



BUILDING ON A LEGACY

*David Smorgon,
chief executive Pointmade*

Australian businessman and Melbourne hero David Smorgon talks about the challenge of making his own legacy when he has one of the best-known names in town.

Successful business leaders say you have to be prepared to bounce back from unexpected setbacks if you want to make it to the top.

In February 1995, having fought unsuccessfully to prevent the break-up of his family's \$1.5 billion steel, glass, paper, packaging, plastics and recycling empire, David Smorgon was faced with exactly that.

Smorgon Consolidated Industries (SCI), having grown from a simple butcher's shop in the inner Melbourne suburb of Carlton to the largest privately-owned business in Australia, was to have its assets gradually divested and distributed among the seven smaller families.

"Like all of my cousins, none of us had any specific idea what we were going to do next because we were all heads down, working very hard on the family business and that was our 100% focus," Smorgon says.

Listening to the advice of close friends who had been in similar situations, the then 47-year old took three months off to put some space between him and the larger family business and consider what he would do next.



Keeping it in the family

After three months overseas, Smorgon returned to set up Generation Investments with his three sons, Dean, Ricky and Dale to invest the funds that had come from the SCI break-up. At the same time he set up DBR Investments and the DBR Corporation with brothers Barry and Rodney. DBR became a passive investor in a range of equities, property, venture capital, private equity and off-shore funds; while Generation acted like a small family office with more active investment operations.

Generation enjoyed the boom days of the mid-nineties, investing in a number of successful start-up companies.

Though Smorgon admits there were also plenty of duds.

"We always had the attitude that we needed three good ones out of 10 to pay for the seven that didn't succeed," he explains.

There were also a number of investments in private equity projects and other ventures through close contacts of the family. While some of these turned out to be reasonable investments, Smorgon says they also occasionally ended in complete disaster. It was this experience which taught him an important lesson about growing his business: nothing comes easy.

"During those heady boom market days someone was knocking on the door every other day to show their credentials and promise good investment returns. There

were lots of promises but not that much coming the other way. You learn to make assessments of people and ask for a proven track record, but even then, as the warnings keep telling us; previous performance is no guarantee of future performance," he says.

"What we realised is that the evolution from a successful family business to being an investor requires different strategies and different skills. The other lesson is that preserving wealth can be as difficult as creating it. It doesn't happen by itself and previous success in business is no guarantee of future success in investment."

Generation Investments branched out well beyond the traditional industries the Smorgon family had been known for. SCI had a history of competing with monopolies in the manufacturing industries it was involved in and Smorgon says the business was helped by the weight of 17 family members across three generations working for good outcomes.

The differences in scale within the Generation Investment business meant that it didn't have the capital to compete on the size of projects SCI had been involved in but its nimbleness did allow investing in racier parts of the market.

The private equity sector, for instance, was only just beginning to get off the ground in Australia in the mid-nineties, and Generation made a number of successful investments in that space. This was also around the time that Smorgon made his first venture capital investment into new technology start-ups, such as Seek, which has gone on to become one of the success stories of the Australian stock market.

However, Smorgon said this diversification did occasionally find the business wanting.

"We made one bold move getting involved in a shoe business that turned out to be a failure. We didn't understand the business, had no expertise in fashion and if shoes weren't bad enough, it then expanded into ladieswear and menswear, adding insult to injury.

"You learn from those mistakes that you've got to understand and feel connected to what you are doing. We should never have entered into it and I was very glad when we closed that down and took the loss."

Son of the West

It was around the time that Smorgon set up Generation that he was also offered the opportunity to become president of struggling AFL club the Western Bulldogs. When Smorgon took over the AFL club it was in a worrisome financial position with its future in very real doubt, but by the time he handed over the reins to Peter Gordon it had grown from turning over \$10 million to a \$35 million business and the fans were enjoying greater success from the players on the field.

"The 16 years I spent as chairman of the Western Bulldogs was a fascinating experience where I got to meet so many interesting people. It's like running a small business," he remembers fondly.



The quote

The evolution from a successful family business to being an investor requires different strategies and different skills. Preserving wealth can be as difficult as creating it.

