



## The talk of the town

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Broke but inspired, two friends created a nationwide business by meeting the traveller's need to communicate.

Last Christmas Eve, while he was holidaying at Byron Bay, Philip Weinman could not get his laptop computer to work. Dressed in shorts and a singlet, and with bare feet, he tucked the laptop under his arm and went in search of an Internet cafe.

The first cafe that Weinman, 45, found was overflowing with young people and he was told there was an hour's wait for a computer terminal. Weinman did some quick sums and was impressed by the money the business was making. Unwilling to wait, he went in search of another cafe. Down the road he found one, empty and charging only half the price for Internet access. "I was absolutely intrigued and excited," he says. "Why was one store packed and the other, cheaper one, empty?"

By Boxing Day, Weinman was calling his business partners, accountants and anyone else he could think of. "I told them I had just seen the greatest investment opportunity, and to fly up." Less than two weeks later, Weinman and his partners had struck a deal to invest in the business, Global Gossip.

The business Weinman stumbled on that Christmas Eve was about to celebrate its first year. The idea for Global Gossip came from Philip Dean, who, at the age of 25, had walked away from a career in banking.

On a trip to Britain in 1997 to see his parents, Dean visited a tiny shop in Earls Court. It was crammed with backpackers taking advantage of cheap telephone rates. The British telecommunications industry had been deregulated a few months before the Australian industry. Dean was aware of the possibility of making cheaper calls, having used a United States carrier in Paris a few years earlier. He began to think about setting up stores around Australia from which travellers could make cheap phone calls and use other technology such as e-mail, facsimile machines and photocopiers.

Dean knew that timing was crucial. He hurried back to Australia and to the apartment he was sharing with a friend, Peter Orenden. The plan became bolder, the handful of stores becoming a chain. Finally they settled on a grand plan: to set up, as quickly as possible, communication centres in every tourist destination in the world.

There was one problem: they were broke and dependent on Orenden's wage as a waiter at Sydney's Intercontinental Hotel. To Dean and Orenden, the lack of money was merely a nuisance. Dean borrowed an old laptop from a neighbor, bought a book on writing a business plan and spent the next two months working out how to get money from a bank manager.

Both had spent several years travelling and working overseas. Orenden says: "The backpacker has changed from the penniless hippie of the 1970s and early 1980s. Now they come from the middle to upper class and travel with thousands of dollars. Half of them pull out platinum American Express Cards to pay for the telephone. This is a trend few have picked up on."

Most backpackers are between 18 and 25. Many are students on working-holiday visas, working for three months at a time before travelling on around Australia. Orenden says: "They work hard and play hard. They hit town with \$5:10,000, earn another \$10,000 and every single cent they make is sunk into this economy." The backpacker market also includes burnt-out executives on personal-growth journeys and retired people in four-wheel-drives or caravans.

Backpackers, many of whom are computer literate, need communication centres for a variety of reasons, including writing resumes, applying for jobs, buying and selling items such as cars, finding accommodation and communicating with other travellers and relatives. Orenden says: "Now when you travel, you swap e-mail addresses, not home addresses."

When Dean and Orenden started their business plan, they could not find information on backpackers with working-holiday visas, but there were plenty of statistics on tourists and their length of stay. Dean says: "My background in statistics meant I could manipulate the data to our favor." In the plan, they predicted that 200 people would visit their store each day. Dean says: "I thought that was exaggerated but we were almost spot-on."

As Orenden and Dean developed their business plan, Internet cafes and stores were springing up around Australia. Some offered food and drink. Others were basic: a few terminals in a basement under a glaring florescent tube. However, nearly all were run by sole operators and none offered a full range of communication services including, for instance, lower phone rates.

Dean and Orenden decided they would be different. They would offer lower phone rates, friendly staff, clean, comfortable, attractive and safe stores, and a strong technical team to ensure that equipment was fixed quickly and worked at maximum speed. Dean says: "Our history in the service industry meant we were committed to exceptional service." Marketing was to be by word of mouth.

In September 1997, Dean and Orenden visited 10 banks and presented their business plan. They confessed that they had no security, there were no barriers to entry in the Internet cafe business, and their idea was not earth-shattering. Then they asked for \$60,000. Most bank managers did not even look at the plan before showing the pair the door. To make matters worse, Orenden had resigned from the Intercontinental because they wanted to promote him. "I couldn't let them promote me and then leave to work for Global Gossip," he says.

Orenden's parents, concerned that their son was 29 and unemployed, decided to mortgage their home to act as guarantor for the loan, but that might not have been enough. Dean had worked hard to develop a relationship with a National Australia Bank manager, Lou Caruso, at the Oxford Square branch in Sydney. He arranged a loan for \$60,000 and an overdraft of \$20,000. Dean and Orenden also got a car loan for \$20,000 from another branch and used it to buy their first computer.

