

Andrew Clark

Irexchange CEO FMCG

Irexchange's unique technology enables retailers to trade directly with suppliers, eliminating the 'middleman'/wholesaler and thereby unlocking significant value for retailers and suppliers.

Technology-led disruption and evolving customer expectations of value, convenience and choice have changed global shopping dynamics. Established companies are being aggressively challenged by new, rapidly growing, asset-light and innovation-heavy technology businesses.

These forces are affecting the convenience sector as customers seek increased value, healthier choices and wider product selections amid a highly competitive retail market. Storage lockers, online ordering and product pick-ups for e-commerce purchases, drive-throughs and at-the-pump ordering are examples of technology-enabled services in response to this new demand.

P&C sales are heavily focused on tobacco and snacking categories such as drinks, confectionery and chips. With government regulation and changing community attitudes and behaviours affecting sales, it places a greater need for retailers to build strategies that mitigate any potential risk and grow sales in new ways.

Irexchange can provide solutions for current categories as well as tailor solutions for retailers' new growth strategies, says the company's CEO FMCG, Andrew Clark.

"Enabling retailers to trade directly with suppliers makes both parties more competitive and efficient. It puts them in control of fundamental decisions like product ranging and pricing, and helps make better business decisions," he said.

Irexchange, in conjunction with its logistics partner, DHL, brings large-scale flow-through distribution to Australia. The model minimises the need for warehouse inventory (lowering holding costs) and shares the "last mile" of distribution costs

across multiple suppliers.

The business model capitalises on technologies that are available and proven in other B2C marketplaces and shared-distribution networks (eg, Alibaba, Amazon and Uber); an adaptable and scalable approach; and the demand for greater value, choice, convenience and personalisation by end customers.

Net product pricing, open sourcing, reduced operating costs, supply-chain efficiency and shopper insights are key benefits for retailers, while suppliers are said to benefit from greater market reach, simple trading and pricing, cost-effective delivery marketing and promotional support and analytics.

Convenience World spoke with Mr Clark one year on from irexchange's launch to find out how its technology is disrupting the convenience industry.

What has irexchange achieved in its first 12 months?

The business completed a successful capital raise in 2017 to support continued business growth, facilitate expanded technology rollout and establish ambient and temperature-controlled distribution capability across Australia.

Since the business began trading in January 2017, irexchange has built a multi-state footprint of more than 360 independent retailer-store customers, established a national distribution network and supply-chain capability in partnership with DHL, completed phase one of its technology build, and achieved strong growth in supplier engagement with more than 100 suppliers and 3,000 SKUs now on-



boarded.

Irexchange has also received strong support from the retail market and this has given positive impetus for the business.

We're growing fast and have significant

growth plans in place throughout 2018 to expand our product range, distribution capability and retail-customer base across multiple sectors.

Irexchange was built with independent grocery retailers in mind. Have you found the P&C sector to be any different in terms of supply-chain expectations, challenges and opportunities?

The irexchange business model leverages technology to enable direct trading between suppliers and retailers by removing the wholesaling function and all its inefficiencies. The irexchange model has therefore been built to support independent grocery retailers, P&C retailers, suppliers and other sales channels and industry sectors.

We understand the significant differences between grocery and P&C retailers and recognise the wealth of insight into customer needs and behaviour held by both retailers and suppliers fuelling different strategies. We're also alert to the blurring lines between grocery and convenience in relation to value and price.

There are obvious differences that need to be considered, including the different customer missions and shopper types, store design and layout, different customer spend and purchase volumes, product ranging, product size and price, promotional strategy, volume and type of store delivery and frequency.

While the total range is smaller in the P&C sector with a greater percentage of sales concentrated in key categories (such as tobacco, beverages, confectionery, snacks, food and beverage on the go, take-home and health foods), convenience retailers are increasingly trialling and implementing a diverse range of new product categories and ranges to capitalise on trends and opportunities they have identified from consumer and shopper insights.

Irexchange is well positioned to handle the unique supply-chain challenges of the P&C channel where smaller, more frequent deliveries are required to cater to convenience-store design and layout, as well as daily fresh-product requirements. In-store efficiency and distribution costs can be further optimised using irexchange's global best-practice supply-chain partners to achieve multi-temperature deliveries and dynamically optimising routes.

Regardless of the uniqueness of the P&C sector versus grocery, the challenge remains the same for irexchange. Our approach is to understand the unique challenges and opportunities of each type of retail outlet within the P&C sector and adapt our offering to help grow their businesses.

How has the response in the convenience sector been so far?

It's clear the sector recognises the importance of digital transformation and supply-chain innovation to unlock value, continue growth and maintain competitiveness. Consequently, irexchange has been buoyed by the strong interest from the convenience sector and is in ongoing discussions with many customers.

