

Monthly Newsletter – July 2014

Note from Theo and Warren

Like many of our clients, we have been grappling with the long-term economic implications of the platinum strike, the potential damage to our agricultural sector by Government's latest efforts to reform agricultural land ownership, and the economic destruction caused by a chronic lack of electricity.

While the land reform policy is far from finalised, the news is still unsettling. However we need to remember that the investment outlook for our stock market is not so depressing. South African stock market investors are increasingly immunised against South Africa's economic woes because a large proportion of our listed companies are no longer linked to the fortunes of the local economy.

Buy shares for protection

Companies such as BAT, Richemont, Naspers, SAB, Anglos, BHP, Reinet and Old Mutual already earn a large proportion of their money outside of South Africa. Some of them are heavily invested in other emerging markets around the world while companies such as Richemont, SAB and Old Mutual are also operating in the US and Europe.

This means that their profits might be impacted by South Africa's economic woes but only to a limited extent given the geographic diversification of their earnings. As more of our largest companies migrate into the rest of Africa and other emerging markets, it is possible that we will one day find only a small proportion of our top 80 largest companies earn their profits in South Africa.

While there are questions about the current valuations of some of these large listed companies in South Africa, we feel that this is a short-term issue. If our largest companies continue on their international expansion and our domestic economy does not recover, investors in the JSE might continue to benefit despite the local economy, not because of it.

This does not mean that we only anticipate doom and gloom for our economy. It just highlights that we have many options in South African due to the diversified nature of our stock market.

-- Theo and Warren

Starting small

Unless you've been living under a rock, you will know about Dale Carnegie's seminal book, *How to Win Friends and Influence People*, a book that has now sold over 15 million copies.

But do you know how it started? As a short talk. A talk that soon expanded to a lecture about 90 minutes long. After giving this talk for some time, Carnegie found that attendees started discussing their experiences and some "rules" emerged. Eventually the talk became a course, and there was a need for a textbook of sorts.

At first, it was just a set of rules printed on a card no larger than a postcard. The next season he printed a larger card, then a leaflet, then a series of booklets, each one expanding in size and scope. After fifteen years of experimentation and research, the book we know today came to fruition.

The lesson here – and in countless other examples – is that many great things start small. Most of us know that Richard Branson started the Virgin brand with a student magazine, but Virgin is just one of many examples.

The lesson is that we should probably think and execute on a smaller level to increase our chances of success. Don't try to consciously build a start-up, just build things that are interesting and take them from there.

What you need, is what Silicon Valley entrepreneur Eric Ries calls a Minimum Viable Product (MVP). Dale Carnegie's MVP was a short talk and a few notes on a small piece of card. And if the content in this smaller form hadn't resonated with people, the book probably wouldn't exist today. It's certainly food for thought.

The rise of craft beer

Some may sneer at craft beer as being a passing phase, the domain of hipsters or the pretentious, but in the US, it's turning into fairly big business. Craft beer makers in that country have experienced huge jumps in market share while the overall beer market size has shrunk.

In fact, according to the Wall Street Journal, the US Census Bureau announced recently that the number of breweries in the in the US had doubled in five years, an increase largely due to craft beer. On average over the past two years, 1.2 craft breweries had opened each day, contributing to a total of 15.6 million barrels of beer last year.

Yes, that is just 7.8% of the US beer market share, but craft beer is taking an ever-increasing chunk out of non-craft beer companies' sales. And craft beer has grown despite attempts by big beer companies to advertise craft-like beer, emphasising smaller batches and trying different flavours in an effort to win back customers.

The Brewers Association defines American craft breweries as small, producing under six million barrels a year. They also have to be independently owned, with no more than a 25% investment by a non-craft beer alcohol company.

How much should you spend on your website?

US marketing expert Randy Murray says there's a simple rule of thumb when it comes to budgeting for a web and online marketing strategy: spend as much on your website as you would on your flagship retail location.

Of course, not all businesses have retail stores, he argues, but if you consider your website and all of the activities around it as if they were the primary physical location where people find you, and maybe even buy from you, it becomes easier to plan and budget properly.

He points out that the same principles apply to your virtual location as would apply to a physical location:

- Choose prime real-estate and budget for it.
- Hire professional, experienced, retail designers to create a unique space, perfectly aligned with your brand and your customers' needs.
- Carefully select the space layout, the colours, and shape the experience.
- Fill it with trained, helpful staff who have the answers to every potential question.
- Plan for months, and then build, test, tweak, and launch months down the line.

The bottom line is that it's not going to be cheap. And it has to change, with new content every day, and a full re-design every three to five years. Because, done well, online marketing can be very effective, but only if you do it right.