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from the editor

JANA MARAIS

South Africa is in crisis, and corruption is draining the lifeblood of our economy, AngloGold Ashanti chairman and ANC stalwart Sipho Pityana said in a searing speech at the recent Joburg Indaba.

He highlighted a number of concerning statistics: National Treasury has identified billions of rands worth of irregular expenditure at various levels of government in the last financial year alone. About 72% of government departments and state-owned enterprises do not comply with supply chain management standards.

Keeping President Jacob Zuma in power will provide the opportunity to continue siphoning off a portion of government spending, which will be worth an estimated R1.5tr over the next three years.

While others have argued that Zuma stepping down will make hardly any difference to the state of affairs (given for example at the levels of cadre deployment throughout government structures), Pityana again called for Zuma to leave, saying the government is "incapable of genuine reform" under his watch.

I agree. A president can make all the difference – look at the developments in Ivory Coast and India, for example.

In Ivory Coast, which is recovering from civil war, business-friendly reforms by President Alassane Ouattara, an economist by training who spent many years at the International Monetary Fund and came into power in 2011, have transformed the country into the fastest-growing economy on the continent. Ouattara did not try to reinvent the wheel: he focused on improving the business and regulatory environment, lowering inflation and providing stability for investors. The result has been increased foreign direct investment, and average economic growth rates of 9% since 2012.

In India, Prime Minister Narendra Modi has been on a similar path of reform, tackling the difficult structural changes needed to transform the economy. There is substantial overlap with SA – but the difference is that Modi is not shying away from proposing labour market reform or plans to fix state-owned enterprises and lure private investment, for example.

Similar to SA, India's sovereign debt is currently one notch above junk status. However, Moody's has a positive outlook on India's rating, and recently said it could upgrade the rating in the next one to two years should the pace of reforms and the levels of private investment pick up. The World Bank is forecasting growth of 7.6% this year and 7.7% in 2017.

Imagine what we could achieve with a leader who can take the National Development Plan and translate it into a simple, inspiring vision for SA that enjoys buy-in from all corners of society. ■

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By James-Brent Styan

ESKOM

Running full tilt at the windmills

Whatever happened to the caution that led Eskom to abandon its nuclear build plans in 2008?

In 2008, Eskom was on the verge of signing contracts for the first new nuclear plant to be built in South Africa since construction on Koeberg began in the late 1970s.

But by December 2008, the state-owned enterprise (SOE) was running into some serious financial trouble and realised that adding a nuclear build programme on top of an already getting-out-of-control expensive new coal one would probably sink it. So the nuclear plans were abandoned, with Eskom saying at the time it was not "in a position" to service the "magnitude of the investment required".

For a time nuclear took a back seat as the country reeled under extended blackouts, while the SOE tried to stabilise its overworked cluster of old power stations.

Then, there was some luck for Eskom as the global economy tanked, taking the South African one with it, which led to plummeting electricity demand in the country. Annual electricity demand is yet to recover to pre-2008 levels.

The slowdown and lower energy intensity of new growth has given Eskom the space it needed to stabilise its system. At the same time, increased exports to neighbouring countries have safeguarded Eskom against bigger drops in sales – despite lowered South African demand for electricity.

Fast forward to September 2016. Suddenly Eskom is so confident that it is on the right track, that it has made a dramatic about-turn and wants to be in charge of government's nuclear business after all. The company is now insisting nuclear is the best option available – and that it is affordable. Nuclear will be built at a price South Africa can afford, Eskom executive for generation Matshela Koko has promised in the newspapers, and it will be affordable even compared to the best estimates for renewables and gas.

Apparently previous concerns around the "magnitude of the investment" aren't putting Eskom off anymore. Instead the SOE suddenly seems to have lots of money. Koko says that it will be sitting on a cash pile of R150bn in 10 years' time, money that could be used to help fund nuclear, he says.

Where will Eskom get a surplus like that from? In its most recent annual report, the company indicates a R4bn profit. That's some way off the minimum amount of R15bn a year in profits it would need to reach Koko's forecast of R150bn.

> Where will Eskom get a surplus like that from? In its most recent annual report, the company indicates a **R4bn** profit. That's some way off the minimum amount of R15bn a year in profits it would need to reach Koko's forecast of R150bn.

This should set off alarm bells – if only because of concerns regarding future electricity tariff increases. Over the period 1999 to 2007, electricity tariffs increased by 38% in real terms, according to the Parliamentary Budget Office. Between 2007 and 2015 tariffs increased by over 170% in real terms. Imagine the potential impact on tariffs if Eskom must fund a massive nuclear build programme too. It boggles the mind that government's energy and electricity planning is being allowed to remain in such a mess.

At the beginning of this month, energy analyst Chris Yelland tweeted that the National Energy Act (2008) states that the minister (of energy) must annually publish a review of the previous year's energy supply and demand, forecast the same for the next 20 years and provide plausible scenarios of how the energy landscape could look under different assumptions. This is in essence an integrated resource plan (IRP), the last and only official one of which was published in 2011.

Currently there is no sign of the much-promised new IRP meant to guide the country's energy and electricity ambitions. Yet we have Eskom running full tilt at windmills. ■

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James-Brent Styan authored a book on the energy crisis called *Blackout: The Eskom Crisis*, published in 2015. He writes in his personal capacity.

Siza Mzimela
Former CEO of SAA and CEO of Fly Blue Crane

Matshela Koko
Executive for generation at Eskom

Gallo Images /Mail & Guardian /Madelene Cronjé

THE SKY'S THE LIMIT FOR EX-SAA BOSS SIZA MZIMELA

Over in aviation – amid gloomy news surrounding state-owned carriers South African Airways (SAA) and South African Express (SAX), which has not managed to table its annual report in time, reportedly due to "solvency challenges" – it was good to hear that Fly Blue Crane is launching a new service from OR Tambo International Airport to Mthatha in the Eastern Cape.

This service will offer two return flights every weekday and one daily return flight on Saturdays and Sundays. Fly Blue Crane, which took to the skies in September 2015, already flies between Kimberley and Bloemfontein, Kimberley and Cape Town and Bloemfontein and Cape Town.

The company is the brainchild of ex-SAA boss Siza Mzimela, who was at one time the only woman to serve on the International Air Transport Association board of directors. Essentially elbowed out, Mzimela and several of her top-ranking colleagues – including chairperson Cheryl Carolus and Russell Loubser, ex-JSE boss and non-executive director at SAA – left the airline in late 2012. At the time they blamed a breakdown in the relationship with the shareholder.

There must be some kind of a lesson in the successes Mzimela is having operating an airline outside government and driving routes to unserved areas such as Mthatha. ■

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By Dion Forster

CIVIL PROTEST

Why the 'loss of faith' in heroes like Mandela may not be such a bad thing

The youths of the country are starting to challenge the status quo in South Africa, questioning the post-apartheid legacy icons like Nelson Mandela left behind. What impact will this have on SA?

The legacy of anti-apartheid activists no longer has currency for many of today's youth. They believe that they've been failed by the older generation of political leaders, including Nelson Mandela.

A recent Facebook post by the controversial Oxford University student and Mandela Rhodes scholar Ntokozo Sbo Qwabe reflects this:

"Older black people who want to silence us on the basis that they fought against apartheid need to shut the fuck up!!! We are here because you failed us! So please!"

This sentiment is fairly common among student activists associated with the "fallist" movements – including #RhodesMustFall and #FeesMustFall .

One could say they've "lost faith" in the legacy of anti-apartheid heroes and the supposed freedoms won.

Some may be unsettled, even angered, by this loss of confidence in the liberation struggle heroes.

But losing a naïve and untrue "religious conviction" might actually be a sign of the emergence of a more honest and mature commitment to an ethics of responsibility.

Losing faith in a false god is not such a bad thing. Many South Africans are losing faith in a very subtle and deceptive form of civil religion that held many in thrall during the last 22 years of democracy. Shocking as it may be, perhaps Qwabe is not far from the truth.

Civil religion

After the euphoria of the peaceful transition to democratic political rule in 1994, a subtle civil religion emerged in popular culture.

Sociologist Robert Bellah suggests that religion in the civil sphere is possible when citizens begin to shape a belief into a transcendent narrative about their social and political reality. They begin to use religious or theological symbolism to describe social, political or economic systems and processes. The purpose of the "civil religion" is to work toward the project of an alternative social reality.

SA's post-apartheid civil religion was born on the day of its first democratic elections. An event lauded globally as a "miracle" in the midst of a hostile and precarious social and political situation.

Many had predicted civil war in the lead-up to elections. Instead, post-election media reports reflected a widespread sense of euphoria and joy. It was framed in the dense and symbolic theological and religious language of peace and reconciliation. This is not surprising in a country where over 85% of the population profess to be Christian. Such language is familiar. It has meaning and currency.

Mandela the 'messiah'

Every religion requires a saviour, and this civil religion's messiah was Nelson Mandela. He embodied a capacity to envision a new future for a divided South Africa. He was widely regarded as a leader who displayed great courage, grace and a reconciling nature.

People are losing faith in this civil religion.

His virtuous character was presented as an example for all striving to be good citizens. Today many wonder about the negotiated compromises he entered into during his presidency and the transition to democratic rule. Perhaps he was only human after all.

The high priest of democratic SA's civil religion was Desmond Tutu, who coined the primary discourse of the (civil) religion in the language of the "rainbow nation". The character of the religion, and its doctrinal centre, was an eschatological harmony based on national reconciliation.

This miracle was to be ushered in through a social event – a ritual. The ritual that served as a moral and psychological symbol of the civil religion was the Truth and Reconciliation Commission. Sadly, its legacy is contested. Perpetrators walked free while victims remained uncompensated.

The civil religion's sacred text was the 1996 South African constitution and Bill of Rights. The hymn was the national anthem, *Nkosi sikele'iAfrika* (God bless Africa).

But some worry that the constitution protects the rights of the privileged and doesn't go far enough in allowing for restorative justice for the poor.

A number of Dutch newspapers with the news about the death of Nelson Mandela.

In recent years there has been a significant loss of confidence in the discourses of the new SA – the rainbow nation, the saints and rituals. People are losing faith in this civil religion. This disenchantment is most clearly expressed in the words and actions of "born-free" activists, such as Qwabe.

They believe South Africans find themselves in a more deeply divided, more economically unjust and politically corrupt nation because of their beliefs in these people, their legacies, and in the institutions they established.

While many may struggle to agree with the methods of the "fallist" youth, perhaps they are pointing SA in the right direction? Yes, Mandela did something remarkable. But he is not the peoples' saviour. Tutu and the TRC are inspiring and important. But now the country needs something for this time. Yes, democracy is an opportunity for transformation. But the 1994 elections were not the end of our process. It was only the beginning.

And so, I believe that South Africans should lose their false civil religion and exchange it for an ethics of responsibility. The poet June Jordan said it most aptly, reflecting on the women's march to the Union Buildings in 1956:

And who will join this standing up... We are the ones we have been waiting for. ■

editorial@finweek.co.za

THE CONVERSATION

Dion Forster is head of department in systematic theology and ecclesiology, senior lecturer in ethics and public theology and the director of the Beyers Naudé Centre for Public Theology at Stellenbosch University.

