

How Servcorp is driving the virtual workforce trend



Business history is filled with stories of companies that transformed themselves, and changed the world.

Apple started out as a computer company and ended up reshaping telecommunications and music. General Electric, which started out in 1890 producing light bulbs and electrical devices, is now one of the world's most powerful conglomerates which derives half its

revenues from financial services. Amazon started with books, it's now the world's biggest cloud provider.

Office provider Servcorp might be heading in the same direction, driving the trend towards a mobile and virtual workforce now transforming business. Its chief operating officer Marcus Moufarrige sees the company moving into a totally different space from its origins in 1978. Servcorp was established before the days of the internet. It was a time when the cloud was something in the sky. That's changed; it's in a different world now.

"We view ourselves as a cloud provider of physical services and of business services and also of telephony services," Moufarrige says. "We view ourselves into the next 10 years as a cloud provider where you join our business anywhere you like – not bounded by geography – and you can use the facilities and the telecommunications capabilities and the physical attributes of meeting rooms and offices, you can use all those things as you would the cloud in terms of it being everywhere but not in one place."

Servcorp is a company that has embraced change. It has been well ahead of the trends. While retailers and media companies struggle with the digital world, Servcorp introduced Voice over the Internet Protocol in 2000, about five years before it really took off. In 2002 when the internet was in its infancy, it centralised its data base and started selling software as a service. "We had our heads around the cloud and how to distribute services cloud style a little bit before the term cloud was coined," Moufarrige says.

Moufarrige's father, Alf, set up Servcorp as a serviced office business, a traditional rental arbitrage enterprise. It has since morphed into a property and technology services company with a heavy focus on the virtual office and mobile workplace, on telecommuting and teleworking.

It floated on the Australian Stock Exchange in 1999. At the time, few (if any) knew what a virtual office was. "We started the virtual office in 1990, it was the first time we coined that term and started selling that product," Moufarrige says. "It was born out of an excess of infrastructure that we had built for the serviced office clients that we could share with people who were working from home and didn't need an office full-time."

The company now has two offerings. One is the traditional serviced office business where companies rent an office space. Most of the clients there are branch offices of multinational companies who don't want to set up their own office, hire and fire support staff or invest in technology.

The second arm is the virtual office business which allows clients to have an office anywhere in the world, no matter where they are. Clients go online, put in their credit card numbers, and get a telephone number with a receptionist anywhere in the world they want. The number can be patched through to the mobile or home phone. The receptionist can be based anywhere in the world.

Moufarrige says: "If your customers are in China and you're marketing something to China, you would want to have presence in Shanghai. You can sign up online, we will give you a local Shanghai telephone number that you can advertise and your customers could call that telephone number. It will be answered either in English or Chinese depending on your choice and then the call can be diverted straight through to your mobile phone in Australia but you will actually pay a fixed price for that call because we run that over a private network."

The aim is to create something that's totally flexible, all designed by the customer. "If your business is in Sydney and you have got a receptionist in Shanghai but you need to have a meeting in Melbourne to sell to more clients, you can book a meeting room in 101 Collins Street," he says.

Servcorp's virtual office business has 35,000 clients around the world, with 7,000 in Australia. It operates in 130 locations and 23 countries, including the US, China, Singapore, Thailand, Hong Kong, Malaysia, the Philippines and the Middle East. It plans to open an office in Indonesia.

Many of its clients are small- to medium-sized businesses and micro-businesses. "They either want to look more professional in their own city or they are people who realise that if you're in Shanghai, you may as well advertise in Beijing, if you're in Sydney you may as well advertise in Melbourne as well and get access to a much larger addressable market because you don't have to set up a physical office, you can do it with a virtual office," he says.

Servcorp is recovering from the impact of the global financial crisis. In 2009, it had total revenues of \$220 million and a net profit of \$34 million. But the financial crisis increased competition in the serviced office industry, putting pressure on pricing and margins. As a result, revenues in 2010 fell back to \$162 million and profits came in at \$34 million. The company had revenues climbing back up to \$99.38 million in the six months to December 31, 2011, up 11% on the first half. A strong focus on costs lifted profit to \$8.16 million, up from \$6.12 million in the first half.

