner, to optimise, as much as we can, for the product to keep moving from supplier to retail, which is the most efficient way to service a retail network.

**AM:** We aggregate all orders within the day and place them with the suppliers, so there's no delay. And equally, when we take the product into our distribution centres, it's then dispatched, on most occasions within a day. This provides a very short turnaround in terms of how we manage that cycle. The critical aspects of it are that we're aggregating the orders of those retailers and placing them in a single order with the supplier, and we're also aggregating the last mile of delivery by being able to take

multiple products, put them together into a delivery to the suppliers, and share that last mile of distribution cost.

**CY:** The support and partnership we have with DHL has been very important for us. They've got 600,000-odd square metres nationally, they've got thousands and thousands of delivery points across Australia, so there's an existing low-cost network that we can access. We're a start-up, a small business, but to access that competitive cost structure is so powerful.

#### Is Metcash's IndieDirect model a similar concept?

**CY:** The difference between the IndieDirect model and ours is pretty stark. The transparency isn't necessarily there. It's still a black box, a product of traditional wholesale marking up products, offsetting a high wholesale cost structure, and isn't a transparent relationship

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between the independent retailer and the supplier where there's really no middleman.

As far as a technology solution for Metcash, we can't really comment on that strategy or direction, but there's a stark contrast between the transparency we offer and what we understand to be the IndieDirect model.

**AM:** Our model makes sure that every component of the pricing is transparent to the retailer. For a marketplace to be efficient, it has to be transparent. We give that transparency in terms of the pricing.

In addition, we don't operate like a charge-through or a cross-docking model where the supplier still has to do most of the work and then add those costs on, and the work and the intermediary sits in the middle adding a margin to it. In many

ways, a lot of what IRexchange does doesn't remove the role of the intermediary. If you look at global trends, what we're seeing is that intermediaries – wholesalers, warehouses – are disappearing as suppliers and retailers want to interact directly, in order to provide greater choice, quality, convenience and value to customers. That's what we're really doing here.

#### Why now? What aspect of the market is ripe for disruption?

**CY:** To continue Andrew's point, the independents are under increasing pressure from a competitive point of view. Their margins are the worst they've been for several years – it's certainly been a tough 12 months with new entrants and ALDI expanding aggressively in SA and WA.

The Coles and Woolies compression against ALDI is really a point of tension for independent retailers. They deserve a low-cost supply-chain solution where they can access supplies directly. Whether it's IRexchange or a similar model, the market is going to change in the next year or two and really evolve to catch up with the rest of the world, and that will benefit the independent retailers immensely.

**AM:** The demand has certainly increased for a change in the model over the last five to six years, with an increasing percentage of a store's volume going through a direct model – in other words, not through an intermediary wholesaler. We estimate this to be about 40 per cent on average and growing, and that's certainly changed from six to seven years ago when it could have been as low as 10 per cent.

What we're seeing is that independent retailers are looking for new ways to get their product, and this demand is being supported on the supply side in the sense that technology is now at a point where you can more cost-efficiently deploy these solutions.

**CY:** There are some fantastic retailers in Australia and choice and range is their most successful pull for consumers. The best independent retailers that we deal with have the lowest percentage coming through the wholesaler, because that range and choice

and cost structure is really what's feeding that competitive advantage for specific local markets. There are some absolutely fantastic retailers, they do it very well, but most of the successful ones have a higher portion of their core range that they're managing directly.

**AM:** The increase in direct volume comes with quite a high cost, as retailers are having to manage disparate functions – such as ordering, invoicing, receipting, charge-backs – supplier by supplier. What IRexchange does is help bring all this together into a single solution and reduce a lot of these costs. We've spoken to a number of independent retailers that talk about having 20, 30, 40 deliveries a day of direct supply, which they're doing because they can be more competitive in terms of range, or they can source it more cheaply, but this comes with a lot of costs in their own business, and a lot of what we're trying to do is reduce that for them.

#### Are you able to name any of the retailers that you are working with?

**CY:** We'd prefer not to mention names, but we're trading with hundreds of stores. We now have a national footprint across five states, we've got distribution centres in four states. We're dealing with single stores through to multi-stores. In terms of our range and reach, we're touching most of the independent retailers as far as the banners are concerned.