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in brief

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>> **IN THE NEWS:** Properties doing it for the environment *p.12*
>> SA's young people reach breaking point *p.14*
>> Is further trouble looming for platinum? *p.15*

"WHEN PEOPLE ARE POOR, ARE DESPERATE, THEN GOVERNMENT CAN CONTROL THEM. AND I'M COMMITTING, AND I'M PLEDGING, TO ENSURE THAT WE GIVE FREEDOM TO OUR PEOPLE. AND REAL FREEDOM IS NOT JUST ABOUT GOING TO VOTE."

Gallo Getty Images / Elizabeth Sejake

– Johannesburg mayor **Herman Mashaba**, in his keynote address on 4 October. While voting is important, he said, "Real freedom is when you own assets, when you're independent of getting government grants, getting government food parcels."

Pravin Gordhan

Gallo Getty Images / Thapelo Maphakela

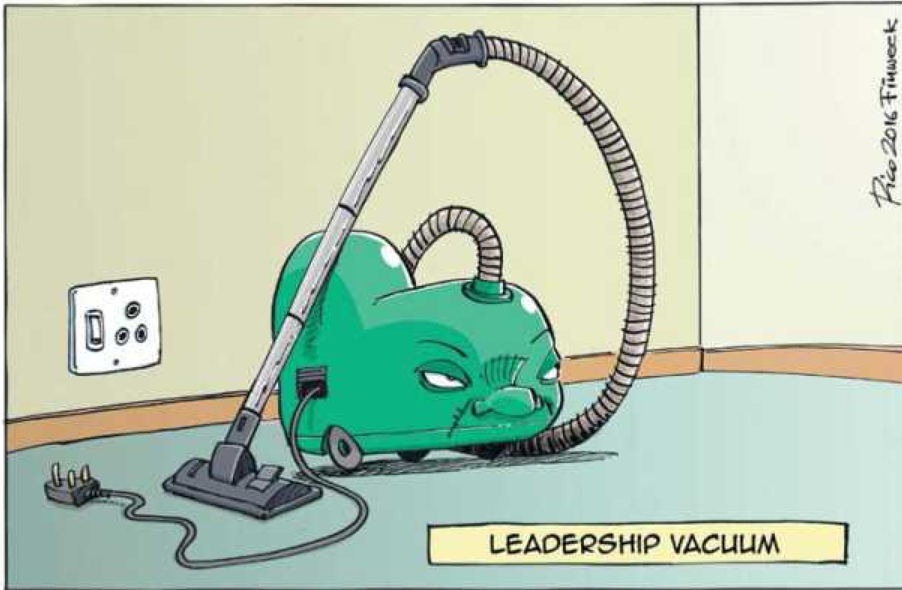
"WE MIGHT SEE SOMETHING WE HAVEN'T THOUGHT OF IN TERMS OF OPPORTUNITIES TO FIND THE MONEY."

– After Treasury had seen calculations presented by student representatives, finance minister **Pravin Gordhan** suggested that further funding to support higher education could be possible, reports *Business Day.* He warned however that such a decision would have to be made with budget constraints in mind. He added that it would hurt growth.

"[Christo] Wiese sits on the board and decides who gets what. Is that right when you're dealing with a listed company?"

– Shareholder activist **Theo Botha** in response to Wiese's decision to exclude small shareholders from a €2.45bn fund-raising exercise that would see selected investors increase their stake in Steinhoff, reported *Business Day*. Wiese's private company Upington Investment Holdings has the option to buy an additional 314m shares in Steinhoff. This could see Upington's stake in the international retailer increase from 17% to 23%.

DOUBLE TAKE BY RICO



THE GOOD

As public protector Thuli Madonsela's time in office comes to an end, she is showing no sign of slowing down. At the time *finweek* went to print, *Business Day* reported that she was still hoping to finish her probe into allegations that President Jacob Zuma had abused power and allowed friends, in particular the Gupta family, to influence state affairs, before she steps down in mid-October. This would include interviewing Zuma on the allegations. Regardless of the outcome, her work ethic has to be saluted.

THE BAD

Shoprite CEO Whitey Basson's pay of R100.1m (or $7.4m) for the year to 30 June, following a bonus of R50m for beating the company's profit-growth target, comes at a time when a large part of the economy is struggling to make ends meet. To put his pay into perspective, ft.com reports that Dave Lewis, the CEO of Tesco, the UK's biggest supermarket chain, received $5.96m over the same period. Woolworths' Iain Moir earned R53.7m in the year ended 26 June.

THE UGLY

In its World Economic Outlook for October, the IMF says that policy uncertainty in South Africa is "making the adjustment to weaker terms of trade more difficult" for the country. The IMF is keeping its growth rate projections for South Africa at 0.1% for 2016. "A comprehensive structural reform package that fosters greater product market competition, more inclusive labour market policies and industrial relations, and improved education and training, as well as reducing infrastructure gaps, is critical to boost growth, create more jobs, and reduce inequality," the IMF says.

STERLING TUMBLES

31 years

Britain's pound slumped to a three-decade low, of $1.2715, against the dollar on 4 October after UK prime minister Theresa May announced that the exit from the EU would start in March 2017, reported Reuters. May also suggested that the UK's first priority would be controlling immigration, and not maintaining its privileged access to its largest trading partner. "The tone that Prime Minister May used has been uncompromising," *The Wall Street Journal* reported Robert Wood, UK economist at Bank of America Merrill Lynch, as saying. "That's what the sterling has been focusing on for the past two days."

EQUITY FUNDS SHRINK

$100bn

Outflows from European equity funds reached $100bn as investors were concerned about the health of the continent's financial sector and banking system, reported the *Financial Times*. Outflows in the week of 28 September were $1.9bn. It was the 34th consecutive week of outflows, reported the newspaper. These concerns were again highlighted after reports that Deutsche Bank was drawing up contingency plans should it be unable to meet regulatory requirements resulting from the US department of justice's demand of a settlement of $14bn over the bank's alleged misselling of mortgaged-backed securities.

SOUTH AFRICAN INSTITUTE OF PROFESSIONAL ACCOUNTANTS
YOUR WEALTH

The SAIPA National Accounting Olympiad winners - 2016

The National Accounting Olympiad is run annually by the South African Institute of Professional Accountants (SAIPA) and aims to raise school-leavers' awareness of professional accountancy as a future career option, and also to identify those students with an aptitude for the subject.

SAIPA would like to congratulate this year's winners. The results were exceptional and we are proud to announce the following top six winners.

Muzaffar Ahmed Malani, Orient Islamic School Kwa-Zulu Natal

Rhulani Ndlala, Merensky High School Limpopo

Simonè Balt, Hoërskool Linden Gauteng

Liam Roubach, De Kuilen High School Western Cape

Husnaa Motala, Westville Girls High School Kwa-Zulu Natal

Raadiyyah Seedat, Lenasia Muslim School Gauteng

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By Jessica Hubbard

Content-hungry youth are shaping SA's media landscape

Those aged 35 and below are having a profound impact on digital entertainment and media, spurring massive growth.

Digital spend will drive overall media growth in South Africa, analysts predict, with advisory firm PwC forecasting that SA's internet access market will rise from R39.4bn in 2015 to R68.5bn in 2020, as broadband – both fixed and mobile – becomes an "essential utility".

According to PwC's *Entertainment and Media Outlook: 2016-2020* report – which focuses on SA, Nigeria and Kenya – SA's entertainment and media industry is expected to grow from R125.7bn in 2015 to R173.3bn in 2020, at a compound annual growth rate (CAGR) of 6.6%.

The firm's analysis of national entertainment and media markets globally underscored what it calls "an almost perfect correlation between the relative size of the under-35 population and growth in entertainment and media spending – confirming that younger consumers are now the primary drivers of global growth".

Vicki Myburgh
Entertainment & media industry leader at PwC Southern Africa

"The youth are propelling E&M growth," explains Vicki Myburgh, entertainment & media industry leader at PwC Southern Africa. "Today's youth are very comfortable with digital consumption of content, and they are also used to staying connected for most of their day."

Myburgh adds that, with more than 60% of SA's population below the age of 35, "a great opportunity awaits" in capitalising on their ever-growing need for content. On average, E&M spending in the 10 youngest markets worldwide is growing three times as rapidly as the 10 oldest markets.

Younger people are more open to adopting digital behaviours – and to digital spending, she says.

In her view, the opportunity for media companies is to understand how the youth spend on digital content and to be able to predict when and how they will pivot from, for instance, paying for downloads to streaming content and paying for a streaming service.

Localisation is key

In the world of branding and advertising, forward-looking digital agencies are taking a deep dive into local culture and vernacular to develop content that resonates in specific markets.

"Using global brand content doesn't make sense anymore," says Ben Wagner, head of local digital agency Native VML. "Brands that aren't locally relevant stand to become irrelevant and obsolete. South African brands are learning this very quickly, as the data will highlight their lack of engagement."

Wagner says consumers are more than willing to pay for content online, increasingly in the form of streaming service subscriptions. To attract these paying customers, however, content needs to be "contextually relevant, inherently shareable, of a high production value and backed by paid media".

The recent PwC *E&M Outlook* identified a growing desire among consumers to "design and curate their own media diet". Consumers avoid being locked into expensive annual subscriptions but are demanding instant access – across various devices – to the best and most current programming. This is forcing cable, tech and telecoms players to rethink their traditional bundles and price packages and devise more tailored and flexible options for fickle audiences.

Above-average growth

For local media companies with an eye on expansion, PwC's Myburgh says that although their growth forecast has reduced overall to a CAGR of 6.6% (over the forecast period to 2020),

Ben Wagner
Head of local digital agency Native VML

SA is still considered a growth market in respect of E&M spending – with the expected growth "far exceeding" SA's real GDP growth over the forecast period. "In terms of South Africa's place within the wider ecosystem, the country retains much promise, coming from a position of reasonable scale and above-average growth."

The *E&M Outlook* found that SA has the largest television market in Africa, with pay-TV subscription revenues expected to expand by a 5% CAGR to reach R25.2bn in 2020.

The video game market is also a stand-out, and revenue is expected to grow at a CAGR of 5.6% to reach R3.7bn in 2020, up from R2.8bn in 2015.

Social or casual gaming revenue overtook traditional game revenue for the first time in 2015, and this is expected to be the key growth area over the next five years, exceeding R2bn by 2020. ■

editorial@finweek.co.za

RISE OF THE 'SUPER AGENCY'

The lines between branded, editorial and entertainment media are becoming increasingly blurred. Similarly, the lines and strict rules that separated digital agencies, traditional publishers and technology companies are fast becoming irrelevant.

"These porous and evolving borders are most evident in the E&M industries," says PwC's Vicki Myburgh. "In the 21st century, consumers are gradually shifting away from traditional forms of media content and distribution. The battle for the consumer's attention has become brutal, requiring new strategies and capabilities."

She is expecting the emergence of the "super agency" – which will leverage integrated data sets, smart analytics, new visualisation and delivery platforms and programmatic advertising.

"The biggest companies are scaling world-class programmatic capabilities while also developing software to buy digital advertising faster and more efficiently," she adds. "What they cannot build, they buy or access through partnering."