Servcorp puts the improvement down to clients now seeking to reduce their risk and exposure to volatility by reducing overheads and adopting more flexible solutions. The company says its global expansion is starting to pay off. And the shift towards flexible workplaces and growth in the casual employment and consulting is driving growth.

What's equally as impressive is Servcorp's war chest. It has close to \$100 million unencumbered in the bank and zero gearing. "How do you expand in the downtime? A good way to do that is to have a big pile of cash," Moufarrige says.

Part of that is the ethos of its chief executive. "Our chief executive is a really conservative guy and doesn't like debt at all. Probably more conservative than most analysts would say you need to be, but the other side of that is that because we are in a property arbitrage business we have liabilities on our balance sheet which are the longer-term leases that we have signed that we are committed to selling shorter-term," he says.

But a big part of Servcorp's success is its ability to embrace change. By centralising its database and putting everything on VOIP, it created a cloud style voice service. It also automated all its business processes, a groundbreaking and bold move for a company that operated across a broad spread of geographic locations.

Servcorp doesn't need to talk to its customers. "That means if you're operating in Sydney, you can have a receptionist in Shanghai but if you go Shanghai to meet your clients and you book a meeting room online, you can take your telephone extension from Sydney with you so that your Sydney clients don't realise you have gone to Shanghai and it will ring on your desk in Shanghai, because that is part of the Servcorp global network," he says.

Being willing to seize change, and being persistent when things were not working properly – as was the case in the early days of the internet – is key to Servcorp's successful expansion. The other critical part, Moufarrige says, is having a vision of exactly where you want the company to be in four or five years' time. And getting a few wins allowed him to persuade the naysayers that change was not that bad. The cross-generational work with his father helped.

"Alf has just enough willingness to change so that I am comfortable being persistent, but also it helps if you have a win in the beginning," Moufarrige says.

"When the internet first came out, I was a massive advocate of harnessing the utility to distribute to our clients and investing in the infrastructure to make sure that we had a high quality product in that regard. But when we first started rolling out networks to our clients it was a complete disaster. Things absolutely kept going wrong and the network would go down and everything would be stuffed."

"At one point Alf said, 'This technology stuff is all crap and I'll never install another network in a Servcorp location!'"

"There was some resistance there but persistence and having a vision as to where you wanted to go really paid off. The success of that is what encouraged Alf to realise that change wasn't a bad thing."

He says businesses need to focus on the fundamentals of what's driving the change. In Servcorp's case, it was putting everything onto networks, introducing voice over IP, developing a database technology and finally the cloud.

"If those are the fundamentals that will transform your business, then all the peripherals will fall into place as well. A lot of people focus on the peripheral things and miss the fundamentals."

"A lot of people focus on how secure a network might be and that becomes their number one priority when you should actually be determining what the fundamental basis of your network is going to be as opposed to focusing on how you're going to secure it."

"A good analogy to that is a lot of people get legal advice on how to handle their tax and their profits when they haven't even started making a profit yet. It's putting the cart before the horse. You have to have a fundamentally good business model before you can work out how your profits go."

He says Servcorp is now perfectly positioned to take advantage of the growing mobility of the workforce, and the rise of the WiFi warriors who can work from any location.

"I am really excited about the way that the workplace is transforming. We are in the right place at the right time," he says. "We have repositioned ourselves, by luck or design, to be in the perfect position for the mobile workforce and for people who have much better access to data. The virtual office we started in 1990 was pre-internet and pre-cloud but all the technologies have been moving to complement that."

"Being a mobile worker 20 years ago was not seen as the most practical thing and the virtual office was seen as a good way to save money because you didn't have to hire a receptionist. Now the virtual office acts as a pivot point for the mobile worker to work around, giving them benefits of the old traditional workplace but not any of the restraints."

"The virtual office hasn't even started its journey of being an essential tool in the starting of any small business and I think it will become that."

As he sees it, the shift from being an office provider to a cloud provider is just a natural transition. "It's a bit like the cloud. Your data used to be in a cold room somewhere but now your data isn't anywhere but it's everywhere," he says.

"The virtual office gives you a physical manifestation of that because you don't just have an office in Sydney. You have an office in Sydney and in Melbourne and Brisbane and Shanghai and Dubai and that enables you to access all those markets but at the same time your office is not anywhere but it's everywhere."

Expansion is only possible, he says, when you're willing to change and embrace it before it happens. The possibilities are limited only by imagination.