



## The conservative entrepreneur

Forget an exit strategy. Zintel founder and chairman Nick Gordon is thinking long term.

By **MARK REVINGTON**

**WHEN ZINTEL GROUP** acquired Cogent Communications for \$1.9 million in September, it was another step on the way to founder and chairman Nick Gordon's ambition of building a \$100 million company.

Acquiring Cogent will take Zintel's revenue from just under \$40 million to more than \$60 million a year. And, unusually, it was a cash acquisition. While others fuelled expansion through debt only to come a cropper in the recession, Gordon had been building an \$8 million war chest and looking for acquisitions.

Trouble is, until the recession hit, vendors' price expectations were unrealistic, he says.

The company had made a series of small acquisitions, almost under the radar. "But we'd been looking for something bigger. We'd always had the objective that we would conserve cash to do that. But it's been frustrating because we haven't been able to find the right business. We were looking for a company that had a lot of synergy."

As the year comes to a close, it seems the stars are aligning for Zintel Group, which operates three businesses: Zintel Communications, which manages tolls and toll-free numbers in New Zealand and Australia; Zintel Enterprise, which provides business telephony; and Zintel Payments, which offers payment technology products and services.

Zintel was awarded the exclusive distributorship for Hypercom eftpos terminals in January — a move Gordon believes will be huge for the company. But it took the best part of the year to develop new software for the operating system and go to market in time for the Christmas retail rush.

And Gordon sees an encouraging future for Zintel's business telephony systems after what he calls a "boring" period. "The problem we had is the business from a profit

perspective has been shrinking and that's because the industry we are in with 0800 free calls, there's been natural attrition as people turn to the internet for their hotels or flights. And the price per minute has been falling and invariably our expenses have been going up so we were caught in a pincer movement."

However revenue has increased, from \$37.1 million in the year ending March 2008 to \$39.1 million for the year ending March 2009. Net profit after tax increased, from \$2.27 million to \$2.29 million.

"I think the company has turned a corner," says Gordon. "We've stabilised the business. We're working harder and our enterprise business, which is business telephony, had a very good year last year. Ironically, in a recession a lot of our customers tend to keep their equipment longer but they will upgrade it. We've been doing a lot of upgrade work because business telephony is now all about software and applications. We're developing more applications for existing users so they don't have to replace the handset or the box in the server room, including things like unified messaging and mobility so cellphones start to become a seamless part of the business telephone system."

Suggest to Gordon that conservative is the new black since the recession and it prompts a wry smile. He's always been counter cyclic, he says. "This company could have been a lot bigger but it also could have been broke."

He has already launched and built one listed company — Advantage, later to become Provenco — which introduced eftpos terminals and barcode scanning to New Zealand. He launched Zintel in 1995 and listed it on the New Zealand Alternative Exchange (NZAX) in 2003. The lure was recurring revenue, a lesson he learned from Advantage.

"We would wake up on the first day of

every month and have to start all over again because we were selling capital equipment like barcode scanning and eftpos. I was looking for a recurring business model and had seen the concept [of free calling numbers] in the US."

But the business concept wasn't about the free calling or 0800 numbers, says Gordon. It was about the airtime behind them. "We have always been a service provider where we buy bulk minutes, and then we bill those to the customer and provide reporting and statistical analysis on the calls."

Both business telephony and eftpos are about software to some extent. Gordon sees opportunity in developing more applications to go into existing business telephone systems so users don't have to replace the hardware. And he believes there is significant room for innovation in eftpos terminals, an area he understands from his experience with Advantage.

Hypercom has around 55% of eftpos terminals to be found in New Zealand retailers and merchants so Zintel got a well-proven market with high acceptance without the need to buy a business. However Zintel had to develop a new operating system to provide secure transactions.

"We've been out of the market all this year with the Hypercom product and dealers and resellers around the country have been anxiously awaiting the release of the product," says Gordon. "We can start rolling out terminals and get the Christmas rush. We will enjoy significant market share in New Zealand without any significant investment. But we want to differentiate ourselves through a high level of innovation because eftpos terminals have become quite a commoditised product in recent years.

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**NICK GORDON**

eftpos machines. They're always boring whereas from point of sale you often get a nice receipt with logos and graphics and stuff. We've developed a host system which can downline load remotely to all eftpos terminals in a store and we can provide logos and fonts. This is something which has been promised to the market for years by all the manufacturers and never achieved. It's also effectively an option to promote advertising on the receipts. But the most important part of the application is being able to downline load new software so we don't have to visit a merchant when there is a new application."

Another innovation in the pipeline is currency conversion for eftpos terminals in time for the Rugby World Cup in 2011 and the company is also seeking a mobile deal to develop its business telecommunications offer.

It's all about being nimble and continuing to innovate, says Gordon, who passionately believes in building a company with a long-term future. "One frustration I have is that in New Zealand we are into instant gratification. If you look at the Chinese, for example, it's about what their son's son is going to be doing. We need some more of that attitude in New Zealand, about building long-term viable companies.

"And for me there's a satisfaction in achieving in business. The thing with business is that when you start something new, you have to elbow your way into a space. The world doesn't care if there's a new Saab, and it doesn't matter if there is a Zintel or not.

"A lot of people when they start in business are already thinking about an exit strategy. I'm not. This is the only thing I want to do. I love this and I'm very passionate about Zintel and it has always been a long-term venture for me."