

# 10 billionaire wealth tips

How the world's richest  
entrepreneurs built  
their businesses  
and fortunes

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# INTRODUCTION

I have spent almost a decade researching wealthy entrepreneurs for rich lists in Australia and overseas, and I am often asked what sets the rich apart from other business people or investors?

It's a tough question, because while there are three characteristics that most rich entrepreneurs share – passion, a willingness to embrace risk and an incredible work ethic – there are literally hundreds of ways to build a business.

There are long-term investors such as Warren Buffett, and there are asset traders such as George Soros. There are those who stick to one sector all through their careers, such as Frank Lowy, and there are those who spread their empires over a number of areas, like Richard Branson. There are those who come from wealth, like James Packer, and there are those that start with nothing, like Gerry Harvey.

The key message is that every rich entrepreneur usually has at least one business secret that business owners and investors can learn from.

In this eBook, we've collected 10 great tips from entrepreneurs including Buffett, New Zealand's Graeme Hart, veteran investor David Hains and the late packaging tycoon Richard Pratt. You'll learn secrets about valuing companies, spotting opportunities and taking on bigger rivals.

We hope you find plenty of ideas to propel your fortune to rich-list levels!

James Thomson  
Editor, SmartCompany

# TIP 1:

## The decade test

Every year, legendary investor Warren Buffett send a letter to the thousands of shareholders of his holding company, Berkshire Hathaway. The much-read letter give Warren-watchers a chance to sift through the wit and wisdom of the Oracle of Omaha, looking for trends, investment recommendations and a healthy number of corny gags.

This year, the letter ranged over topics from the value of making managers autonomous (“We would rather suffer the visible costs of a few bad decisions than incur the many invisible costs that come from decisions made too slowly – or not at all – because of a stifling bureaucracy”) to the importance of seizing opportunities (“When it’s raining gold, reach for a bucket, not a thimble.”).

But one of the best tips regarded Buffett’s approach to investment and business valuations.

“Charlie and I avoid businesses whose futures we can’t evaluate, no matter how exciting their products may be. In the past, it required no brilliance for people to foresee the fabulous growth that awaited such industries as autos (in 1910), aircraft (in 1930) and television sets (in 1950). But the future then also included competitive dynamics that would decimate almost all of the companies entering those industries. Even the survivors tended to come away bleeding.”

As Buffett argues, it’s not a matter of performing vast levels of technical analysis on a business or investment, but rather making a long term judgement about the prospects of an economy, a sector and a company.

“Just because Charlie and I can clearly see dramatic growth ahead for an industry does not mean we can judge what its profit margins and returns on capital will be as a host of competitors battle for supremacy. At Berkshire we will stick with businesses whose profit picture for decades to come seems reasonably predictable.”

## TIP 2: Spotting opportunities

Terry Peabody, the US-born son of a former army engineer who rose to become one of the richest men in Queensland, built three successful businesses out of other people's cast-offs provides some terrific lessons for entrepreneurs in the art of finding and exploiting opportunities.

He arrived in Australia in the 1960s to work on the Snowy Mountain Hydro Electric Scheme, pumping high-fluidity cement to stabilise the ground before construction began on the dams and tunnels.

It was here he spotted his first opportunity. A key ingredient in the cement was fly-ash, which helped to strengthen the cement and was being imported – at high cost – from Japan.

Peabody recognised fly-ash was a waste product from coal-fired power plants and approached the coal-fired power plants in New South Wales with a deal to buy the fly-ash they had been throwing away.

Convincing the cement sector to use fly-ash was a difficult process, but eventually Peabody built a fly-ash empire, with operations around Australia, in the US and in the Philippines. He eventually sold several parts of the business before floating the Australian operation on the ASX in 1986 in a company called Pozzolanic. It was acquired by Queensland Cement less than a year later – Peabody had made his first fortune.

Like Richard Pratt, Peabody recognised that waste products from one industry could be turned into profit in another. It's a great lesson to look outside your sector to spot opportunities.

## TIP 3:

### Don't be afraid of size

While Australia has an admirable crop of billionaires, they can't touch Auckland based packaging king Graeme Hart. According to Forbes, Hart is worth \$US5.3 billion, well ahead of Australia's richest person, Fortescue Metals Group chief Andrew Forrest, who was ranked with \$US4.1 billion.

Hart is known for being fearless in the way he takes on debt, able to spot turnaround opportunities across a range of sectors, and so private that every little factoid about his business dealings is eagerly devoured.

But we do have some clues about his money-making strategy.

