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Are eCommerce businesses turning into logistics companies? - an interview with RedMart's CEO on the operations backend

BY CLARA LU 20 MAY, '14

Singapore's online grocery shop **RedMart** has become extremely popular for the great experience it provides to its customers, all made possible by very well organized backend operations. **TradeGecko's** team couldn't miss the chance to discover Redmart's logistics secrets right from the source and share them with you, so we went to interview Roger Egan III, co-founder and CEO at RedMart.

Since launch in 2011, RedMart has grown to a team of 180 employees, and it is rapidly conquering the Singapore online grocery market. Eduardo Saverin, one of RedMart's investors and co-founder of Facebook, expressed his immense confidence in the company's growth and potential by stating: *"I believe that time-starved consumers will increasingly value convenience in purchasing their daily essentials. The logistics and technology platform the RedMart team is building extends far beyond selling groceries in Singapore. The founders' ambition is boundless, their execution near flawless and I am excited to help them to realise their vision."*

Read on to discover why RedMart has such a big focus on logistics and how does the company run its backend operations.

A: What is the story behind RedMart's success? What were the stages you went through, from a business backed perspective?



R: In the beginning we were planning to do cross-dock for almost the products and get just-in-time inventory. But we quickly realized that even if suppliers said they will deliver the same or next day, they were not as reliable. It was too much of a pain. It shows our level of naivety at the time. We realized that if you want to give a great experience, you have to control the supply chain yourself. So we started holding our own inventory.

On the delivery side, we also thought that we are going to outsource delivery because we didn't know anything about fleet management or hiring drivers etc. So we did outsourced it - we tried a few services and it was terrible. They were messing up the deliveries, and sometimes they just didn't show up. We pay a lot of money to acquire a customer and if they have that bad experience on their first delivery they are not going to use us again and they are going to tell everyone how terrible we are. We couldn't afford this to happen. Delivery was our touch point with the customer. We learned that, especially with groceries, you need to control that last mile.

In the beginning, we just got one van. My partner and I, after working all day, we would pick and pack at night and then deliver the packages ourselves. People thought it was crazy to see the founders coming to their door with the groceries. We had the uniforms and everything. It was funny. We were providing 2h delivery windows and if we got scheduled deliveries for the same one in different corners of the city, we would call the customer and say "Hey, we are an environmentally friendly company and we want to save the fuel. Do you mind if we deliver earlier?" People usually said yes. We learned a lot from doing delivery ourselves, as founders. The biggest thing we learned was that it was doable, we can bring deliveries in-house instead of outsourcing them. We just added one van after another and now we have 20 delivery vans and 3 fleet trucks.



The other thing we learned by doing everything ourselves was that through a 2 min call with the customer you get so much feedback than any survey. We learned quickly what people liked and disliked about our service.

A: How do you decide when to scale? What was the process from going from founders team only to where you are today?

R: We needed to grow orders, and in order to grow orders you need to increase capacity. And you don't have money in the beginning. In the end, you do have to build a better capacity before the orders come in, you can't always have just-in-time capacity. We had to raise more money and do that, and it was definitely the right thing to do.

A: And what about the balance between growth and optimization?

R: There is a trade between growth and optimization. It is a volume and scale business, so we want to accommodate growth. We need to become big for the business to work. But you do have to focus on optimization to get more out of the assets that you are buying. The answer for more capacity can't just be more trucks all the time. You need to get more efficient with those trucks. You have to do both growth and optimization. It is

very challenging, but that's part of startup life - you have to make the impossible happen all the time.

A: Let's get into the logistics details. How did you increase efficiency and how did you scale the delivery service? Any concrete examples?

R: In the beginning we only had limited slots available for each delivery window, and when we were reaching that number of orders for the 2h slot, we would stop making it available for new orders.

We are getting more and more automated towards real time scheduling of delivery routes. At first it was very manual. We had delivery drivers that knew Singapore very well who were putting routes together. Obviously that was not scalable, so we quickly adopted some software that can recommend a route. But it made mistakes and we still needed someone to fix that. We built ourselves an android app called Delivery Buddy, which is like Uber for our delivery drivers. The driver can see the delivery route and it updates in real time. If a customer calls customer service "Hey, I am not gonna be there", the customer service rep can just update the info and it automatically updates the delivery app. It makes it very efficient to manage the drivers and it allows us to understand how are we doing.