Dean had arrived back in Australia in June 1997. A month later, the telecommunications industry was deregulated, allowing cheaper phone calls. The pair were determined to open their first store by Christmas 1997. Orenden says: "We knew Christmas was the one time everyone phones home, and if we missed it we had to wait a year." By October they were still waiting for a bank loan.

Orenden and Dean spent the time between August and October 1997 walking the streets of Sydney inspecting rivals and possible sites. They selected Kings Cross for their first outlet, but no sites were available and no shopkeeper responded to letters asking to take over leases. Finally, they found a site on George Street in the Sydney central business district, near a large backpackers lodge with an airport bus stop outside.

By mid-November, the pair had signed the lease and received the loan, which left one month to fit out a store with computers, phones and furniture. The timetable looked realistic, until they realised that December is a frantic period in the Sydney building industry. Dean says: “We ended up using a set-design company because the TV industry shuts down over Christmas, which explains why our first shop looked like a movie set.”

Throughout December, Dean and Orenden, with some friends, worked around the clock, demolishing, painting and carpeting. Orenden says: “We paid far too much for everything.” The fitout of the first store cost \$40,000 (the cost for comparable stores has been cut to \$20,000). As they worked, people knocked on the window, asking when the store was going to open.

Early on Christmas Eve, a technician arrived to check the system. Orenden says: “He walked in and said, ‘Where are the phone lines?’ We looked at each other and said, ‘What phone lines?’ ” The technician worked until midnight, putting in cables, linking the systems and getting the three computers and 10 phones working.

At 3am on Christmas Day, Orenden headed off to print advertising fliers. The photocopying business - which was usually open 24 hours a day, seven days a week - was closed. Orenden says: “I couldn’t believe it. Then I thought, Intercontinental! So I snuck into their business centre, where I spent the next two hours photocopying fliers.”

At 5am, he raced home for a shower, grabbed the fliers and bottles of champagne, and headed for Bondi Beach, where many travellers and backpackers celebrate Christmas. After distributing fliers at the beach, as well as hotels and hostels, Orenden arrived back at the store by 8am. Dean had spent the night at the shop, testing the system.

At 9am, the first customer walked in. Orenden says: “He was a Korean guy with a red backpack and he walked in like it was the most normal thing in the world. I was behind the counter and he said, ‘I want to make a phone call’. Off he went and we were bashing away on the calculator, trying to work out how much money we made on the call. I will never forget the sheer joy of that moment when we served our first customer and made \$6.”

The customers arrived all day. Orenden walked the city streets giving fliers to people queued at phone booths. The store was open 24 hours a day for the next week. Orenden worked the morning shift and Dean worked evenings. They slept in the back corridor among the painters’ drop sheets. After the first week, they set trading hours of 8am to midnight. After the first month, they hired their first staff member.

Global Gossip charges \$9 an hour for Internet access. It offers lower rates than public phones and competitive fees for fax, word-processing and mailbox services.

In June, Dean and Orenden found a site in Kings Cross and opened their second store. In August, Orenden drove to Melbourne, found a site in Elizabeth Street and drove straight back to relieve Dean. In September, they opened a Global Gossip outlet in Byron Bay. By then, they had the right formula. Orenden says: "It was like a cookie cutter. We had a full-time store development manager who could build a store from nothing to key-in-the-door in just two weeks. Everything came from Melbourne and Sydney and was loaded on to a truck." Fittings are ordered when a location is found, even before a lease is signed. In its first year, Global Gossip turned over \$3 million (the business plan allowed for \$2.9 million) and made a net profit of \$150,000. At that stage, Dean and Orenden had four cafes and 19 employees, had repaid a substantial part of the loan, had not touched the overdraft, and were drawing annual salaries of \$25,000 each.

Then, on Christmas Eve 1998, Weinman walked into the Byron Bay store with his troublesome laptop. Orenden says: "In walks this guy with no shoes, a singlet and shorts and says, 'I can't get my laptop to work'. When I get it to work for him, he begins firing questions at me." It was disconcerting, says Orenden, "but, as a waiter, you never judge a book by its cover and always give your best. I would give the same level of courteous service to anyone who came in".

Weinman returned the next day, and the next. He was holidaying with one of his business partners, lawyer David Payes, 47 (see breakout). He rang his other partner, Alan Kras, 44, in Melbourne. Weinman says: "I told them I had found clones of ourselves 20 years ago. He said it's Christmas Day, have a holiday."

Weinman cajoled, pleaded and finally threatened to make the investment alone. "I kept telling them there was a unique culture. The staff were all over me when I went in." Weinman asked his accountant to visit the Sydney stores. "He rang back and said they were crowded and how could he invest in it." Weinman asked Kras to check out the Melbourne store. Suddenly Kras was on side. Weinman says: "He rang back and said that the Melbourne store was full, and the competitor a few doors down was empty."