After leaving school at 16 to become a panel beater, Hart tried a number of different businesses (including party hire) before entering the printing game. He built up his Hart's Printing Company during the 1980s and in 1987 listed his primary investment vehicle, Rank Group, on the New Zealand Stock Exchange.

In 1989, he made his big move. While the Rank Group had just \$NZ8.5 million in assets, Hart wasn't afraid to buy the state-owned New Zealand Government Printing Office, which had a book value of NZ\$38 million – instantly tripling the size of his business.

In 2002, Hart did it again, when his food business Burns Philp bought Goodman Fielder, which was then twice the size of Hart's company.

His recent purchases of \$10 billion worth of packaging companies have tripled the size of Rank Group, yet again.

## TIP 4:

### Don't be afraid to experiment

Michael Dell is one of the superstar billionaires of global business. Dell has annual revenue of \$US53 billion and was recently ranked number 37 on Forbes magazine's list of the richest people in the world with a fortune of \$US13.5 billion.

But there is a product in the office of Michael Dell, founder of IT giant Dell, that will never see the light of day.

Not because it's too revolutionary to release, or because it's too expensive to develop. The reason you'll never be able to buy this product is because it's a dud.

Dell says he keeps it in his office as a reminder that of the value of experimentation and the fact that things don't work all the time.

"I thought it was a great product," Dell says a little ruefully.

In Dell's direct sales model, its website is its key sales channel. Michael Dell tells his people he wants 100 experiments, or tests, run on Dell.com each day. While many of these are subtle changes to the design of a page rather than completely new products, the point is that experimentation is important – as is the rapid correction of mistakes.

"Just try something," he says. "The market will tell you if it's a good idea or not."

## TIP 5:

### The 360-degree approach

Meet Eike Batista. He's from Brazil. He enjoys mining, exotic cars and making money. You may not have heard of him, but he wants to be the richest man in the world by 2013. And if you think he can't do it, think again.

Last year, according to Forbes magazine, his wealth increased by a staggering \$21.4 billion. That's \$58 million a day, \$2.4 million an hour or just under \$580 a second. He is now worth just over \$29 billion.

It's an extraordinary rise in any terms. But then again, Eike Batista is not your ordinary entrepreneur. The Batista empire is built around a variety of interests, including mining, energy, logistics, real estate and shipbuilding (through OSX). His biggest asset is oil and gas company OGX.

Batista sold insurance door-to-door and before going into gold trading and eventually buying a pick-and-shovel gold mine in the Amazon Basin. He then planned to mechanise the mine and make a fortune.

It didn't turn out that way – he badly underestimated problems with the weather, technical conditions and diseases that plagued his staff. Batista was soon down to his last \$US300,000 but eventually things started to turn and the mine started to produce profits of \$1 million a month.

That formative experience building a gold mine in the Amazon Basin appears to have taught him about the importance of managing each aspect of a project, using a management style that he calls his "360-degree style of thinking".

"Today most entrepreneurs or CEOs, they are good in some areas but they fail eventually in the legal engineering or the fiscal engineering or the environmental engineering," he told Rose.

## TIP 6: The equity pay-off

Rapper-turned-business-mogul 50 Cent might be an unusual figure to take money-making advice from, but According to Forbes, the rapper's business sense has helped him earn around \$US170 million in the last few years.

He is also the co-author of a book called The 50th Law, which is partly a self-help business book and partly a strategy guide. It mixes 50 Cent's own unique brand of hustler wisdom with quotes from luminaries such as Abraham Lincoln, Sun Tzu, Socrates, Napoleon and Malcolm X.

This is a book that takes itself very, very seriously. It is bound and presented to look something like an old-fashioned bible and its tone is extremely earnest. But there are very good ideas in there too.

While rappers love making quick cash from endorsement deals (the big names represent everything from footwear and cars through to alcohol and vitamin supplements) there is even better money to be made if you are prepared to take equity rather quick cash.

Take 50 Cent's investment in beverage company Glaceau. Back in 2004, the company offered 50 Cent a small equity stake in an endorsement deal. After spruiking the products in ads, video clips and even some of his songs, 50 Cent was richly rewarded in 2007 when Coco-Cola bought Glaceau for \$US4.1 billion. His slice of the action was estimated to be around \$US100 million – a great reward for his willingness to think long-term.

## TIP 7: The value of class

Billionaire David Hains is notoriously reclusive, so when he talks to the media it is required reading for any wealth watcher.

While Hains is best known as a hedge-fund manager, the profile revealed an extraordinary business career, which has included stints as an engineer, seven years playing golf and period as a corporate restructuring expert (which, incidentally, ended because he couldn't handle the trauma of making people redundant).

As he told the AFR magazine last year, one of the big lessons he learned was about how risk profiles must change as a business ages.