Native VML's Ben Wagner agrees, noting that clients are beginning to question the need for both a full-service digital agency and a traditional agency – with clients starting to opt for a roster of digitally led agencies that can manage lead agency assignments.

Some digital agencies will be relegated to the role of production partners, he says, and traditional agencies that haven't made the digital transition will be left behind. ■

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By Glenda Williams

Going green is hip... and happening

The now topical green building movement has broken the barriers of the perceived green premium, coming a long way in a surprisingly short time.

It's not been quite 10 years, but in that time 200 buildings and eight interior spaces have achieved Green Star SA (GSSA) certifications from the Green Building Council South Africa (GBCSA).

It's quite a leap from the single certification issued in 2009 and the six years it took to get to the 100 mark. The movement is exhibiting exponential growth, the last 108 certifications issued in a mere 15 months.

Aside from changing perceptions around environmentally responsible issues, there were perhaps some other pretty powerful nudges to speed things up, the 300%-odd increase in energy costs in the last five years one of them. Then came the realisation that even with the upfront premium of going green, it made good business sense with both energy and financial rewards to be had (see box).

"One needs to look at the increase in building costs simultaneously with the yield. Just because you spend more doesn't mean your forward yield is dropping. You can spend 5% more, have a higher return and lower your operating costs," explains Rudolf Pienaar, deputy chairperson of the GBCSA and director of the World Green Building Council.

Rudolf Pienaar
Deputy chairperson of the GBCSA and director of the World Green Building Council

Brian Wilkinson
CEO of the GBCSA

Green impact

Green building is part of the solution to global warming and is – says Brian Wilkinson, CEO of the GBCSA – the real hero in the fight against climate change. The greening of buildings, both new and existing, and impact on the environment is not inconsequential, as numbers prove.

Today, the 2.8m square metres (equivalent to 400 rugby fields) of GBCSA certified space has saved 336m kilograms of carbon emissions (equivalent to taking 84 000 cars off the road) and 260m litres of water, the latter equating to the daily water consumption of 100m people.

Annual electricity saving is 280m kilowatt hours, equivalent to powering 19 500 households for a year.

Greening South Africa

Green building in SA accounts for 41% of building project activity against a 24% global average. In total, 61% of building projects are expected to be green by 2018 against a global average of 37%.

The *Dodge Data Analytics World Green Building Trends 2016 SmartMarket Report* found that, "South Africa has the highest green share currently of any country in the study and could become a leader in the green building sector in the next three years," says Wilkinson.

The bulk of the country's green buildings fall within the commercial property sector. Unsurprisingly given the financial rewards on offer, SA's real estate investment trusts (Reits) have embraced the greening movement. Some, like Redefine Properties, can boast 13 certifications. But it is heavyweight Growthpoint Properties that owns or co-owns the largest portfolio of Green Star SA certified buildings, 50 in total.

Even the public sector is part of the greening movement, 13 of its buildings having received GBCSA certification and all 278 municipalities in the country now GBCSA members.

The residential sector is also making major green inroads, 2 382 green homes earmarked for EDGE certification (the residential rating tool) while another 5 000 are targeting certification.

Green precinct

Cities consume about 75% of global energy. Predictably, green cities and mini-cities are

BREAKING THE COST PREMIUM BARRIER

The joint MSCI/GBCSA South Africa Annual Green Property Indicator found that energy and water efficient buildings financially outperformed their less efficient counterparts on all measures:

- Total financial return exceeded by 1.4%.
- Income return of 7.5% compared to 6.8%.
- Capital value of 4.7% versus 4.1%.
- 35% less electricity and 42% less water per square metre of occupied space.
- 5.3% total return outperformance; 2.1% net income outperformance over three years.
- Cumulative outperformances were driven largely by superior capital growth of 5.5%, compared to just 1.8% for the balance of the sample. The more efficient buildings also boasted a higher occupancy rate, a lower level of capital expenditure and better capital value per square metre.

The Department of Environmental Affairs' 6-Green Star SA building.

Images: GBCSA

also appearing on the radar, the country's three leading green precincts being Century City, Menlyn Maine and the V&A Waterfront.

Menlyn Maine, the 315 000 square metre decentralised green city mega-development in Pretoria, is SA's first green mixed-use city precinct. As a partner of the Clinton Climate Initiative, Menlyn Maine is one of 16 green cities being built in various countries, and the only one in Africa. All buildings in the precinct are set to be rated 4-Green Star SA or higher by the GBCSA.

Green office buildings in Menlyn Maine's green city mega-development.

The next frontier

The next phase of the journey is achieving scale, with GBCSA's bold targets for 2020 being to have 12 000 trained green property professionals and 10 000 certified residential homes.

But it is the 2 500 commercial green buildings goal by this date that perhaps speaks to an approach that is not about one building but a portfolio of buildings.

"There are Reits that are right now approaching Green Building certification at a portfolio level," says Wilkinson. "Some organisations have made a commitment to certify their entire portfolio, and that is how we will reach that 2 500 mark. Standard Bank, for instance, have committed to every branch having a green interior within the next seven years."

Growthpoint is one such entity to have embraced sustainability at portfolio level, its last submission an unprecedented 28 projects for Green Star Existing Building Performance rating.

Redefine Properties too has committed to achieving at least a 4-Green Star rating on all its developments.

Emira Property Fund has a multiple asset pipeline for new building GSSA certification and has just completed a successful pilot project that replaces harmful R22 refrigerant gases used in air-conditioning with an environmentally friendly alternative. The company has committed to eliminating the use of R22 refrigerant gases in its South African properties.

Given that the built environment will double in the next 30 years, the next challenge for the GBCSA and other green councils around the world is the drive toward a net zero built environment to ensure that highly efficient buildings become the norm over the next 35 years.

The GBCSA, together with seven other green building councils, aims to ensure that all buildings are "net zero" by 2050 in order to help deliver on the ambition of the COP21 Paris Agreement to tackle climate change.

That means reducing CO^2 emissions from the buildings sector by 84 gigatonnes – the equivalent of 22 000 coal-fired power plants – by 2050.

GBCSA's 2020 goal is a net zero building certification scheme. Says Wilkinson: "Net zero is the next frontier. It is about generating or harvesting as much as you are using, like the 6-Green Star Vodacom building does by generating 200% of its energy requirements through the use of photovoltaic panels."

Green buildings have proved to be much more cost effective in the long run, achieving reduced operating costs, higher rentals and improved capital appreciation.

The bottom line

Going green was not much of a priority 10 years ago, the premium upfront costs a deterrent. But the 5% average green cost premium (which can be as low as 1.1%) over and above the cost of non-green buildings has proved to be much more cost effective in the long run, achieving reduced operating costs, higher rentals and improved capital appreciation.

Greening, it appears, is also influencing stock decisions. The Global Real Estate Sustainability Benchmark index tracks the sustainability initiatives of real estate organisations as input to asset management decisions around the purchasing of stocks. The latest index, says Wilkinson, shows that organisations doing good environmentally similarly had higher performances.

There's more around performance. Worker performance in green buildings has appreciably improved.

According to Harvard University research, Wilkinson says, the cognitive ability of people that work in high performance buildings is improved by 280%. ■

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MY INVESTMENT PERFORMANCE IS A RESULT OF YEARS OF EXPERIENCE **AND A DEEP KNOWLEDGE OF MARKETS.**

Jayna Gandhi, CFA

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A Difference That Matters™

By Jana Jacobs

The desire for a better state

The South African Institute of Race Relations' *Fast Facts* report on South African youth points to alarming statistics on youth education and employment.

The population of economically active youths in the country (those employed in both the formal and informal sectors, or are actively looking for work) is increasing at a slower rate than the overall economically active population, while the number of young people with jobs has declined between 2009 and 2014. This is according to the Institute of Race Relations' (IRR) report on the South African youth.

SA's youth – those between 15 and 34, according to StatsSA – makes up 36% of the country's total population, says IRR head of research Thuthukani Ndebele.

In Africa, 67.6% of youths aged between 15 and 24 are unemployed. In South Africa this figure is 35%.

But before you can talk about getting a job, you need a basic education at the least.

Fewer than one in five people between the ages of 21 and 25 are enrolled in an educational institution, according to the IRR report.

Of over 1m students enrolled in Grade 10 in 2013, fewer than 200 000 did well enough to achieve bachelor passes by the time they reached matric in 2015, with only 11.3% passing maths.

Although the figures for university enrolment in South Africa have increased over the past three decades, throughput remains a concern, says Ndebele.

About the resurgence of #FeesMustFall protests and how long they will continue, Ndebele says that as long as there is no suitable situation on the table, "particularly for students", the situation will not change.

After fees were frozen at the end of last year, protests died down, but Ndebele doesn't believe the initial issues were ever properly addressed, which is why we are facing a similar situation again.

This year, minister of higher education and training Blade Nzimande threw the ball back to universities, saying that fees could be increased by a maximum of 8%, leading to renewed protests.

"As long as there are allegations of corruption and mismanagement, as well as issues relating to parastatals and the way they are run, everyone will continue believing that the money *is* there. And as long as people are convinced that the money is there, they will not stop protesting," Ndebele says.

▲ Police fire teargas and rubber bullets at Wits University students during the #FeesMustFall protests in September.

Gallo Images/Getty Images/Felix Dlangamandla

And, Ndebele points out, as long as students are not met halfway, the unrest will remain. "Perhaps on and off, but it will carry on."

The discontent and mistrust is not restricted to the student population; the service delivery protests that take place on a daily basis are an example here.

Says Ndebele: "The poorest municipalities have mayors that buy the most expensive cars. This doesn't make sense to the average person in that area, because they think this means that the money is there – it's just being spent incorrectly."

According to Ndebele, citizens have become more and more aware of their rights and what they are entitled to. Therefore the expectation is that mayors (as an example) need to deliver, as, "They are servants to you."

The youth has very little confidence in government, Ndebele says, but if there is any way to restore this and move forward, the government needs to address youth concerns as a matter of urgency. Some of the more pressing of these issues include unemployment (and the need to create jobs, as at present there are simply not enough) as well as poverty. ■

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FRUSTRATION ABOUNDS

The disconnect between consumers' aspirations and their ability to realise them was highlighted in the UCT Unilever Institute of Strategic Marketing's 2016 *Aspirations* report, which focuses on the people's hope of bettering their own current position.

Business confidence has never been lower, and consumer confidence is almost at its lowest since 1999, Prof. John Simpson, director and co-founder of the institute, said when the report was released.

He explained that the report was based on 900 in-depth interviews, including 40 expert interviews and 500 student surveys. Further, Nielsen conducted a quantitative survey, and the National Income Dynamics Study (Nids) provided invaluable consumer data.

According to Nids, since 2008, 75% of South Africans have remained in the same income band. Of the remaining 25%, half have actually moved backwards, said Simpson.

Consumers – particularly those in the poorest segment of the economy – are faced with a situation of knowing what they want but can't actually get it, leading to immense frustration that plays out in resignation, desperation, aggression, blame and people moving their goalposts or lowering their aspirations.

These consequences are playing out, for example, in the 11 daily service delivery protests South Africa is experiencing on average and the #FeesMustFall movement that is not abating, Simpson explained.

