

# Changing the Game

Only four years after being established, Pepperstone has changed the forex industry and the financial services market forever by introducing low-cost, technologically advanced trading.

Images by Estelle Judah Photography

*“We operate an environment almost like an exchange model where 22 banks all compete for currency trades, and whoever has the best bid or asking price, whoever offers the most competitive rate, gets the business.”*

- Owen Kerr

**W**hen self-confessed tech geek and computer scientist Owen Kerr met finance whiz Joe Davenport eight years ago, they realised that together they could reinvent the forex trading industry. They’d both had experience with financial services, and knew that with their combined experience they could create a low-cost way for clients to trade on the foreign exchange market. So they created Pepperstone, with Owen as CEO and Joe as CFO.

Owen used his technological savvy to see where they could improve the current trading systems. “I’m a computer scientist by trade, and I have always been involved in computer science and, in particular, in financial markets computer technology. So when I met Joe, he was working the forex brokerage industry and we really saw some gaps: no-one was really doing discount brokerage in the forex industry. A lot like how CommSec introduced discount equity brokerage, no-one had introduced high-speed technologically oriented forex trading in the forex industry.”

Joe, originally from the UK, moved to Australia around 10 years ago

and began working for an online forex broker. “My background has been in financial markets, more on the sales and marketing side. I’d worked in retail foreign exchange brokerage in the financial markets for a long time and met Owen through some mutual friends. That’s when we teamed up and combined our skills: Owen’s on the technology side, I’m on the sales and marketing side.”

After years of working on the technology and infrastructure, Owen and Joe launched Pepperstone in 2010. Almost immediately, they were a success, growing very quickly in a short time. According to Owen, it was a combination of the technology and the low-cost offering they had. “We gained a lot of market share quite quickly. Previously, forex brokerage was around \$50 per trade and we brought that down to \$7. So we managed to really gain a toehold and achieve quite a great deal of market share very quickly. With that extreme growth, we scaled our business quite quickly. We opened offices in Dallas in the United States and in Shanghai in China, and we have really operated a 24-hour business ever since.”

To allow Pepperstone to set its prices so low and have the speed for its clients to make trades, Owen and Joe set up a data centre in

New York, around 11 kilometres from the infamous Wall Street. Basically, the closer the servers are to where the action is—in this case, financial hub Wall Street—the quicker trades can be executed. According to Owen, many of their competitors base their servers in Australia, meaning they have nowhere near the speed of execution Pepperstone has.

“We created some unique technology in the way that we execute trades. Foreign exchange traditionally has been traded between banks and over the counter, so we sat down to create an exchange. We set up a facility over in New York and we connected all of our servers via optical fibre to all of the big banks. We operate an environment almost like an exchange model where 22 banks all compete for currency trades, and whoever has the best bid or asking price, whoever offers the most competitive rate, gets the business.”

This technology is what flipped the industry on its head. Pepperstone was able to come in and offer competition to the big banks, who for years had been making huge commissions on forex trading. “It has resulted in our clients paying less for their trades; it means the commissions are a lot less, the prices that they get are better, and >



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## NEXT STOP, MONTE CARLO!

Joe Davenport and Owen Kerr were named the 2014 Australian Entrepreneurs Of The Year for growing Pepperstone into one of the world's top 15 foreign exchange brokers in just 4 years.

They're now going to Monte Carlo to represent Australia at EY World Entrepreneur Of The Year.

You can join them and other top entrepreneurs and CEOs from around the globe at World Entrepreneur Of The Year on 3-7 June 2015.

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also the most accurate, and they don't get ripped off by the big banks. We are really disrupting the industry. The margins within the industry were huge; there used to be a lot of fat. There were huge, inefficient brokerages around.

"We're a lot like the discount airline industry. When Ryanair and easyJet first hit the market, it created a lot of waves and put a lot of airlines out of business, so we did the same thing for forex. We compete against brokerages with 100-year pedigrees, some really big players, and all the banks as well. We have been successfully able to shake up the market, and now we've become almost the standard, so people have brought their commissions down to our level. We're still one of the most attractive and cheapest in the markets, and we've really managed to shake up the industry."

It's not just Joe and Owen who think Pepperstone is going well: they were recently named the EY Entrepreneurs of the Year for Australia in recognition of their success and hard work. The awards are a global program run by Ernst & Young, and, by winning, Joe and Owen will be representing Australia at the World Entrepreneurs of the Year awards hosted in Monte Carlo from 3-7 June. For Joe, he was honoured to have even been nominated.

**"We believe that entrepreneurship and the export of any goods or services is something that is really going to help drive the Australian economy forward."**

- Joe Davenport

"It was a great honour. The Entrepreneur of the Year program is a fantastic program that recognises talent in the Australian market, and to be even nominated for that, we were most pleased and delighted. We believe that entrepreneurship and the export of any goods or services is something that is really going to help drive the Australian economy forward, and to really show that our hard work and the business that we've built has been noticed. It was a great honour for us; we were very pleased to take part, and we're very much looking forward to representing Australia in Monaco for the World Entrepreneur of the Year awards in June."

When it comes down to why they think Pepperstone—and they themselves—were awarded such a prestigious accolade, Joe believes the high growth rate the company has had since starting, and their relentless hard work, has set them apart. "We have grown very quickly, and we backed up that profitability as well. We believe that the foreign exchange market as a whole is growing rapidly with more and more entrants coming, so there's a huge future potential for growth for the company as well. So it is for those three key reasons—the fact that we're an exporter, the fact that we have historically grown very fast, and the fact that we have still got a lot of work to do and a lot more growth to come."

"I think when we started Pepperstone, we didn't really know if it would work or if our product would be adopted by the market, but we took the risk. We went out there and we did it anyway. We worked our arses off to get it done, and then we worked very hard to push it out there and we were awarded with success. We have made a lot of mistakes along the way, but we just kept at it and we kept doing it."

For Owen, he believes that industries like his, and companies like Pepperstone, are the new forefront in Australian exporting. "We are sort of the second wave of Australian exporter. I mean, we

export financial services to China, and Gina Rinehart and Roy Hill are among the first wave of Australian exporter, digging things out of the ground and exporting to China. We feel that we are the second wave of exporting services to our region, and we think that it is a way forward for Australian business, not just to export physical goods but to export goods and services and lead the knowledge economy within the region."

It's this second wave of exporting globally, and to the emerging Asia-Pacific markets in particular, that Owen believes will help push Pepperstone forward. "I think we are a truly global business because we export services all over the globe. We are not selling to Australians; we cater to a truly global audience. We have customers in 150 countries, so that is very powerful in the way that it's enabled us to grow and tap into global growth. The Asia-Pacific region is growing a lot faster than the domestic Australian economy."

As for the future, Joe also believes that the growth Pepperstone has seen so far will be nothing compared with the next five years. He has high hopes for the company, and believes that it can dominate the market before 2020. "What we have achieved so far is outstanding growth, but it is still only the tip of the iceberg."

"The estimate for the retail foreign exchange market is growing; it has grown at 40 per cent year on year over the past 10 years. That is continuing to improve, and we are in the right position to grow with it. So we believe that our focus over the next few years is to continue growing our client base as much as possible, expand into new regions all over the globe, and to constantly improve and work on technology."

"Our overall goal, which we believe is achievable within the next three to five years, is to be the largest foreign exchange broker globally—and we think we can deal with it in that time frame." •



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