“In a young business, taking significant risks is not only justified but a prerequisite of success – while luck in timing can be a major factor. But many a mature business has succumbed by adopting an excessive continuous expansion strategy financed by debt and fatally betting the farm.”

But the central theme of his career is the idea of class – that is, the special offering that sets a business apart from its competition.

“A business has to have class to be really successful,” he told the AFR magazine.

“Customers patronise a particular firm because it provides something that others do not – or at least equally as well as others but with better service.”

It's a great lesson for business people. What sets your business apart? What's your touch of class?

## TIP 8:

### The visible leader

The death of packaging tycoon Richard Pratt in April 2009 inspired a steady stream of tributes from the Prime Minister down. While Pratt most of these tributes has focused on Pratt the philanthropist, Pratt the arts patron and Pratt the pillar of the community, Pratt's real skill was an entrepreneur and wealth creator.

When Pratt took control of the Visy empire in 1965, turnover was just \$5 million. Today the company employs more than 5500 people and has annual sales over \$2 billion

There were a number of secrets to Pratt's success, including his supreme networking skills and his ability to build strong customer relationships.

Pratt was also famous for being involved in every detail of his business: as he once said in a speech to the Family Business Council, the best managers "look for ways to make things happen".

Crucially, this was not confined to the board room. Pratt loved touring the factory floor, seeing how the business was running at ground level and checking up on his staff.

"The best managers manage by walking around," he one said.

"They're visible and they never, ever tire of going onto the factory or ship floor. They make a point of visiting their sites at odd times, after hours and on weekends. They visit their customers frequently."

## TIP 9: A penny saved...

Billionaires around the world are famous for being frugal, and Australia's super wealthy are no different.

For example, Greg Poche sold his national freight business Star Track Express to Australian Air Express (a joint venture between Qantas and Australia Post) for \$750 million in 2003, but reportedly remains as frugal as ever. He liked to boast he owned just three sports shirts and two business shirts, drives an old Toyota sedan and has been known to drive across Sydney to save \$10 on a bottle of wine.

But the title of Australia's richest penny-pincher must be retail king Gerry Harvey. Stories of his never-ending drive to save a buck abound. In the book *Gerry Harvey: Business Secrets of Harvey Norman's Retailing Mastermind*, author and Eureka Report editor James Kirby tells how Harvey will spend two months deciding whether or not to buy a pair of shoes.

He also relates the story of how Harvey once admonished his wife for buying mandarins from the supermarket when they had a mandarin tree in the garden.

Harvey's not above recycling paper clips or even knocking off pens. When addressing the Australian Securities Institute, Harvey grabbed a notepad from the podium and announced he was taking it back to work to cut costs.

"It's just in my nature. If you've lived a big part of your life like that and then you get money, how do you just throw it away? I can't," Harvey said last year.

"People would call me mean, but I'm not mean. I'm just cautious with my money."

## TIP 10:

### Business at the speed of light

Little is known about Amancio Ortega, the founder of world-famous fashion retailer Zara and its parent company Inditex – he has never given an interview to the media and is said to have been photographed only twice.

But the staggering success of his chain – which, frustratingly for Australia fashionistas, is yet to arrive in this country – contains a great lesson about building a revolutionary business model.

The first Zara store open in 1975, but it was in 1984 when Ortega met someone who would change his business forever. José Maria Castellano was a local professor and computer boffin who joined Inditex and helped develop a business model that allowed clothing to go from drawing board to shop floor in as little as 10 days.

The model relies on Inditex having total control of design, production, distribution, marketing and sales – complete vertical integration.

The process starts with Zara's team of designers (of which there are reportedly 200) monitoring the catwalks and adapting (some would say copying) the designs they think will work. Cloth is then prepared and dyed in Northern Spain and Asia before being sent to Zara for cutting and then on to contractors for sewing. The clothes are sent back to Zara's warehouse and then directly to the stores. The whole process usually takes just two weeks.

The speed and flexibility of this model are crucial to its success. Zara essentially offers its retail stores new product ranges every fortnight, reportedly producing 22,000 different products each year, twice or even four times more than rivals. This gives the company the ability to respond quickly to changing trends, fads or even weather patterns.

The ability to quickly increase or decrease a product range also means Zara can keep its inventory costs lower than its rivals, which in turn reduces the need for markdowns on dud products, the bane of every retailer's life.

The constantly changing product line-up encourages customers to make repeat visits to stores - the UK's Telegraph quotes an online survey which said customers visit 17 times a year compared to four or five at other chains. This and the prominent placement of its stores allows Zara to do very little marketing, instead relying on word of mouth.