Forty-five percent of those surveyed for the report stated that they are being hindered by a lack of education, with 45% saying it is due to a lack of jobs, while 38% said it was due to family responsibilities.

Nearly 50% of all unemployed South Africans have been without a job for five years, and only 31% of those who are employed earn a taxable salary (i.e. earn more than R6 250 a month). ■

By David McKay

Automotive sales hurting platinum

After six years of growth, car sales in the US are beginning to level off, and some manufacturers are already reporting a decline. As platinum is used in autocatalysts, how will this affect the sector?

Platinum shares on the JSE continue to defy the odds; at least, those set down by investment analysts who earlier this year thought the likes of Anglo American Platinum (Amplats) and Impala Platinum (Implats) had run too hard and were due a major correction.

At the time of writing, Amplats was 166% higher in the year-to-date while Implats was up 188%, even though analysts think the company is not yet generating any cash after capital expenditure. Even Lonmin, a firm that courted bankruptcy last year, is 104% higher.

This is despite obvious moves in the dollar price of platinum. The price of the metal has fallen from its August high of $1 171/ounce to levels of just over $1 000/ounce at the time of writing. Nonetheless, this is still about $150/ounce higher than in December, when the platinum industry looked in peril.

Analysts, however, continue to be wary about the sector with the latest warning coming in the form of automotive sales, which provide a market for 80% of palladium sales and 40% of platinum through the legislated manufacture of autocatalysts, which remove noxious fumes from car exhausts.

A recent softening in the price of palladium is related to an announcement by General Motors that September sales were down 0.8% month-on-month and 8% against sales in the corresponding month of the previous year. This has led to concerns that the US auto market is levelling off after a six-year climb.

Goldman Sachs thinks automotive sales will increase 1% for 2016 but fall quite heavily, by 7% and 5% in 2017 and 2018 respectively. "As auto sales level off – both in the US and Western Europe – it should put downward pressure on the already under-pressure autocat demand for both the metals," the bank says.

"As auto sales level off – both in the US and Western Europe – it should put downward pressure on the already under pressure autocat demand for both platinum and palladium."

"Add to that the ramping up in supply in SA – both from existing mines and new mines coming online – we believe it sets the stage for metal underperformance," it adds.

Goldman Sachs has repeated its relatively long-standing view that it is bearish on platinum group metal (PGM) equities in general.

Macquarie, the Australian bank, believes the relatively strong performance for car sales this year represents something of "a statistical illusion" because they compare to a low base in 2015.

As for 2017, PGM sales into the automotive sector may be affected by, as ever in the commodities markets, the Chinese.

A tax incentive on small vehicles is due to expire this year that may crimp sales next year. Added to that the US market is struggling, and catch-up in vehicle sales, which has been a feature of the European market in the past few years, is almost complete.

Sales of diesel vehicles – which present a larger market for platinum than palladium, owing to the way autocatalysts are fabricated for diesel engines – are also under pressure thanks to declining popularity for the engine.

The other side of the equation is the ability of South African producers to increase supply of PGMs. While Goldman Sachs thinks that production will increase from SA, despite the possibility of a wage strike this year, Macquarie believes market pressure will begin to take its toll on the platinum miners.

"Over time, the severe lack of investment will begin to take its toll, however, not just in lower capacity but more frequent safety and other stoppages, and we forecast production to decline slowly," says Macquarie.

South African platinum supply is forecast to be 4.7m ounces excluding supplies from inventories, a decline from the 5.01m ounces supplied in 2015, of which about 182 000 ounces were from inventories, according to Macquarie. Supply is set to fall further in 2017 and 2018, down to 4.6m ounces in both years, the bank says. ■

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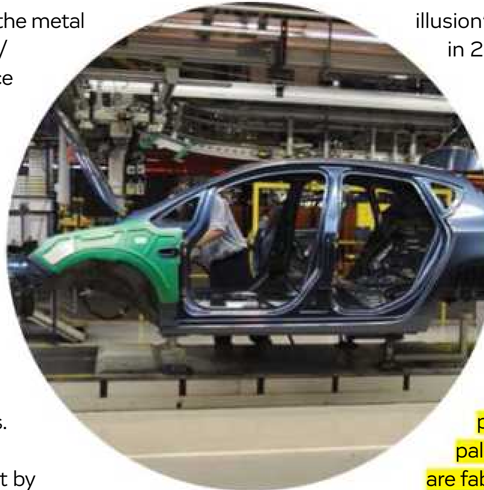

A production line in an Opel/Vauxhall **(General Motors)** factory in Poland.

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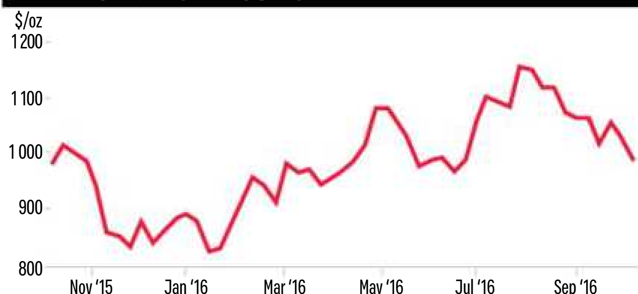
PLATINUM PRICE IN US DOLLAR



SOURCE: INET BFA

market place

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ROLFES

BUY SELL HOLD

By Simon Brown

Looking better

A few years ago it seemed specialty chemical company Rolfes would have to do a rights issue to raise money. Its depressed share price would have made it a very expensive endeavour.

But the company managed to avoid having to issue new shares, reduced debt and got the business very much on the right footing.

Recent results even included a dividend for the first time in many years on the back of revenue that was up 20% and headline earnings per share up by 39%. The recent Bragan acquisition was only included for nine months, so that will add a little more profit uplift in the year ahead.

The other divisions mostly saw lower revenue but improved margins, which led to better cash conversion.

There has been a seller in the market who was keeping the stock under 390c, and they have either exited or are now selling slightly higher at around 410c. On a modest price-to-earnings ratio of some 7.7 times and a renewed dividend, this is an attractive long-term stock. ■

Last trade ideas

- SELL Choppies
- SELL Astoria Investments
- SELL Spur
- SELL Mr Price

FAMOUS BRANDS

BUY SELL HOLD

By Moxima Gama

A correction may be in the offing

Leading quick-service and casual dining restaurant franchisor Famous Brands announced its fourth acquisition of the year on 3 October, this time acquiring a 49.9% stake in high-end catering company By Word of Mouth for an undisclosed amount. Karen Short, who founded the business in 1993, and her husband, Adrian, will retain the controlling interest in the business.

By Word of Mouth offers a range of services, ranging from developing unique food and beverage menus to full event management services. It also manages a 400-seater venue, The Polo Room, at the Inanda Polo Club in Johannesburg, and employs more than 200 people. Famous Brands said the deal is part of its strategy to expand the business into the broader leisure and consumer product space.

In September, the fast-food chain said it will buy Gourmet Burger King in the UK for £120m (about R2.1bn at the time of the announcement), as part of its strategy to expand its presence in the casual dining sector abroad. This acquisition beefs up the group's premium brand portfolio and is an opportunity for Famous Brands to earn hard currency outside of Africa.

Other acquisitions this year were the purchase of a "virtually unused" state-of-the-art tomato paste factory in the Eastern Cape and Lamberts Bay Foods, which produces French fries and other value-added potato products, as Famous Brands continues to vertically integrate its supply chain.

Investors seem content, as the share price continues to hit new highs. But I advise caution, as Famous Brands is overextended, and a correction is pending soon. A near-term short would be advisable below 14 900c/share, with the first target situated at 13 300c/share. Stay short on continued selling below 13 300c/share as support at 12 800c/share could then be tested. I'd expect downside momentum to decelerate at 12 800c/share – potentially presenting a reasonably priced buying opportunity. Though my long-term call on Famous Brands remains bullish, I expect a near-term correction soon. ■

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Last trade ideas

- BUY Redefine Properties
- BUY Brait SE
- SELL Vodacom Group
- STAY SHORT SABMiller

In September, the fast-food chain said it will buy Gourmet Burger King in the UK for £120m.

Gallo Images/iStock | gbk.co.uk

By Moxima Gama

SASOL

Will the oil freeze rescue Sasol?

A strategy by Opec members to limit oil production could give the petrochemical company's shares a boost. But don't rush in just yet.

The Organization of the Petroleum Exporting Countries' (Opec) surprise decision on 28 September to cut oil production sent global markets into a frenzy last week, warranting one of the biggest single-day gains of the year.

Opec, which produces 40% of the world's oil, agreed to cut production to a range of 32.5m to 33m barrels a day, with the lower end of the range reflecting a cut of roughly 750 000 barrels a day from Opec's August production, Bloomberg reported.

On 3 October, Brent crude settled above $50 a barrel for the first time since August after Iran's president, Hassan Rouhani, highlighted the importance for other non-Opec oil-producing countries to follow suit to help support prices.

The decision to cut production is in stark contrast with Saudi Arabia's 2014 strategy to maintain market share and exert pressure on higher-cost US shale oil producers, which have seen a phenomenal rise in production in recent years. The lower oil price has exerted pressure on a number of Opec countries' balance sheets, including in Saudi Arabia, where ministers' salaries have been cut by 20% and bonus payments to civil servants halted.

However, caution is advised. The implementation of the agreement is questionable, as well as the country-level production quotas and the time horizon in which the production cut comes into force. Sentiment is mixed, with some speculators citing a floor on oil and potential upside to $60/per barrel. Given Opec's general lack of adherence to quotas, many believe it's too soon to get excited. Each member's output levels will only be decided at the next formal Opec meeting in Vienna on 30 November, when non-Opec countries such as Russia could also be invited to join the cuts.

Effectively the Opec decision is all about driving oil prices higher by cutting supply. However, even if Opec's planned output cuts do materialise and are finalised in November, it's going to take another couple of months before the cuts start to affect global oil supplies, as stock levels remain high. However, Goldman Sachs believes that the deal could add as much as $10 to oil prices in the first half of next year – but only once implemented.

Sasol, whose fortunes are closely tied to the oil price and the rand/dollar exchange rate, has been range-bound between 50 000c/share and 35 400c/share since January 2015. Its share price lost more than 21% over the past three months over concerns about the influence of a lower oil price on profits and its ability to finance a $11bn chemicals plant in the US.

So is Sasol worth buying at all? The petrochemicals giant will have to rebound substantially to regain investor confidence. Yet when the oil price recovers, Sasol should respond positively. Also the current share price levels are cheap, if you have a risk appetite and a long-term view.

52-week range:	R354 - R497.47
Price/earnings ratio:	9.22
1-year total return:	-3.34%
Market capitalisation:	R248.6bn
Earnings per share:	R41.40
Dividend yield:	3.88%
Average volume over 30 days:	1 648 359

SOURCE: INET BFA

SASOL

SOURCE: MetaStock Pro (Reuters)

What next?

Possible scenario: Sasol moved upwards on the back of the Opec oil freeze news. A tighter range between 39 200c/share and 35 400c/share should be monitored, with a near-term buy signal triggered above 39 200c/share. The upside target would be at 45 000c/share. Above that level we'd expect Sasol to aim for major resistance levels at 50 000c/share.

