

Jan Van Belleghem, Managing Director, interACTION



OPI: Jan, many people reading this will be familiar with interACTION but may not fully understand every aspect of its business model. How does interACTION position itself within the international office products marketplace?

JVB: interACTION is a unique concept which began as an alliance of like-minded, non-competing wholesalers in the 1990s with the single ambition of comparing pricing with each other. It obviously became more interesting than originally expected because they soon formalised the organisation and looked at other possibilities to co-operate, a good example being the creation of a pan-European private label - Q-Connect - which was born a little over ten years ago. Basically the organisation does three things. Firstly, it's the development of Q-Connect where we see so much potential. The second element of our co-operation is agreements with what we call our key vendors. We have nine agreements with a selective number of vendors, each in a different category, where we try to co-operate as closely as possible with each other. Thirdly we still share best practice and benchmark in terms of logistics and marketing.

OPI: Although interACTION started life as an alliance of wholesalers, your website now defines the organisation as an alliance of distributors and your members now include what are best described as resellers. What prompted the broader focus?

JVB: It's true, we have diverted away from the path of pure wholesalers because we have redefined our target as having the best possible distribution for the Q-Connect range in a given country. Therefore, we now look more at who is best placed to distribute the brand, rather than whether they are a wholesaler or not. This is why, in some countries,

our member has a hybrid model, or can even be considered as a contract stationer.

Very often in these countries, there are no pure wholesalers anymore. It's only in a number of big European countries where you still have pure wholesalers - like Germany, France and the UK.

OPI: How would you say interACTION differentiates itself from an organisation like EOSA?

JVB: Well, we're a small, low profile organisation trying to focus on what we're really good at which is purchasing side. We are not involved in creating any sales network to serve multinational customers which is EOSA's main strength

OPI: So how is the group comprised?

JVB: We have six shareholding members, essentially the founders of interACTION. They are *Vasanta* from the UK and Ireland, owners of VOW (formerly Kingfield Heath); *PBS Holding* which has operations in Germany, Austria, Czech Republic, Hungary, Slovakia and Slovenia; *Plaisio* (Greece and Bulgaria); *Comercial del Sur* (Spain and Portugal); *Waser* (Switzerland); and finally the *Wulff Group* from Finland. Then we have three associated members – *RP Diffusion* from France, *Emo* operating in Norway and Sweden, and our latest newcomer, *Remmer* from Denmark.

OPI: What about Russia? I thought Bureaucrat was a member.

JVB: We worked with Bureaucrat for about a year but we both came to the same conclusion that our expectations were a little different and we decided not to extend the co-operation. We parted on very good terms though.

OPI: How did their expectations differ to yours?

JVB: The positioning of the Q-Connect brand did not fit their customers' needs. They were more interested in attractively priced products where quality was less of an issue than it is for us.

OPI: Looking at your members, you have a small number of quite large influential players such as Vasanta, PBS and Plaisio which possibly account for half the group's volumes. If one or two of these were to leave, how would that impact the alliance?

JVB: One of our objectives next year is to expand the membership geographically such that if one of the current members did leave it would not have a serious impact on the organisation. But I think the way we are structured and the way that our overhead costs are controlled allows us to still be operational even if we lose one of the three big members.

Having said that, I don't think it's likely any of these companies will leave as the Q-Connect brand has become a substantial part of their business and, by leaving interACTION, they would lose access to that brand.

OPI: Sure, but I imagine some of them must be tempting acquisition targets. You've already lost one high profile member in Benelux to Spicers and in the last issue of OPI, Rob Vale spoke openly about their expansion ambitions.

JVB: I think the only large member where this situation might arise is Vasanta but, to be honest, I personally believe they would rather acquire than be acquired themselves. They're a very strong player in the European market and have given firm support to interACTION. I guess any other smaller member that might be acquired by somebody outside the alliance would not have too serious an impact on the further existence on interACTION.

OPI: What is the current collective sales volume of your current members?

JVB: We have collective sales of about €1.7BN.

OPI: What purchasing volume does that translate into in terms of purchases through interACTION?

JVB: I would split it up into two parts. First of all there's the purchasing volume for Q-Connect. That is €25 million directly coordinated and negotiated through this office plus another €45 million in Q-Connect contracts for items like paper and envelopes which are negotiated locally by the members.
The second part would be the purchases through the key vendor agreements, and that amounts to roughly €60 million.

OPI: How many SKUs are in the Q-Connect range?

JVB: Well, it's already quite an extensive range – something like 1,700 SKUs across the international product range and another 500 local items.

OPI: I understand that you plan to overhaul the brand in early 2009?

JVB: Yes, that's correct. We don't want to position Q-Connect as just another alternative to the 'A' brands. Our ambition is to have a premium brand where quality and design go hand in hand with attractive pricing.
Added to that is the fact that our brand is not only sold through catalogues, but it's also displayed in retail – for example, in the Plaisio stores and through many other retail customers of our members. We felt that we needed to have a brand and packaging which was suitable for both retail and catalogue sales.

Therefore we invited six professional design agencies to tender for the work. The winner then created a design manual which has been put into practice by a team of desktop publishers which I have recruited. We believe that with a little effort we can unite the looks and feels of an 'A' brand with the price attractiveness of a house brand.

OPI: What are your ambitions for the relaunch?

JVB: The rebranding should be finished in the New Year. We already have about 90% rebranded so in the new 2009 catalogue, the vast majority of Q-Connect items will already be in the new design.

In terms of future goals for the brand, there are two product areas we want to expand - technology-related items and eco-friendly products - and also we wish to see some products more attractively designed under the Q-Connect brand, far more than you would normally expect to see under a private label brand.

