



# 33 Secrets of Super Success

## Business Development: Raising Initial Capital For Growth

### THE NUTURING PERIOD

Great Western's fuel supply contract with the federal government came with a slim margin, but it provided enough working capital to keep the business going and also gave me breathing room in which to consider some candidate opportunities for growth.

It was 1982 and the Tax Reform Act of 1986 was still four years away which meant that tax shelters were still the rage with both individual and institutional investors. As you may recall, the Tax Reform Act took away virtually all of the attractiveness of tax shelters as investment vehicles.

For the next two years Great Western Development Corp. put together three tax shelters in the form of drilling funds that performed fairly well, both financially and technically.

Operating capital from the funds came in the form of the G&A fees payable to GWDC. These fees paid for two things: The operations for the business and the operations of the Daniel S. Peña, Sr. Household.

This was the nurturing period for GWDC. Every new business goes through this period. During this period, the business enterprise is in its most fragile condition. The slightest bump or jar will break it into a thousand little pieces. It must be handled very gently; it must be coddled; it must be nurtured as if it were a newborn child.

I nurtured GWDC with a velvet-covered iron fist. The velvet was for GWDC, the iron fist for me. I knew that GWDC needed nourishment to grow, and I also knew that selling a series of look-a-like tax shelters would not provide that needed nourishment.

I knew that the second tax shelter had to be grander than the first, the third grander than the second. I knew it was time to put myself under the threat of the iron fist.

It was time to see what I was made of. Great Western was either going to live or die, but either way, it was time to find out.

I knew that the road to the big time in tax shelters went through Wall Street, but I also knew that you couldn't get there from a small office in Southern California with a no-name product base. I went to work and put together a series of illusions which put me on Wall Street with the third tax shelter.

It was a classic example of the perception/reality ruse, and it worked very well. It was the first time that I had really done this trick with my own money at stake, and I was surprised at how easy it was to pull off. As a matter of fact, my successes with GWDC's second and third tax shelters lead directly to my decision to acquire what would eventually be Guthrie Castle.

As I mentioned previously, even though the drilling fund tax shelters were successful financially, there was one aspect of this period in GWDC's nurturing period that really bothered me. The revenue stream from GWDC's operations had to fund both the business and my household. I was playing with my own money.

The business decisions I had to make contained a variable that didn't belong. There was a problem that needed to be taken care of.

**Peña-ism. You cannot win at poker with scared money – it gives off a stench that is repugnant to the winning hand. If you are going to play poker, leave your money at home and play with "OPM": Other People's Money.**

Most entrepreneurs find themselves in this same situation. On the front end of the business development cycle, it is usually their money that is funding operations. It is scared money, and scared money is very difficult to play hard and tough with.

Remember, this is the nurturing period for the business. Everything is in its infancy: the technical aspects, the organization, the human resources, and the financing.

The entrepreneur's attention is needed everywhere. There is a new problem occurring seemingly every minute. Stress is at its maximum pressure. It's time to get some relief; it's time to get some OPM.

## FINANCING ALTERNATIVES

A business enterprise needs funds for working capital and for facilities capital. Working capital pays for on-going operations, business development, and product development. Facilities capital pays for the facilities, machinery and equipment necessary to conduct the mission of the business.

The corporate business entity has three sources of funds available to it to finance working capital and facilities capital requirements: earnings retained in the business (capital surplus), debt, and equity.

Debt can be in the form of trade debt (payable in the normal course of business operations), short term debt (payable within a one year period), and long term debt (payable in whole or in part beyond a one year period). Equity can be in the form of common or preferred shares to stock, or any hybrids and variations of the two.

Financing the working and facilities capital requirements of a new business enterprise with funds from retained earnings is not a viable alternative. First of all, there probably isn't going to be an earned surplus, but rather an accumulated deficit. Secondly, even if there exists an earned surplus, it probably won't

amount to enough to provide a serious source of funds for growth.

That leaves debt or equity as the remaining sources of funds for the new business. With debt, you retain ownership but incur interest expense, a fixed charge of the business which can eat up a lot of net margin dollars, thereby restricting management's ability to use the funds from operations for its own projects.

With equity, there is no drain on the funds from operations but there is a dilution of ownership and control. A detailed discussion of the pros and cons of using debt or equity is beyond the scope of this seminar program. Each situation is different.

If you are really interested, let me recommend to you that you seek independent guidance from professionals in this area. Unfortunately, most of the guidance you will receive comes from people who never started or ran their own business.

In August, 1984 I chose to raise capital for Great Western Development Corporation through the use of a public offering for equity shares in a new corporate entity called Great Western Resources Inc. Another option available was a private placement of equity shares.

Once again, for those readers interested in the pros and cons of public vs. Private offerings, I would direct you to the same "appropriate professionals" in this area.

## GOING PUBLIC

On August 10, 1984, my 39th birthday, GWRI had its initial public offering on the London Stock Exchange. Of 25,000,000 common shares authorized, 20,000,000 were issued on this day, 5,000,000 to be traded by the public on The Exchange. The stock was issued at 160p (about \$2.00). At the end of the day, our stockbrokers presented me with a check for \$10,000,000 representing the public's 25% share of the IPO.

The remainder of this seminar manual, starting with the IPO, covers topics on business growth and development as I encountered them at GWRI from 1984 to 1992.

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