Alternative scenario: Gaps are usually closed, therefore Sasol would have to retrace back to the 36 255c/share level. It could hold there and rebound. Failing which, go short below 35 400c/share, as support at 30 500c/share could then be tested. ■

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Moxima Gama has been rated as one of the top five technical analysts in South Africa. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the research team in the Treasury division of CIB.

Gallo Images/Getty Images

By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com Simon Brown is *finweek*'s resident expert on the stock markets. In this column, he provides insight into the week's main market news.

JSE

Reshuffle makes things interesting

SABMiller has left the JSE, and as such the indices were all reshuffled with Implats being added to the Top40 and AVI entering the Indi25. But now we have a problem as Naspers* is the largest weighting in the Top40 at 19%, and in the Indi25 its weighting is 31.7%. This is nothing to do with Naspers, which has been a great investment, but when buying an exchange-traded fund (ETF) you never want that much exposure to any one stock – you want diversification. CSEW40** is my preferred Top40 ETF – all stocks are equally weighted at 2.5%. I also don't buy niche ETFs such as the Indi25 for the long term, as that requires an active decision, where I will have to decide when to sell it and which new ETF to buy.

ELB GROUP

Trading below its NAV

ELB Group results were as expected – rough – and while the company trades below net asset value (NAV) and only about twice its cash on hand, I cautioned when the last results were released that its cash reserves would be shrinking. It is down some R100m to R273m. Not bad for a stock with a market cap of only around R600m. But NAV is falling, so we wait for results and NAV to start rising again – and then we'll have another look.

CAPITEC

Nothing to be worried about

Capitec** results came in at the top end of the range indicated by the trading update with a lot of attention being focused on the arrears coverage ratio, which was reduced from 239% to 229%. This is how many times any defaulting loan is covered, so at 229%, the bank has R229 for every R100 of bad debt. But this number was reduced from 239% in the previous six-month period, releasing monies held for arrears and boosting overall profit. I am not concerned – in the previous full year to February this ratio stood at 223%, and management will tweak the number as its risk models indicate, and at times it will add or subtract from profits.

Overall, Capitec is doing very well and has been adding customers at an accelerated rate, something I did not expect, as I thought customer growth would start to slow. My favourite number is still the cost-to-income ratio, which remains at 34% while the other big banks sit in the mid-50s. This is a large part of the Capitec attraction, as it has a much cheaper system. While this number will move higher over time, it is unlikely to ever breach 50%, making it a consistently more profitable bank than its competitors.

While this number will move higher over time, it is unlikely to ever breach 50%, making it a consistently more profitable bank than its competitors.

CONDUIT CAPITAL

Always a great read

Conduit Capital results took a hit due to impairments of a business now held for sale, fast growth hurting reserves and its equity shareholdings being under pressure. But I always enjoy reading the results as the CEO, Sean Riskowitz, gives great commentary, helping one understand the business and its goals. The company also details the terms by which bonuses are paid, giving shareholders very clear guidelines as to what matters for the company and what management considers success in terms of growth.

DEUTSCHE BANK

A Deutsche Bank branch in Berlin, Germany

ETNs a possible concern

There is a great deal of speculation about Deutsche Bank and whether it is going bust or not. For us the issues are its ETFs and exchange-traded notes (ETNs). The ETF (DBXs) are fine as they hold the underlying shares, and while it may get very messy I am happy to continue to hold and buy them. ETNs are very different, as an ETN is a credit note, and if Deutsche Bank does go under, it will be unable to honour the credit note – and investors could lose everything. ■

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**finweek* is a publication of Media24, a subsidiary of Naspers.*
***The writer owns shares in Capitec and CSEW40.*

Gallo Images/Foto24 /Lerato Maduna | Krisztian Bocsi/Bloomberg via Getty Images

By Simon Brown

PROPERTY INVESTMENT

Investing in a home of your own

A house will be one of the most expensive purchases you'll ever make. So let's be smart about it.

Two of the largest purchases we make during our lifetimes are a car and a home. Both are huge expenses, often eating as much as 30% to 40% of our salaries while our retirement savings often make up less than 20% of our salaries! Yet both a car and a home are terrible investments. In fact, they are not even investments – they're just expenses. With a car you are guaranteed to lose you money. A house will see you worse off as an owner than if you rented in almost all situations. Yet we continue to buy them.

Now, first we have to accept there are emotional reasons for wanting to own a home and practical reasons for owning a car.

But we can still approach this situation in a smarter way and be emotionally secure, have transport and end up richer because we made these purchases in a clever fashion.

The first point of buying a house is don't, rather rent. Recently, I was a guest on a podcast in which this was discussed at length. In the follow-up podcast we discussed the very few instances in which owning a house was better financially than renting. But as I mentioned, owning a home is often more about emotions and feeling secure rather than being money wise. So if we are going to buy a home, be smart about it.

1. Buy below your means

Be realistic about how much you can afford. Owning a home is not just about paying the bond. Expenses also include rates, taxes, insurance, upkeep, levies, cost of the purchase and eventual sale. But the biggest mistake we make is deciding we can afford e.g. R1m if we stretch the budget, then we look at a house for R1.1m and end up buying one costing R1.2m.

We've already blown our budget, and we haven't moved in yet. If you think you can afford a R1m house, be realistic and buy one for R800 000. If you spend R200 000 less on the house, it is not likely to have a huge impact on the quality of the property, but it will make a massive difference to your pocket.

2. Pay more than just the bare minimum into your bond

Having now bought a home, immediately start paying an extra 10% on the bond every month – this is why you bought a cheaper house, so you could afford to put more into the bond. Then after one year increase your monthly bond repayment by whatever your salary increase is and continue doing this until the bond is paid off. These two simple tricks will shave years off the repayment period, potentially reducing a 20-year bond into a 10-year bond.

Even just moving the actual date you pay the bond every month forward to the same day your salary is paid can take a few months off the repayment period.

So now you can pay the bond off relatively quickly.

Be realistic about how much you can afford. Owning a home is not just about paying the bond. Expenses also include rates, taxes, insurance, upkeep, levies, cost of the purchase and eventual sale.

If you think you can afford a **R1m** house be realistic and buy one for R800 000.

3. Stay put...

The next trick is to stop moving. Typically, we buy a new house every seven or eight years. That hurts. We're continually paying agent fees, transfer costs and bond registration fees that really add up.

4. ...for decades

When you buy a home, make sure that you really can live in it for a few decades, so you actually get to have some bond-free years in your house. Otherwise you will end up paying a bond forever and never owning a home. This is the unfortunate reality: we buy a home on a 20-year bond, but we probably spend 40 years or more actually paying off a bond as we keep moving, upgrading and incurring new expenses.

Buying a home is seldom a good investment, so we need to do it right. If we're clever about it, we can reduce the expenses, leaving more money to invest for our retirement. I will cover buying a vehicle in an upcoming column. ■

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By Abrie Pretorius

UNILEVER

Versatile and dominant

The consumer staples comoany has started focusing more on home and personal care products rather than food, which should have a positive impact on its margins.

In our view, Unilever ranks as one of the world's most formidable consumer staples companies, and the long-term benefits of its steady transition toward home and personal care (HPC) products make the company's underlying economics even more attractive. This is a stock that has historically delivered excellent returns for shareholders, and it is likely to remain an important holding in the Investec Global Franchise Fund.

Unilever's impressive product suite contains brands that enjoy considerable customer loyalty. The dominant market position Unilever commands, however, does not simply stem from a strong collection of brands; the business has demonstrated great versatility in adapting to changing market dynamics and consumer tastes.

Since Paul Polman took over leadership at the company in 2009, there has been a clear drive to push the business toward the higher-margin, faster-growth HPC space and away from foods. Since then, HPC as a percentage of revenue has increased from 46% to 57%. There is also an informal longer-term target to achieve 50% of sales from personal care (PC) by 2020, which will likely be achieved via a combination of organic growth and acquisitions.

We believe this overarching strategy is positive for Unilever in that HPC – and specifically PC – offers more favourable dynamics in the form of faster category growth, better consumer brand attachment, less private label exposure, greater opportunity for innovation and structurally higher margins.

As a simple example, HPC products are generally non-perishable and do not require refrigeration, making production and distribution less costly.

Unilever has also been working actively on the less impressive margins of its home care division by better aligning price points with the value proposition of the products and through "premiumisation". This has resulted in strong margin growth in HC (1.6% in 2015), and we expect this trend to continue for the next few years.

Globally, Unilever is the number two in foods, behind Nestlé; the number two in HPC, behind Procter & Gamble (P&G); and third in PC, behind P&G and L'Oréal. At an aggregate company level, Unilever has been taking market share globally since Polman took over as chief executive, with estimates suggesting the company's share of the categories in which it participates has risen from around 17% to 19% since Polman's accession.

Unilever's dominant position within consumer staples has translated into stable margins; there is plenty to suggest that margins can expand further in the coming years.

Unilever's dominant position within consumer staples has translated into stable margins; there is plenty to suggest that margins can expand further in the coming years. Given the opportunity for Unilever to improve HC margins, combined with the scope for continued growth and innovation in PC, we believe there remains a healthy margin opportunity within the business.

The introduction of zero-based budgeting, alongside other existing cost-efficiency programmes, should also act as a catalyst for margin improvement. Indeed, management has recently reiterated that cost-efficiency programmes should deliver "at least €1 billion" in savings by 2018. In an environment where revenue growth is becoming increasingly sparse, the ability for Unilever to drive profit growth through sensible cost control is extremely valuable.

While it is fair to say that Unilever's strategic investments in emerging markets have created natural headwinds to margin expansion, these investments should be rewarded with superior volume growth over the longer term. Moreover, the company boasts a strong balance sheet, which will assist with future acquisitions as consolidation within the HPC industry continues. ■

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Home and personal care as a percentage of revenue has increased from 46% to

57%.

There is also an informal longer-term target to achieve 50% of sales from personal care by 2020.

Paul Polman
CEO of Unilever

Abrie Pretorius is a portfolio manager at Investec Asset Management.

Getty Images/Simon Dawson/Bloomberg

By Schalk Louw

FEES

Better investment growth due to lower costs

Take note of what investment institutions charge – don't spend more money than you have to, as this can eat into your returns.

I was about 10 years old when our school took part in a charity event for which we had to sell raffle tickets to raise funds. To motivate us, a prize was offered to the child who sold the most tickets. Extremely eager to win the prize, I set off proudly to our rich next-door neighbour shortly after school with a terrific sales proposal.

I had barely started with my sales pitch, when he stopped me abruptly by saying: "No thank you." Quite stumped, I pleaded with him: "But you're a millionaire and this book costs only R2." And then this man gave me my first lesson in cumulative growth by answering: "Do you think I became a millionaire by simply giving my rands away? It was through saving them that I became rich."

I recently read a 1975 letter to the *Washington Post*, authored by Warren Buffett (then aged 44), on how to manage pension funds. The letter consists of a total of 19 pages, but in short, it comprises the following:

- If consistent above-average returns are fund managers' main objective, a vast majority will fail. Will some of them succeed by a stroke of luck or perhaps even expertise? Absolutely.
- He mentions that he is almost certain that above average returns cannot be maintained with large amounts in managed capital.
- In short, the rational probability of consistent and guaranteed above-average returning pension fund management is close to zero.