Weinman spent the days between Christmas and New Year visiting the Byron Bay store every few hours, usually with people who had flown up from Sydney. He grilled staff. He found that managers were carefully chosen and that staff moved from store to store as they travelled, thus cutting the costs of retraining. Part of their job brief was to get staff to treat customers as friends, learn first names, and to relax, joke and have fun with the customers, many of whom are lonely and looking to make friends. Weinman says: “This is a brilliant training system. Every day I loved it more and more.”

Four days after Christmas, Weinman asked Orenden about his plans. Dean and Orenden had drafted a franchising document and they planned to sign two franchisees on January 1. Weinman says: “I told them to give me a week to put together a deal. If they were happy, great; if not, then they should keep on the track they were on.”

Seven days after Weinman first walked into the Global Gossip store, he met Orenden for coffee. Weinman suggested a simple deal: Dean and Orenden would keep 100% of the four existing stores and 50% of new stores with Weinman, Payes and Kras owning the other 50%. The trio would fund expansion. If the business was ever sold or floated, the four original stores would be folded into the whole deal, and each partner's share would be worked out as a percentage of sales. This prevented any problems arising from Dean and Orenden working harder on their wholly owned stores. Weinman says: “We gave them their stores because we knew what an emotional attachment they had to them. But we insisted on 50-50 after that because unless both parties have equal say, it won't work.”

An agreement was prepared and sealed with a handshake on January 2. Dean, back in Sydney, had not met the new investors. He says: “At first I was very apprehensive and stand-offish but our lawyer and accountant said it was the best deal we would get.”

Orenden was handed an air ticket, and he set off to find store locations in Darwin, Adelaide, Brisbane and Cairns. “I was signing leases and writing cheques and there was still only a handshake agreement.”

The official agreement was not signed until April 1 this year. By then, stores had opened in Darwin, Alice Springs and Adelaide. The Internet cafe market had become so competitive that Global Gossip negotiated leases under different company names. Only when the process got to the reference-checking stage was the company's identity revealed. In the end, it did not matter. few people had heard of Global Gossip because there had not been any publicity, and Weinman wanted to keep it that way until all required leases in Australia had been signed.

Until August, the relationship between founders and investors was harmonious. Weinman, Kras and Payes had played no part in Global Gossip's day-to-day operations. Then the business came to a watershed. Head office had grown quickly, putting pressure on the business. Orenden says: "We had opened 10 stores, so we thought we needed to double the staff." Weinman told them they did not need 20 staff at head office. Dean and Orenden said he did not understand the retail world.

Dean and Orenden quickly found that a young company with a strong culture can be dragged down by too many staff. Weinman says: "Actually, this is the biggest mistake we made in business. We let it go on too long before interfering."

Dean thought hard about all head-office staff. "I looked at them and thought, 'is he or she making a real difference?' If the answer was no, we moved them into the stores as managers. Instead of having three operations managers, we found one who could handle 13 stores." The staff at head office shrank from 20 people to seven. Weinman says: "This is the way we always operate. Empower the managers and put them on the ground, not in head office."

In just 18 months, Global Gossip has opened 13 stores, and leases have been signed for another two. It expects to open another 30 in Australia and New Zealand over the next year. Its projected 1999 turnover is \$10 million, rising to \$20 million next year.

Dean and Orenden will not reveal profit figures but they are substantially down on the previous year due to expansion and the overloading at head office. However, their salaries have trebled.

Global Gossip has 110 employees, and Dean and Orenden have set up project and training teams that will enable a new store to be opened every seven to 14 days. They are keen to expand into North America, Asia and Europe. Dean says: "The issue is, do we look for a strategic partner to go global or do we do it on our own?"

Recognising the low entry barriers in the Internet cafe business, Global Gossip has developed systems it hopes will give it a sustainable competitive edge. One is software called Chatshop, which handles caller and Internet accounting, and monitors sales in each store. Chatshop also "searches" for the cheapest telecommunications carrier.

Word of mouth is Global Gossip's only marketing tool. Orenden says: "It is viral marketing. We can get large volumes of people talking over the Internet and in our stores." In August, the search engine Excite paid a sponsorship fee to plaster the windows of Global Gossip's Sydney stores with banners. Excite also offered a free Internet service to Global Gossip customers.

Dean says he is not worried by free Internet access deals. (Global Gossip charges \$9 an hour.) "Soon we will offer Internet access free. Then revenue will come from people wanting to access our customer base and other communications services."

The Global Gossip community of travellers is a competitive advantage. Orenden says: "Everyone that arrives at Global Gossip fills out a form and is given a membership number. From this form we know every single traveller, where they are going in the next 12 months, what they are doing, their e-mail, their socio-economic group and their pattern of spending. We have a database of 30,000 customers and attract 7000 people to our stores a day. This is very attractive to any business that wants to reach international travellers."