"You can't believe the passion involved when you've got more than 30,000 members who all have a view on who should be playing full forward. It was a marvelous experience and I'd do it all again.

While the club did not win a premiership with Smorgon at the helm, it did have some success in reaching five preliminary finals and the club is now in a much more stable position.

"We've got a very good culture and good values and the Bulldogs will grow and improve over the next few years."

Smorgon also developed an understanding of what it means to be constantly in the spotlight, something that many of Australia's wealthiest families must contend with. There are as many accredited AFL journalists as there are players and they out-number journalists covering Federal Politics in Canberra by about four to one.

But Smorgon says that if you stick to some simple rules, they can be a pleasure to deal with.

"One of my biggest concerns when I took on the Bulldogs was dealing with the media, but if you tell journalists what you know and you can be honest and straight and tell them politely if you can't make a comment then you start to build a relationship. Just like in any business, it's about communication," he says.

The power of communication

Smorgon's latest venture, Pointmade, is a business aimed at providing senior executives with assistance in developing essential public speaking and presenting skills.

The project speaks particularly to the family office sector where poor communication and relationship mismanagement often have catastrophic effects on fortunes.

According to a survey of 3,000 wealthy families all over the world cited by Roy Williams and Vic Preisser in their book *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values*, 70% of wealth transitions fail. Of that 70%, six out of 10 failures can be traced back to a breakdown in communication within the family.

"The most successful family structures have very open channels of communication compared to the most uptight families where the matriarch or patriarch wants total control," says Smorgon.

The catalyst for the project came from a meeting Smorgon had with a group of advisers from one of the big four banks.

"I sat with them while they went through the standard brochure of products and after about 15 minutes I asked them to cut to the chase and tell me why I should bank with them and why they could do things better than my existing bank. Their explanation didn't cut it with me and I recognised a chance to help executives do things better."

The work Pointmade does takes the form public speaking seminars on topics such as leadership, fam-

ily business and over-coming obstacles and Smorgon counts banking executives, partners at law and accountancy firms, committee members and financial planners among his clients. Following the recent Federal election Smorgon said he has also had a newly elected politician come to him looking for help with his maiden speech in parliament.

He has also done a number of roadshows and workshops for high net worth individuals and family offices.

"When you talk about wealthy families, you've got a talk about communication," he says. "Family offices have lots of concerns to work through. Do they employ a full-time investment guru or do they do it themselves? How do they pay advisers? How much time will it require? Who can use the family office?"

The work is as much a labour of love as anything else; Smorgon says that if his tutorage inspires just one person from to go out and make themselves better or think about things differently then he's happy.

"At my age, that makes me feel good!" he jokes.

Giving something back

Helping other people has always been a central part of the Smorgon family business, even from the early days.

Smorgon remembers how it was always impressed on him how important it was to give back to the community that gave the family so much when it arrived from Russia in 1927 with nothing but the suitcases it could carry.

"I was always brought up with acknowledging the community that gave us the opportunity to make a better life for ourselves."

The Smorgon family name is on an outpatient wing of the Royal Victorian Eye and Ear Hospital, in the National Gallery in Canberra and in Melbourne's Arts Centre. In 1995, family heads Victor and Loti Smorgon donated 154 Australian works to Sydney's Museum of Contemporary Art and in 2008 Australia Post included the Smorgons in their range of stamps featuring Australian philanthropists.

David Smorgon explains how any employee of the old Smorgon Family Business had the right to contact the Smorgon Foundation and ask for some financial assistance for their favourite charity.

Since the breakup of the family, each of the Smorgon's has continued to give philanthropically individually.

The challenges that Smorgon has faced standing on his own two feet has given him a firm understanding of how to make the most out of life, a message which he hopes to pass on through Pointmade and his giving.

"Life is about opportunity; the ability to identify, the courage to grab it and the hard work to implement it all," he says, reflecting on his career. "Life keeps moving on and you've got to make the most of it. I've tried to do that always, whether I have had a failure or great success. You've got to keep on moving on." **FS**



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