Up until the end of August 2016, only **17%** of all general equity unit trusts managed to outperform the stock market's total return over the last 12 months.

I was quite shocked to discover that up until the end of August 2016, only 17% of all general equity unit trusts managed to outperform the stock market's total return over the last 12 months.

Historically, I also discovered that this is no isolated case. So, as the person the street, what can I do to ensure maximum growth in my pension fund or investment if I have almost no control over the success of my investment manager?

By paying more attention to the things you do have control over, and which can, ultimately, help you to achieve better returns over the long term.

On a daily basis, we are exposed to adverts from investment institutions, both based locally and offshore, who each claim that they are the best of the best. In the end, there are only a few basic products like Linked Investment Service Provider (Lisp) investments, retirement annuities, endowments, provident and retirement funds on offer, each of which is nothing more than a container, and each offering more or less the same number of benefits and disadvantages in its own right. I don't care about the colour of the container. All I care about is that if I'm looking for a monthly investment plan, for example, and I know exactly which funds I'm going to place inside this container, and what the container will cost me.

If we take two of the largest investment institutions in South Africa – both LISPs (let's call them companies A and B), and assume that I can invest R1 000 a month over the next 20 years with an annual premium increase of 10%, company A will charge no initial fee but will charge an annual platform fee of 0.25%. Company B, on the other hand, will charge a 2.5% initial fee on my monthly premium with an additional 0.5% annual platform fee. Both of these companies claim to deliver a great service at competitive rates. Will this 2.5% initial fee (a mere R25 a month) and higher annual fee of 0.5% make a considerable difference to my investment growth?

Of course it will. If both platforms were invested in the same fund that yielded a 12% annual return over 20 years, my Lisp investment in Company A would be worth R1.9m after 20 years, compared to Company B's R1.8m over the same period. Neither luck nor much expertise was involved. By simply making an informed decision and by not carelessly spending my rands, I could have added an extra 5.5% in value to my investment. Be vigilant when examining the fees charged on your investment, and make sure that you understand the effect these fees can have on your investment growth before you invest. ■

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Schalk Louw is a portfolio manager at PSG Wealth.

Warren Buffett
Chairman and CEO of Berkshire Hathaway

Be vigilant when examining the fees charged on your investment, and make sure that you understand the effect these fees can have on your investment growth before you invest.

By Lucas de Lange

INVESTMENT

PPC's pain reflected in its price

Former lame duck Aveng, however, feathers value investors' nests.

That PPC, which has been a reliable payer of dividends to the proverbial widows and orphans over many years, is now the weakest share on the JSE, should serve as a lesson to one and all about how risky investing in shares can be. The company was established in 1892, and with unification in 1910 it was listed on the JSE. At the moment, it's 90% lower than its historical high of 5 300c in 2007.

The group faces a mountain of problems, which will not be solved by its rights issue of R4bn. The issue price of 400c was equivalent to a discount of 55% on the ruling share price just before the announcement in August. Only 92% of its shareholders accepted the offer.

The 1bn newly issued shares resulted in a major dilution of its shares, which will affect investors negatively. Nevertheless, the company remains in value investors' sights as it's still profitable and is still the biggest supplier of cement in South Africa, although it's being subjected to strong competition in a weak economy. The company's development of several plants in other African countries will therefore be watched closely. Should it be as successful as it hopes to be, the outlook could change.

But while PPC is at the moment in the throes of much pain, another share, the Aveng construction group, which was in the same boat until a while ago, is now number two on the list of the strongest shares. It also had to contend with a legion of serious problems, but it has strengthened by more than 340% since its low in December.

Third on the list is Impala Platinum, which has also gone through deep waters, but is now in a new bull phase. The current news benefits this share. For example, John Biccard, manager of Investec's successful value fund, is positive about Impala Platinum. He predicts that, based on a potential large increase in its future operating profit margin (up to at least 20%), this figure could reach 150c. In tandem with several other analysts, he expects better prices for platinum group metals owing to an increase in the demand, while no investments have been made in new production for years.

At the moment, there is good potential for value investors in the list of the weakest shares, among others, blue-chip heavyweights such as Woolworths and Remgro.

Among the shares that have given buy signals, Distell and the gold shares – AngloGold, Gold Fields and Sibanye – seem the most interesting. ■

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Aveng also had to contend with a legion of serious problems, but it has strengthened by more than **340%** since its low in December.

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
SOUTH32	39.9
AVENG	38.5
IMPALA PLATINUM	31.3
RAUBEX	24.8
ANGLO AMERICAN	22.5
WBHO	19.5
GROUP FIVE	19.2
NORTHAM	19.2
BLUE LABEL TELECOMS	18.9
PAN AFRICAN	18.5
RBPLAT	17.3
GLENCORE	16.9
KUMBA IRON ORE	14.9
TSOGO SUN	14.9
EXXARO	14.6
CLICKS	14.4
KAP	14.0
CAPITEC	12.7
NASPERS N	10.8
SHOPRITE	10.2
NEDBANK	10.1
BHP BILLITON	9.3
AVI	8.9
IMPERIAL	8.3
SAPPI	7.9
VUKILE	7.6
TIGER BRANDS	7.3
SA-CORP	7.0
SUPER GROUP	7.0
AMPLATS	6.9
WESIZWE	6.8
STEINHOFF	6.3
STANDARD BANK	6.2
REBOSIS	6.2
BARLOWORLD	5.8
HARMONY	5.5

*Based on the shares with the 110 biggest market caps.

BREAKING THROUGH

COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
DISTELL	4.6
PIONEER FOODS	4.0
PSG	2.9
ANGLO GOLD	2.3
GOLDFIELDS	2.2
SIBANYE	2.2
FIRST RAND	2.0
OCEANA	1.9
RCL	1.7

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EXPONENTIAL MA
PPC	-51.3
LONMIN	-35.0
CHOPPIES	-23.4
CAPCO	-23.1
TRUWORTHS	-19.0
LEWIS	-16.0
MTN GROUP	-15.9
ITU PLC	-13.3
INVESTEC PLC	-13.3
MPACT	-12.9
WOOLIES	-11.0
NAMPAK	-10.2
ATTACQ	-10.0
RICHEMONT	-9.9
M&R HOLDINGS	-9.5
REMGRO	-8.7
SASOL	-8.0
ASTRAL	-8.0
DISCOVERY	-7.8
ASPEN	-7.7
OLD MUTUAL	-6.4
RESILIENT	-6.4
GRINDROD	-6.1
LIBERTY HOLDINGS	-6.0
NEPI	-6.0
MMI HOLDINGS	-5.9
MASSMART	-5.9
REUNERT	-5.6
ARM	-4.1
FORTRESS B	-3.5
TEXTON	-3.0
DRD GOLD	-2.7
EMIRA	-2.7
TELKOM	-2.2

*Based on the shares with the 110 biggest market caps.