Now we get real time statistics of our deliveries. Before that, the only way to know if deliveries were done properly was by having people to complain that they were late. But a lot of times people don't call, they just say "Oh, this is a bad service" and they are not using us again. These metrics were the reason why we created this app. We developed it in two months. We have a very strong engineering team, which is very helpful.

The delivery route optimization makes it so that each truck can do more deliveries every day. It is one thing to optimize when you have all the routes, but what we've learned is that you can start optimizing before, during the scheduling.

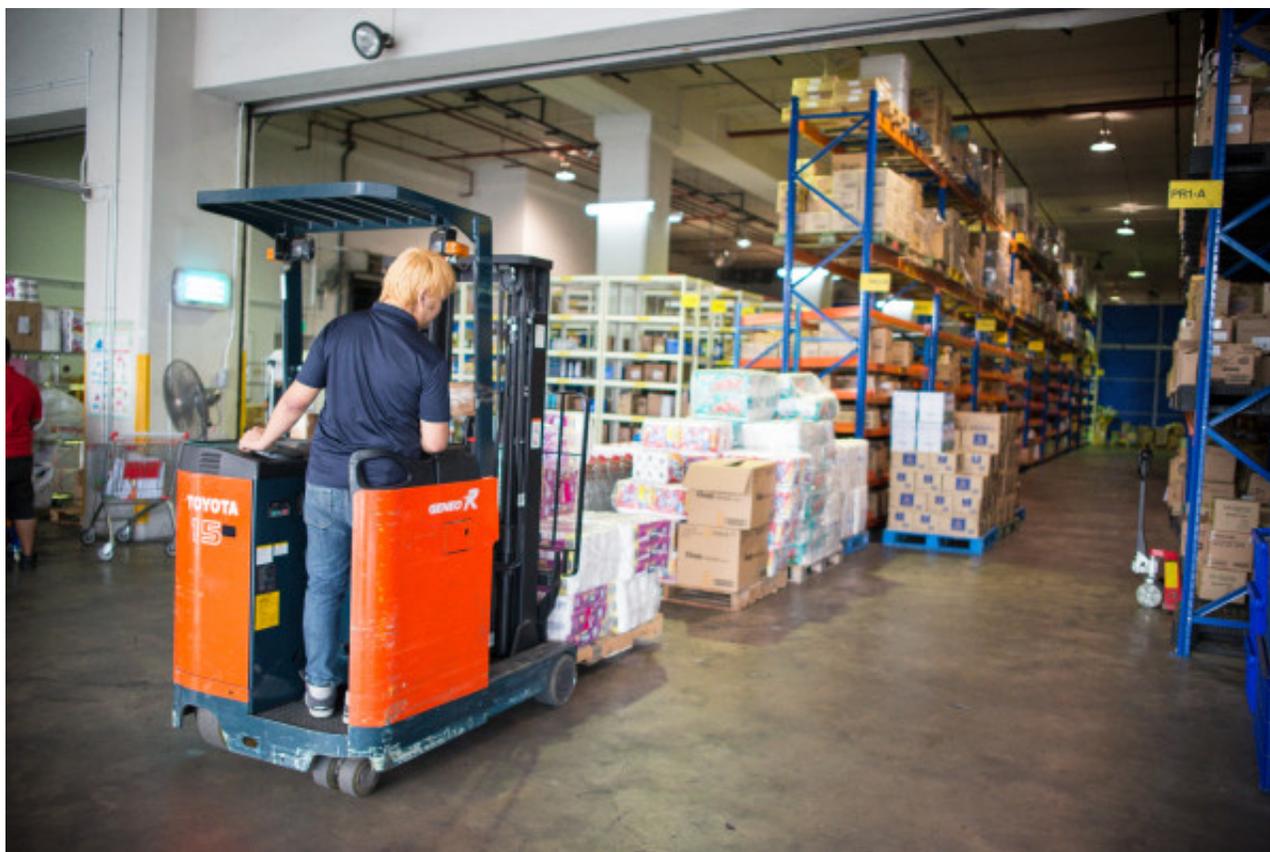
So, for example, we know your address and of all the customers who ordered before you, we know where the truck is going, so when you are choosing a delivery slot we might say "We give you an incentive to pick this slot" because our truck is going by your house at that day, at that time. People have some flexibility around it - some need a special delivery time, but many people don't so we just give small incentives to have them select

slots that work better for us. This is huge for our optimization. Having two deliveries in the same place saves a truck. So it is good to give a few dollars off to make them choose the same delivery time slot.