We're excited to share the same ambition as the P&C sector – higher growth.

What products or categories have been most popular with P&C retailers?

Irexchange has a strong understanding of the petrol and convenience sector. The growth in the convenience sector continues to outstrip the grocery sector and this is being driven by the sector's commitment to innovation and customer-driven strategies in addition to changing shopping behaviour.

Product initiatives supporting fresh and healthy food on the go, pre-prepared meals, coffee and other frozen and chilled beverages are increasing store growth. Impulse, food and beverage on the go, general merchandise and tobacco remain key drivers of customer foot traffic and generate a significant portion of revenue despite tobacco remaining under intense regulatory pressure and changing community attitudes.

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

Our ambition is to support a full-store SKU range across all categories and temperature states (ambient, chilled and frozen) in all states of

Australia. Our initial approach was to progressively grow the offering of ambient products, starting along the eastern seaboard. Following this achievement, we've begun capability building to achieve our ambition to deliver a phased implementation throughout 2018.

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What are the costs involved for retailers with irexchange?

Irexchange's pricing between suppliers and retailers is transparent and enables unrestricted (no-cost) ranging of supplier products. There are no 'black-box' cost structures or hidden mark-ups. Irexchange operates a simple pricing model that splits out the product, handling and distribution fees. Irexchange charges a modest and transparent service fee for handling and distribution to the retailer. The supplier's net product prices, irexchange's handling, distribution costs and service fee are all

detailed transparently to the retailer on the invoice.

Suppliers sign up to the irexchange platform for free and their prices get transferred to the platform. Suppliers can also price specifically by retail group. Irexchange has a very competitive cost structure for DC and carton-handling. Freight is charged to the retailer at actual cost to move that carton to the store in an open market. Alternatively, a retailer can pick up products from the nearest DC or organise their own transport for product collection.

What level of analytical capability does irexchange offer? How can this benefit the competitive convenience market?

Irexchange has a strong analytical capability, which has been designed to provide flexible reporting and can integrate many data sources, whether from a head office, individual store or distribution centre.

Irexchange is capable of providing insights into a vast array of topics including order value and volumes, inventory, distribution, financials, product sales, pricing and distribution.

It is provided free of charge to retailers and suppliers.

By providing timely data, for free, it helps retailers and suppliers quickly

adapt and improve decision-making, increasing sales for all parties. This is important because, in addition to managing its traditional product categories and promotional plans, the convenience market is adopting some innovative practices, such as changing store design and product ranges to capitalise on evolving consumer behaviour and grow faster.

What lies ahead for irexchange in year two?

Irexchange is continuing to strengthen its capability and accelerate growth through the appointment of key FMCG executives with senior grocery and P&C experience and board members who are acknowledged as industry leaders.

The scaling of the team is in response to the business growth and positive market response to irexchange as a much-needed alternative to the longstanding, uncompetitive and outdated conventional wholesaler model.

Irexchange has a strategic growth plan to guide future expansion over the next three years. The plan is born of significant analysis across prospective sectors and has been refined through irexchange's FMCG retail market entry experience.

We will continue to build our product range and retail customer base across the grocery and convenience sectors. ew

How it works

Irexchange's model comprises six simple steps:

1. Supplier uploads product and price

The supplier uploads its unrestricted product range and price to GS1 NPC for retailer groups and/or individual stores. Irexchange integrates the supplier products from GS1 NPC onto the trading platform. The full range of supplier products and prices are visible to retailers on the platform.

2. Retailer places order

The retailer's point of sale system is integrated with irexchange's trading platform and orders are placed via the irexchange platform. The retailer orders at the net product price that is directly

passed from the supplier to the retailer without mark-ups. Ordering, receipting and payment processes are also streamlined and simplified in contrast to existing practices.

3. Orders are aggregated

Irexchange's platform aggregates all retailer orders daily into a single order to suppliers, by state.

4. Consolidated supplier purchase order

Irexchange's aggregation engine generates supplier purchase orders and these are automatically sent to the supplier.

5. Supply-chain processes

Irexchange is establishing distribution centres

in all states across all temperature chambers (ambient, chilled and frozen). Flow-through 'pick-to-zero' processes substantially reduce the need for any inventory holdings. Irexchange maintains a buffer of inventory on the top-selling lines to enable those lines to be supplied to retailers in the shortest possible lead time.

6. Delivery to retailers

DHL provides logistics services across irexchange's network that optimise delivery costs by selecting freight providers for each location based on the lowest cost. DC optimisation is managed in conjunction with DHL, including track and trace. ew