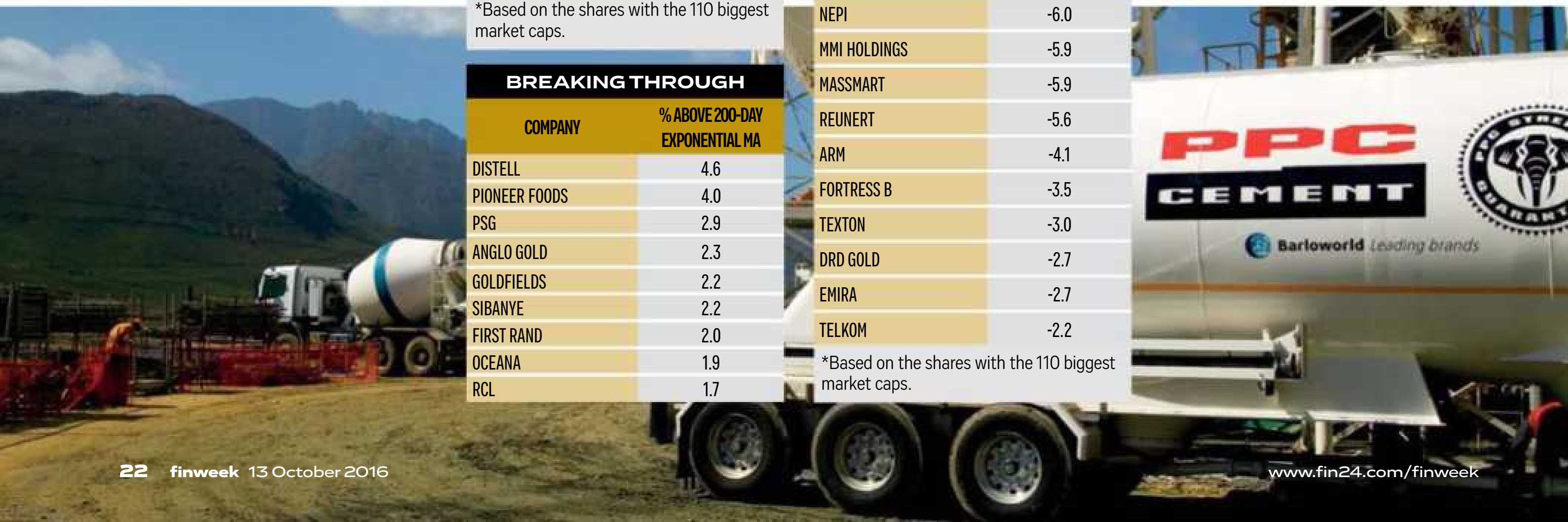


Image supplied

DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
ADVANC	CA Grillenberger	30 September	Purchase	48,760	150	73,140	4 October
ADVANC	CA Grillenberger	3 October	Purchase	86,666	150	129,999	4 October
ADVTECH	A Isaakidis	28 September	Exercise Options	76,000	560	425,600	3 October
ALARIS	R Rashama	30 September	Sell	500,000	215	1,075,000	5 October
ALARIS	R Rashama	30 September	Sell	1,500,000	215	3,225,000	5 October
ALARIS	R Rashama	28 September	Sell	34,060	248	84,468	5 October
ASCENDIS	JA Bester	30 September	Purchase	3,175	2791	88,614	3 October
ATTACQ	M Hamman	27 September	Exercise Options	360,000	950	3,420,000	3 October
BSI STEEL	WL Battershill	29 September	Purchase	200,679	42	84,285	3 October
CLIENTELE	J Joseph	28 September	Purchase	11,039	1601	176,734	4 October
COMAIR	ER Venter	3 October	Purchase	50,000	415	207,500	5 October
DCENTRIX	JH Coetzee	3 October	Sell	50,000	640	320,000	5 October
DCENTRIX	JH Coetzee	20 September	Purchase	250	580	1,450	4 October
DCENTRIX	JH Coetzee	21 September	Purchase	250	595	1,487	4 October
DISCOVERY	A Ntsaluba	3 October	Purchase	50,000	11300	5,650,000	5 October
DISCOVERY	A Ntsaluba	3 October	Sell	25,000	11208	2,802,000	5 October
GREENFLASH	Trust	29 September	Purchase	1,187,500	8	95,000	3 October
GROWTHPOINT	EK De Klerk	28 September	Purchase	60,436	2400	1,450,464	4 October
GROWTHPOINT	LA Finlay	28 September	Purchase	3,586	2400	86,064	4 October
GROWTHPOINT	JC Hayward	28 September	Purchase	3,286	2400	78,864	4 October
GROWTHPOINT	HS Herman	28 September	Purchase	6,876	2400	165,024	4 October
GROWTHPOINT	N Kuzmanich	28 September	Purchase	710	2400	17,040	4 October
GROWTHPOINT	JF Marais	28 September	Purchase	4,516	2400	108,384	4 October
GROWTHPOINT	LN Sasse	28 September	Purchase	80,247	2400	1,925,928	4 October
GROWTHPOINT	G Volkel	28 September	Purchase	999	2400	23,976	4 October
MASSMART	J Cheadle	16 September	Exercise Options	571	12672	72,357	29 September
MASSMART	J Cheadle	26 September	Sell	803	12265	98,487	29 September
MASSMART	GRC Hayward	16 September	Exercise Options	16,973	12672	2,150,818	29 September
MASSMART	GRC Hayward	16 September	Exercise Options	2,316	12672	293,483	29 September
MASSMART	GRC Hayward	26 September	Sell	8,680	12265	1,064,602	29 September
MASSMART	GRC Hayward	28 September	Exercise Options	10,609	12672	1,344,372	29 September
MASSMART	P Sigsworth	26 September	Sell	6,107	12265	749,023	4 October
MASSMART	J Wilford	26 September	Sell	4,008	12265	491,581	4 October
MASSMART	J Wilford	16 September	Exercise Options	4,008	12672	507,893	29 September
MASSMART	J Wilford	26 September	Sell	4,008	12265	491,581	29 September
NEPI	M Covasa	3 October	Purchase	5,504	15099	831,048	4 October
NEPI	A de Lange	3 October	Purchase	10,176	15099	1,536,474	4 October
NEPI	A de Lange	3 October	Purchase	152	15099	22,950	4 October
NEPI	A de Lange	3 October	Purchase	212	15099	32,009	4 October
NEPI	A Morar	3 October	Purchase	15,055	15098	2,273,003	4 October
NEPI	JN Zidel	3 October	Purchase	11,885	15098	1,794,397	4 October
PAN AFRICAN	JAJ Loots	29 September	Purchase	491	359	1,762	5 October
PAN AFRICAN	JAJ Loots	30 September	Purchase	25,000	370	92,500	5 October
PAN AFRICAN	JAJ Loots	3 October	Purchase	25,000	378	94,500	5 October
PAN AFRICAN	JAJ Loots	27 September	Purchase	248,609	360	894,992	29 September
PAN AFRICAN	D Louw	27 September	Purchase	137,450	364	500,318	29 September
REMGRO	PJ Moleketi	3 October	Purchase	8,000	23200	1,856,000	4 October
SAFARI	FJJ Marais	30 September	Purchase	67,000	742	497,140	3 October
SENTULA	JC Lemmer	4 October	Purchase	590,000	17	100,300	4 October
SUPER GROUP	NS Redford	28 September	Exercise Options	36,153	4291	1,551,325	3 October
SUPER GROUP	NS Redford	28 September	Sell	36,153	4303	1,555,663	3 October
TOWER	JA Bester	30 September	Purchase	10,000	795	79,500	3 October
WOOLIES	Z Rylands	27 September	Sell	11,135	8002	891,022	3 October
WOOLIES	Z Rylands	29 September	Sell	37,962	7954	3,019,497	3 October
WOOLIES	Z Rylands	29 September	Exercise Options	242,661	1371	3,326,882	3 October
YORK	PP Van Zyl	28 September	Purchase	1,031,000	287	2,958,970	29 September

All data as at 12:00 on 5 October 2016. Supplied by INET BFA.

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
Afdawn	2	100.00
Stratcorp	2	100.00
Tharisa	1750	28.68
Diamondcp	106	24.71
Delta	120	22.45
WORST		
Oando	39	-29.09
Int Hotel	1901	-20.79
Coal	50	-19.35
Conduit	250	-15.54
Gooderson	51	-13.56

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	52 040.84	0.52
JSE FINANCIAL 15	14 880.41	1.01
JSE INDUSTRIAL 25	68 247.68	-0.67
JSE SA LISTED PROPERTY	638.51	0.86
JSE SA RESOURCES	18 218.81	2.96
JSE TOP 40	45 473.03	0.53
CAC 40	450 309	1.59
DAXX	1 061 961	1.74
FTSE 100	707 434	3.28
HANG SENG	2 368 944	0.30
NASDAQ COMPOSITE	528 965	-0.54
NIKKEI 225	11 673 565	1.64

*Percentage reflects the week-on-week change.

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
TEXTON	105	12.7
REBOSIS	119	10.3
EMIRA	143	9.6
ACCPROP	58	9.4
LEWIS	347	8.7
FORTRESS A	136	8.3
SA CORP	43	7.8
MMI HOLDINGS	171	7.7
GROWTHPOINT	196	7.7
REDEFINE	86	7.5

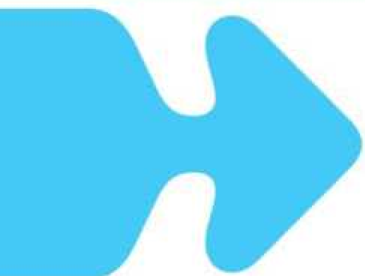
BE YOUR OWN BOSS

Jaco Visser

Running your own business can be highly satisfying. But it also entails a sizeable amount of risk – something that not all people can deal with. **Jaco Visser** left Johannesburg just over a year ago to manage his family's business in the Northern Cape. He shares his views on what it takes to make the jump from salaried employee to pulling the wagon.

A myriad entrepreneurship courses is offered by universities and colleges. They're even included in MBA degrees these days. But can entrepreneurship actually be taught?

One thing is certain: as a potential business owner, you should not be scared. That must be the overriding factor that distinguishes a business owner from an employee. Risk is inherent to starting a business, and it doesn't subside as the enterprise grows. It changes tact, but it is always lurking in the background.



Companies are taxed at a flat 28% of their taxable income. Exceptions are made for small businesses with a turnover of less than R20m a year, where a progressive income tax rate applies.

So what does it take to be your own boss?

Risk tolerance

Financial ruin shouldn't be at the forefront of your mind the day you take the plunge. The belief in your product or service and the rigorous market research you've conducted beforehand should carry you over the precipice of uncertainty.

Risk comes in many forms. These may include:

- The market's acceptance of your product or service.
- Whether investors will continue to believe in your product or service even if your business is off to a rocky start.
- Whether debtors pay on time.
- Interest rates – will they continue to rise?
- Socioeconomic issues – will the local community remain employed, so as to buy the product or service?

The key is to be honest about the potential risks involved with starting your enterprise. To a large extent, risk can be gauged. Being realistic is key in successfully surveying risks. Being conservative with regard to sales expectations, market size, expenses and the local economy contributes toward a realistic determination of risk.

People who are risk tolerant, even to a small extent, should harness that ability to be decisive.

Decisiveness

A business owner with the ability to make quick decisions after considering the relevant facts will keep the enterprise's cogs turning, even if adjustments need to be made later on. The ability to make instant, informed decisions doesn't come overnight – it is nurtured through experience.

Since you're fairly inexperienced as a newbie, it is important to learn very fast. External factors won't wait patiently for you to gain experience – rather, they are harsh teachers.

The first step is to be willing to make a decision.

Secondly, you need to be honest about your knowledge of the facts pertaining to a situation that needs a decision. If you are truly in over your head, be humble enough to ask a professional or more experienced person for advice.

If you have an understanding of the situation, the facts should be weighed up quickly, and all possible outcomes should be taken into account. While you may not be able to consider all the possible outcomes, make sure to work through all the different outcomes and scenarios you can think of at the time.

Thirdly, call the decision. And stick to it. Alter it in a humble fashion if it is necessary later on. But call it.

Finally, you should see to it that the decision is implemented as swiftly as possible. Other decisions – which will need to be approached in the same way – will need to be made later on, and there just won't be time to drag out the implementation.

Call the decision. And stick to it. Alter it in a humble fashion if it is necessary. But call it.

Hard work

As a prospective business owner, you need to be aware that you'll have to sacrifice your weekends to give your venture a better chance of succeeding. This may be the case for months or even years after your business has been founded. There is no alternative to hard work when starting out on your own. It is the golden thread that will distinguish a surviving new business from those that go bust within the first few months.

Stepping away from a salaried job into the

world of being your own boss will come as a grave shock for many who thought the 9-to-5 routine will continue to be the norm. It won't.

You'll need to rise early and plan your next steps. You'll deal with customers, suppliers and factory workers during normal business hours. And when everyone goes to bed, you'll be busy with that hated admin work. The survival of your new business will be directly correlated with all the time and energy you pump into the venture.

Patience and perseverance

It would be extremely idealistic to think a new business will flourish from the word go, even if you put your heart and soul into it.

It takes time to build a presence in any market, to win over customers' loyalty, to get a hang of the demands of business administration, to fine-tune marketing plans and to become more skilled in negotiating with suppliers.

Rather than being defeated during the initial stages of your business' life, take the time and learn. Coach yourself in finance, marketing, online commerce, labour laws (of which there's a seemingly never-ending list) and distribution.

And don't give up. If your business doesn't do well one month, investigate the reason for this.

Did the business keep the correct stock, which expenses exceeded the budget and why, is the product or service offering still relevant to customers, did a competitor open up shop close by? Work hard on finding the answers to these questions, and amend your operations accordingly.

Use your size to your advantage; a small business – as opposed to a large company that has a hierarchy of people who need convincing – can change course quickly and efficiently.

> When a new business foresees reasonably that it would generate more than **R1m** in sales annually, it must register for VAT at a Sars branch as soon as it becomes probable it would exceed the threshold.

Financial skills

A successful business is one whose finances are run tightly and smartly. As a new business owner you should learn the basics of accounting as soon as possible – preferably before opening.

One of the great concerns you'll face as an entrepreneur is the relationship between profit and cash. Initially, they don't go hand in hand.

TAX AND YOUR BUSINESS

South African businesses have to comply with a few tax statutes. Planning for the registration of different types of tax will cut down the time you'll spend navigating red tape as a new business owner. The following information is drawn from the Income Tax Act, Skills Development Levy Act, Unemployment Insurance Fund Act, Value-Added Tax Act and Occupational Diseases and Injuries Act.

INCOME TAX

According to the law, a for-profit business should register for income tax. This process is made easier for those business owners who register private companies, as the Companies and Intellectual Property Commission submits the new company's details to the SA Revenue Service (Sars) immediately upon registration.

Companies are taxed at a flat 28% of their taxable income. Exceptions are made for small businesses with a turnover of less than R20m a year, where a progressive income tax rate applies.

A trust's income tax registration would need to be done at a Sars branch following the lodging of the trust deed with the Master of the High Court. The Master will furnish the trustees with letters of authority to act in their designation and allocate a reference number to the trust.