#### How many SKUs do you now work with?

**CY:** That's another commercially confidential one for us. We're growing it every month. We've had immense support from the retailers and suppliers. One of the things is that, building a start-up and learning, changing and trying to adapt to the retailers and suppliers, we never anticipated this level of support. Every month we're building store counts up at an aggressive and rapid rate. But we're also building out our SKUs and suppliers.

#### Do you carry SKUs across a range of categories, so you're not limited to dry goods, for example?

**CY:** Correct. Our strategy is growing percentage of store as far as SKUs and suppliers are concerned, so really working out aisle after aisle. Temperature control is certainly part of our plan. And we're not touching produce at this point. Those are two areas that we always planned to sequence later than ambient, but certainly tier-one and tier-two suppliers and the full range across the store.

#### What products or categories have been most popular?

**CY:** Health certainly is a growing area for a number of the independents. If you look at the aisle space that health's taking up, it's growing for the independents and the margins released, and the consumer choice really is driving that. Another area is liquor. We're moving alcohol currently, and we're also signing up independent liquor stores that have the same challenge as grocery retailers – they want a low-cost solution, they want access to suppliers. So those have really been the two of note.

#### What are the costs involved for retailers?

**CY:** With the model we have in the market at the moment, the supplier can sign up for free, their prices get transferred to the independent retail group and they price specifically by retail group, which is a key point. From a retailer's perspective, there's the transparent cost of the product and there's a two-per-cent flat fee that we charge to run the network. We have a very competitive cost structure for the distribution centre and carton-handling cost. Then the freight side is at actual cost to move that pallet to the store in an open market. So, if a retailer says they'd love to pick it up from our distribution centre, then that's free. If they'd like to organise their own transport, then it's the actual, and if we organise it, it's the actual, with no mark-up on it.

**AM:** We know it's a very competitive market in Australia for transport, so, rather than trying to do every element of the supply chain, we moved to places where we can get the lowest price for the retailer.

#### How has the response been so far?

**CY:** It's been phenomenal. Absolutely incredible. From a retailer perspective, they want, more than ever, a different solution, a low-cost solution to keep competitive. They want access to range as much as cost, so an open-range platform is critical. From a supplier's point of view, they're equally as supportive because they get to channel price and strategise around product directly to retailers.

At the moment, they've got, in many cases, an incumbent wholesaler and a black-box approach and they can't necessarily see that price move all the way through. They can't price signal or they can't sell by channel to the multi-store owners or single stores – whoever they decide to market to. So, there's been an incredible amount of support. The keenness for us to grow is high.

**AM:** The other thing we're doing to encourage engagement from both the suppliers and retailers is providing them data. It's something they haven't had access to in the past, or if they have, it's come at a cost.

In our view, the best way to make this model work and to improve it for all participants is to make sure they all have access to data so that they can become more efficient. The retailers can see trends emerging more quickly and get better product into their stores. Equally, the suppliers can see what's happening with their products and work out where they have to do more work to better promote it across the country. Providing the data to everyone and doing so seamlessly means a better all-round result for all participants.

#### What level of analytical capability does IRexchange offer?

**CY:** We have a pretty comprehensive business-intelligence data and analytics capability – SKUs, margins, store geography, category; any which way the independent retailers might want to cut it, they can look at their business, but also the broader market. We're in

the process of rolling out these analytics now.

**AM:** By making the data free to the parties, we've actually opened up our thinking and been able to give a better set of insights than you might traditionally do if you were trying to protect information to maximise your own operating margin. We're sharing the data to increase the level of trade, and that means that we've built data sets that are very transparent, very open and very comprehensive to both the supplier and retailer.

#### What lies ahead for IRexchange?

**CY:** We're flat out on a growth path. Across the states that we're operating in, store-count growth is number one and range growth along with it. We're building capability, we're building the team out, we're rolling technology out, and for 2018, really doubling and quadrupling our store count and supplier count. We're pretty excited about the next 12 months.

**AM:** We're also interfacing directly with a number of the big multi-store owner groups that are assessing their operations at the moment. A number of those parties, both in the traditional FMCG sector and convenience sector, recognise the need for a revised and better cost structure, so we're engaging directly with them as they assess what they want to do over the next couple of years.

**CY:** They now have an option, they have an alternative.

**AM:** We think the time is opportune for a new model to be in the marketplace. One that gives the independent retailers a lower cost, but at the same time gives the suppliers a new channel to market that allows them to do the things they want to do to grow their businesses going forward.

I think the model we have in the market allows both the supplier and the independent retailer to prosper and remain competitive moving forward. ●



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