In terms of market penetration, I think we already have very good market penetration in a number of countries like the UK and Switzerland, but I'm sure that we have the potential to grow a lot in markets like France, Germany and Eastern Europe.

OPI: Over 2,000 private label items already seems fairly substantial. Given that many of your members are wholesalers and exist really to connect brand manufacturers with consumers, have you not reached a point where you should now concentrate more on your key vendor strategy?

JVB: Let me first explain that the members make their own selection out of these 2000 products that are available. On average a member has around 700 Q-Connect products listed.

But to answer your question I don't think so. There are still a lot of product areas which we haven't penetrated. There are, of course, a number of brands which are very important and brands which are innovative, and these brands are heavily supported by us as distributors as well. But when you look, there are also a number of brands which haven't been so successful in innovation over the last few years and there I believe the Q-Connect brand is a very interesting alternative for our customer base.

OPI: Would you care to name any of those?

JVB: No, that would not be polite, haha. But in terms of brands that are selling purely commodities, the Q-Connect brand is a perfect replacement. We try to make our packaging as attractive as those brands and sometimes even succeed in making it more attractive.

OPI: Let's switch subjects at look at geographic expansion. There appear to be a number of large markets where you have no member at present, such as Italy, the Benelux countries and Poland. Do you have plans to fill in the gaps?

JVB: Yes, indeed. Let's say 2008 was the year where we focused on getting the rebranding done. In 2009 our goal is to fill in the gaps on the map of Europe but we have no numerical objectives – it must be a perfect marriage between both parties.

Other potential markets apart from those you mention include Turkey and of course Russia. It wasn't so much a question of whether our brand could never be successful in Russia but it just was not right for Bureaucrat. There are clearly a number of substantial companies in Russia which have a different profile where Q-Connect might fit well.

OPI: **Do you have any ambition outside of Europe, in the Americas or Asia perhaps?**

JVB: It is not our main objective to try and find members outside the European Union at this point. Our organisation is small and lean and that would be difficult to manage.

OPI: **So you're not talking to anyone in North America, for example United Stationers or SP Richards?**

JVB: No we're not.

OPI: **Let's move to Asia. I believe you've had a small sourcing operation there for some time?**

JVB: Yes, about two years. As the Q-Connect range grew it became very important that we have somebody permanently over there, helping us cross the linguistic bridge between some vendors and ourselves. Another benefit is that we are now able to do pre-shipment controls and company audits internally. We are very happy with the organisation we have in China – it's identical to the organisation we have here in Belgium i.e. it's mean and lean, and therefore very efficient.

OPI: **China has been hit a number of macro economic factors in the last year – higher energy prices for much of the year, rising wage expectations, raw material price increases etc. Do you see China becoming less attractive as a product sourcing destination?**

JVB: Of course things are changing rapidly there, definitely in terms of salaries and social security for the workforce, and some labour intensive businesses are looking to relocate to other countries – Vietnam and Indonesia being two of them. I'm sure some of them will do so, but I am still convinced that a big chunk of global manufacturing businesses will remain in China.

The Chinese have proven to adapt quickly to new situations and during my last visit what really struck me was the fact that more and more Chinese factories are investing in automation, replacing large numbers of manual workers to compensate for increased labour costs.

OPI: But surely that then removes much of the historic Chinese advantage? If they automate, why would anyone in the West want to manufacture products in a China which now has a much reduced cost advantage and then incur the expense – not to mention the environmental cost – of shipping that product all the way to Europe?

JVB: Yes, you're right. For purely automated production you may be better off manufacturing in Europe. But a number of products still need hand labour as well so there's a stringent calculation which needs to be done, comparing the total cost of goods from China with that cost from our European sources. From the moment 20% or more of the total cost of a product consists of labour, it starts making sense to source in China

OPI: Do you calculate the environmental impact of where you source, or is it a purely fiscal calculation?

JVB: There are many parameters that play a role. One of them is the impact of the lead times, the impact of the minimum order quantity as well. But also we take into consideration its environmental impact.

OPI: It sounds like a bit of an afterthought.

JVB: No, not at all. As you know from being in the UK, it's a very big issue in some markets. Having such a strong member as VOW which is very conscious of the environmental impact of its business, that is reflected in our Q-Connect sourcing. Of course it's not the dominant parameter, but it is one of the parameters.

OPI: Does interACTION have any inventory facilities in China or Europe?

JVB: No, we try to select members that have the critical mass to import directly out of the Far East, so each member is holding its own stock. Having said that, some of the smaller members, every now and then, will buy from some of the larger members for certain products.

OPI: I've just returned from Asia and spent some time at Paperworld China. How important to your role are trade fairs, and what's your outlook for the future of office products trade shows?

JVB: Well, my personal feeling is that the trade fairs in Asia will be the most dominant ones but there is still a place for fairs like Frankfurt and certainly for local events like PBS-Aktiv in Austria, Swiss Sourcing Days or Spicers World, which directly connect with the dealer community.

OPI: If you had to compare the Canton fair and Paperworld China, which would be your preferred?

JVB: Well, I've been twice to Paperworld China and many times now to Canton which is only focused on the Chinese manufacturers and, for that reason, very interesting for us.
Paperworld China is a good alternative but the question is, how will it develop itself and will it manage to form a counterweight against Canton. That's, of course, the big question but I think it's still important to visit both fairs on a regular basis.

OPI: What's next for you? What do you hope to be doing in the next five years?

JVB: Well, that's a very good question. Hopefully in the next five years we will talk again, but then interACTION will be an even stronger organisation and the Q-CONNECT brand will have generated a turnover of 200 million EUR. It has the potential.