A: And what about **inventory management**? How does Redmart handle inventory?

R: Being in the grocery business, we are very different compared to other eCommerce businesses. That is because we have many products per order - our average order consists of about 14 lines and 22 product types. When we will go for fresh food we will probably have close to 30. And because we are picking and packing so many different products for each order, warehouse optimization is much more important for us than for a normal eCommerce company.

We have to make it super simple for our pickers to pick and pack. We have an algorithm that optimizes the pick tasks and minimizes walking distances. We have an algorithm that does wave picking (putting the customer orders on the pick carts, so we pick six at a time - much more efficient than just doing one at a time). It increased our efficiency by 50%. Now that is the software side. We are working on hardware automation technology now to make the pick cart more automated. Technology is becoming exponentially more powerful and cheaper. It is not going to be as capital intensive to optimize and scale as it used to be.



A: And in terms of dealing with suppliers - any experiences and insights to share?

R: In the beginning suppliers don't know you, they don't want to give you inventory and take the risk. You need to build your reputation and build relationships. Other eCommerce's charge a listing fee to suppliers, which we disagree with it. We don't charge that. We pay cash on delivery to suppliers in order to earn their trust. And they like to be paid on time. We made it super simple for them, and they appreciated that.

Now they are showing support by subsidizing our promotions and allowing us to have better margins. P&G is importing products exclusively for RedMart from the US. Unilever is supporting us by paying us to supply ice-cream by giving us freezers.

A: Quite a lot of logistics aspects to handle. I am curious how do you actually prioritize between them?

R: What we look at is the metric that means everything in eCommerce: conversion. We know how much traffic we can get to our site (as it is not infinite, you cannot rely on just getting more and more traffic, you have to start converting more). The conversion rate can increase because of user experience, site speed, selection and prices. But what we noticed to be the biggest driver is whether people find what they want to buy. If you have a limited selection, they can't find a lot of their products so they have to go to the grocery store anyway, and if they have to go anyway they pick up some stuff that we sell. We think the biggest conversion rate improvement is adding more range, making it a one stop shop. That's why we go into fresh and we will be adding so many more products. We will have a bigger selection than the grocery store. But then, you need a much more efficient warehouse to handle that increased range of products. We didn't have the resources for that in the beginning.

So now we differentiate on the convenience experience, then the next step will be the product range. As for pricing, we are not going to start a price war - we hope that our customers will value the convenience and selection.



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R: Yes, RedMart is going into fresh this year. There are lots of changes in the backend. We have a separate project management team to bring fresh on. The website team needs to have more images and filters. The operations team has to keep the food cool all the way from warehouse to delivery. There are packaging changes. Merchandising has to find

fresh sources. There is a lot of coordination that needs to happen among all these and it is a huge project.

A: How did you acquire the knowledge to run this type of business?

R: We [the founders] had no eCommerce or tech experience. We surrounded ourselves with advisors and experienced employees. For example, we got the Lead Solution Architect from tesco.com to join us and resign from the biggest grocery store in the world. Our VP of Marketing was Director of Marketing at ebay. When we get this type of people, I feel great. It is awesome to work with them, they are so talented.

In any case, it is a pretty nascent industry, nobody has figured it out yet. Sometimes it is good to have a fresh perspective as a founder with a background in the industry. There is no right way right now. Not having the experience is not such a bad thing in this industry.

A: What's next? Where is RedMart heading to? What is the vision?

R: We want to be the biggest and best eCommerce company in Southeast Asia. We started with groceries, but the platform that we are building will go far beyond groceries and Singapore.

A: And finally, what is your opinion on the ecommerce trends, especially on grocery ecommerce trends?

UK's online grocery penetration is now 15% and it is growing at 25% a year - it is growing really fast. Online groceries took some time to kick off because it is so difficult: margins are lower and logistics are very challenging, but it forces you to create more efficient logistics and better technology.

Groceries is the only product category with sufficient volume and frequency of ordering to be worth having your own fleet and utilize the capacity on that fleet to pay for it.

Amazon is becoming a logistics company, not just for Amazon Fresh but for everything.

So the line is blurring between a logistics company and eCommerce. Most of what carrier companies are shipping around is eCommerce stuff, and they realized that they are doing the most difficult part of it, so why not become a retailer? DHL has an eCommerce site, SingPost has too. Logistics companies go into retail and eCommerce companies go into logistics. RedMart itself is a logistics and technology company, not just an eCommerce platform.

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