Weinman says: "We are being inundated with requests from advertisers. Our marketing staff are just responding to interest; they are not cold calling."

New businesses might be spun out of Global Gossip, including an employment company, an auction house and a travel business. Orenden says: "Whenever a traveller arrives anywhere new in the world, they will come to Global Gossip to orient themselves and solve their communication needs - e-mail or phone the family to say they have arrived safely; find a job, accommodation, car or friends."

Weinman says: "The need to communicate is a human trait regardless of what country you are in, what culture you are from or what language you speak. This is the marvellous thing about this business. It can expand internationally because it is truly global." How big will the company be in five years? Orenden says: "One billion dollars turnover. I don't see why not."

## A meeting of three minds

Put Philip Weinman, 45, David Payes, 47, and Alan Kras, 44, in a room together and the energy reaches fever pitch. One starts a sentence, another contradicts it, and the third butts in with a new thought. Yet for two decades the three entrepreneurs, each with highly charged personalities, have worked together to create sizeable businesses and substantial personal wealth.

They formed the partnership in 1981. At the time, Weinman ran a small packaging business and Payes was a city lawyer. (Weinman married Payes's sister and the two met regularly at family functions). Kras was working for the Federal Government designing software packages for manufacturers.

Their first idea was prompted by dissatisfaction. Weinman was frustrated at having to do his accounts manually, so he and Payes approached Kras to develop a software accounting package. The company they formed, HiSoft, quickly diversified into hardware and became a dealer for IBM. By 1989, HiSoft had annual sales of \$225 million and 440 employees. Kras ran the business, allowing Payes, in 1985, to start Intrapac, a company that developed industrial and residential property along growth corridors.

In 1989, they sold the final tranche of HiSoft shares for an undisclosed amount. For the next few years they looked at new opportunities and concentrated on the property business.

In 1991, they spent \$20,000 buying part of a small business, Standard Building Supplies, but they did nothing with the business and it was eventually closed. Weinman says: "I never even went to visit it." Kras says: "Philip gets 10 new ideas a week, but you have to look at resources, narrow them down and choose the best ones. We decided to put the resources into travel."

A travel company that Weinman, Kras and Payes started in 1993 grew rapidly. Like HiSoft, it was born of dissatisfaction, this time in relation to the standard of corporate travel services. CTS Travel was established in Melbourne and, by 1998-99, its revenue was more than \$50 million. In June, CTS Travel merged with the Sydney-based Internet Travel Group and two other companies, The Event Centre and New Zealand's Internet Travel Group, to form a new company known as Internet Travel Group.

The merged business, which turns over \$335 million a year, will be floated next month. Weinman, Kras and Payes will reduce their combined stake to 11%, 6.75 million shares, which, based on the issue price of \$1.70 would be valued at \$11.5 million. The issue price values the company at \$104.4 million. The three men still own Intrapac, which turns over \$15 million a year.

Weinman says the clue to the successful partnership is the combination of unique skills and a lack of ego. “We are not greedy. None of us ever thinks we are more important than the other. We never value contribution by time, either. At any time one partner might be working very hard and another not. But that doesn't matter.”

Weinman tends to find and develop the ideas, leaving Kras and Payes to implement them. Kras ran HiSoft, and Payes is going on the board of Internet Travel Group. Weinman says they look for companies in industries that have low barriers to entry, preferably in the service sector. “We don't want inventory, and the future is people. You have to invest in people, and we are good at managing them. We don't want to be pioneers, so we look for an industry in which there is a huge market. Then you just have to do it well.”

Philip Dean, co-founder, Global Gossip

Age: 28

Grew up: Midlands, England, in a working-class family

Studied: Honors degree in mathematical science and statistics from City University, London

Worked: Personal fitness trainer, waiter, training bankers at Citibank in Melbourne

Proudest moment: Dean's mother rang from Britain four weeks after the first store opened. She had been listening to a radio program on tips for travellers. One traveller mentioned that an Internet store called Global Gossip was the best part of his Australian trip. Dean says: “My mother couldn't believe it. That was thrilling.”

Peter Orenden, co-founder, Global Gossip

Age: 31

Grew up: On a cattle and sheep station in outback Queensland

Studied: Moved to Brisbane to finish high school

Worked: Mail boy, cadet travel consultant, sales representative, ship's purser, waiter

Proudest moment: After working for 20 hours a day for two months, the first Global Gossip store opened at 8am, Christmas Day 1997. A Korean tourist walked in to make a phone call. Orenden and Dean calculated the profit on the phone call. Orenden says: "I will never forget the sheer joy of serving our first customer and making \$6."

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