As a sole proprietor, a business' taxable income will form part of its owner's.

In a partnership, every partner is liable for income tax in the proportion that the partners have agreed they would share profit. Thus, the business' taxable income will form part of the partners' taxable income (apportioned according to the agreement).

VAT

Not all businesses need to register for value-added tax (VAT). When a new business foresees reasonably that it would generate more than R1m in sales annually, it must register for VAT at a Sars branch as soon as it becomes probable it would exceed the threshold. Once the business is registered, Sars will issue the business with a VAT registration number that, in most cases, will need to be displayed on invoices the business generates.

A business can pay its VAT obligations to Sars either once a month or bi-monthly, depending on the turnover and type of business. The company will need to furnish Sars with a completed VAT201 form for every period it needs to pay over VAT.

PAYE, SDL AND UIF

Where a business employs staff, it would need to register for Pay-As-You-Earn (PAYE) at a Sars branch. PAYE is subtracted from salaried employers' wages every month and paid over to Sars by the seventh of the following month. The employer will need to submit a completed EMP201 return to Sars, which can be done on either the E-filing or E@syfile platforms.

Twice a year, the employer will need to submit a reconciliation of tax deducted from employees and paid over to Sars. This is done electronically in a bid to make it easier for businesses to comply.

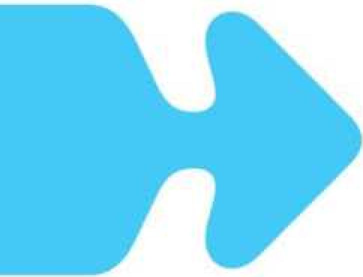
Where a business' payroll exceeds R500 000 a year, it will need to be registered for payment of the Skills Development Levy. This levy is equal to 1% of the payroll after taking certain deductions into account. The levy is paid over to the Sectoral Education and Training Authority (Seta) under which the business is registered. A proportion of the levy is repayable by the Seta through grants if the business trains its employees and adheres to the provisions of the Skills Development Act.

You will also need to register with the Unemployment Insurance Fund (UIF) by submitting the UI-8 form. In addition you must file a monthly UIF return indicating whether there were any changes to the employment status of your employees. The employer and employee each contribute 1% of the latter's remuneration toward the UIF.

THE COMPENSATION FUND

This fund was set up as a kind of insurance net for workers who are injured, contract a disease or are even killed while in the employ of a business.

The rate of contribution to the Compensation Fund differs according to the economic sector in which a business operates, taking into account the likelihood of injuries. As a business owner you will make an annual contribution, based on your company's total payroll, to the fund. ■



A small business – as opposed to a large company that has a hierarchy of people who need convincing – can change course quickly and efficiently.

A new business needs to buy stock and keep increasing it as demand rises. This needs to be paid out of cash. An increase in the level of stock doesn't mean the profit is declining. The business can show a profit but struggle with cash flow problems.

A similar relationship exists between profit and assets.

You should know that financing assets from your company's working capital – that is the cash, stock and trade creditors – can put the business in danger later on.

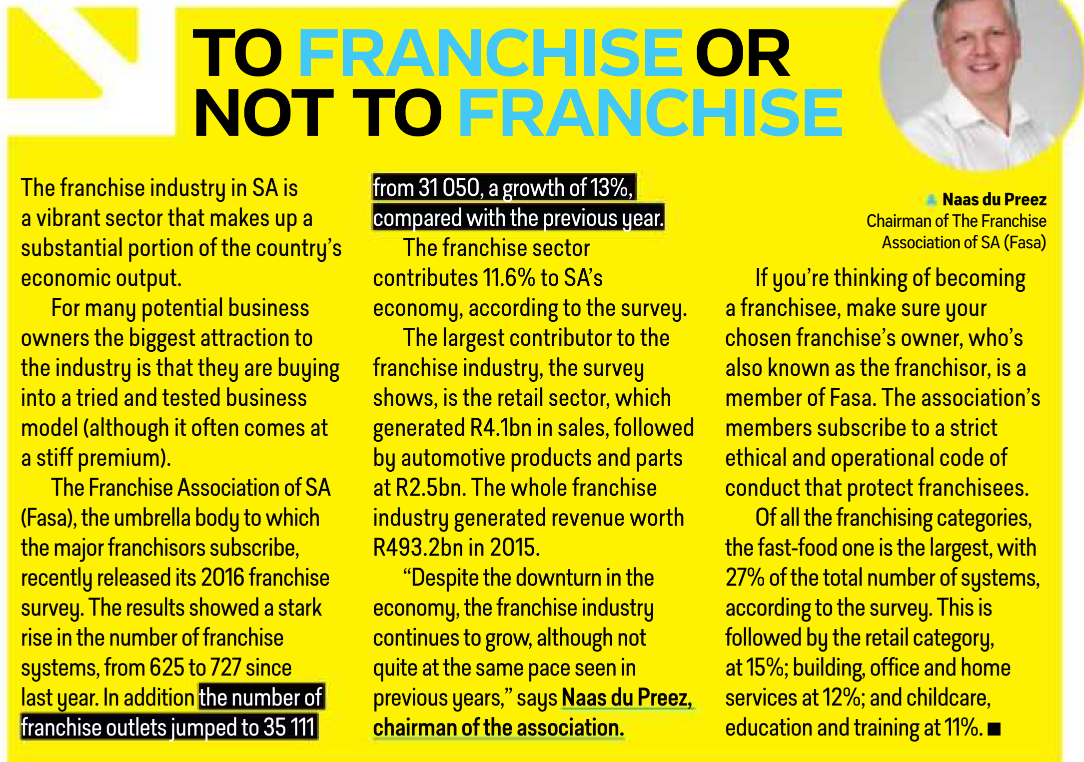
Rather finance assets with external cash, such as a loan from a bank that can be secured over the asset.

Payoff

As a successful new business owner, who persevered and upskilled yourself in marketing, finance and distribution, you'll know the largest benefits of taking the plunge are job satisfaction, creative stimulation and an increased sense of self-assurance.

Being your own boss carries a hefty responsibility toward your customers, suppliers, funders, employees and family. Being able to determine the path of your enterprise and tasting the fruits it yields minimises the angst associated with this endeavour. ■

editorial@finweek.co.za



TO FRANCHISE OR NOT TO FRANCHISE

Naas du Preez
Chairman of The Franchise Association of SA (Fasa)

The franchise industry in SA is a vibrant sector that makes up a substantial portion of the country's economic output.

For many potential business owners the biggest attraction to the industry is that they are buying into a tried and tested business model (although it often comes at a stiff premium).

The Franchise Association of SA (Fasa), the umbrella body to which the major franchisors subscribe, recently released its 2016 franchise survey. The results showed a stark rise in the number of franchise systems, from 625 to 727 since last year. In addition **the number of franchise outlets jumped to 35 111 from 31 050, a growth of 13%, compared with the previous year.**

The franchise sector contributes 11.6% to SA's economy, according to the survey.

The largest contributor to the franchise industry, the survey shows, is the retail sector, which generated R4.1bn in sales, followed by automotive products and parts at R2.5bn. The whole franchise industry generated revenue worth R493.2bn in 2015.

"Despite the downturn in the economy, the franchise industry continues to grow, although not quite at the same pace seen in previous years," says **Naas du Preez, chairman of the association.**

If you're thinking of becoming a franchisee, make sure your chosen franchise's owner, who's also known as the franchisor, is a member of Fasa. The association's members subscribe to a strict ethical and operational code of conduct that protect franchisees.

Of all the franchising categories, the fast-food one is the largest, with 27% of the total number of systems, according to the survey. This is followed by the retail category, at 15%; building, office and home services at 12%; and childcare, education and training at 11%. ■

WHICH ARE THE WELL-KNOWN FRANCHISE BRANDS?

TASTE HOLDINGS
The listed company's brands include, among others, Domino's Pizza, The Fish & Chip Co, NWJ, Zebro's and Starbucks.

FAMOUS BRANDS
This listed company counts Wimpy, Mugg & Bean, House of Coffees, tashas, Vovo Telo, Steers, Debonairs, Fishaways and Turn 'n Tender among its brands.

PICK N PAY
SA's second-largest grocer has franchised off its Pick n Pay Family Supermarket brand.

SPUR CORPORATION
The company owns Spur Steak Ranches, Panarottis Pizza Pasta, RocoMamas and John Dory's Fish, Grill and Sushi.

SPAR
The retailer franchises the brands Spar, Superspar, Kwikspar and Buildit. ■

Getty Images/iStock Images

Images: Supplied

The **right legal persona** for your new business

In South African law, potential businesspeople have a limited variety of legal forms in which they can house their new enterprise. Each entity has its own benefits and drawbacks.

Private company

A private company can be set up relatively easily through registration with the Companies and Intellectual Property Commission (CIPC).

The process is two-pronged with the businessperson first needing to reserve a name for the new company. The CIPC will ask for three alternative names, and will then compare the choice of names against its database of close corporations, companies and non-profit companies to see whether there are any similarities. The CIPC will grant the new businessperson with a COR9.5 form stating that a proposed name is "clear".

After receiving this form, which can take anywhere between a few hours to one or two days, you as the business owner need to register your new company. This can be done online with the CIPC. Following successful registration, the CIPC will issue the new company's registration documents and standard memorandum of incorporation.

A company is, in law, a separate entity from its owners. In very special circumstances, where shareholders or directors wish to defraud creditors, the courts will hesitantly lift the so-called "veil" between the company and owners.

The easy-to-use **CPIC** website allows private companies to be set in a matter of days. www.cipc.co.za

The cost of reserving a name and setting up a private company, without enlisting the help of a legal expert, is R175.

Trust

There are two types of trust in law: an *inter vivos* trust and trust *mortis causa.* The former is a trust set up through a trust deed, and the latter comes into operation through a will of someone who has died.

For business purposes, we'll look at the *inter vivos* trust. If you as a potential business owner want to set up such a trust, you'll need to lodge a trust deed with the Master of the High Court in whose jurisdiction most of the business' assets will be held.

A trust deed consists of a settlor, or the person setting up the trust; trustees, who'll act in a beneficial way according to the deed with the trust's assets; and beneficiaries. A trust deed is a bulky document, and if you'd like to use this legal form it is best to consult with legal experts.

In many instances, especially with family trusts, the settlor will be one of the initial trustees as well as a beneficiary, whether it be a capital or income beneficiary. Suffice to say that South Africa's courts are taking an increasingly tougher stance with family trusts where the difference between the settlor, beneficiaries and trustees are non-existent. In 2002, the Supreme Court of Appeal stated that it would be prudent for trusts to have at least one non-connected person as a trustee.

The cost of lodging a trust deed with the Master, without enlisting the help of a legal expert, is R100.

Partnership

A partnership is one of the oldest forms of conducting a business, dating back to Roman times.

As a potential businessperson you can enter into a partnership through an agreement with another person.

Such an agreement should, prudently, be put down in writing. Such a contract doesn't need to be registered anywhere, making it one of the easiest ways to enter business.

Aside from the fee that is paid to the legal expert who drafts the contract, there is no cost involved in setting up a partnership.

Sole proprietorship

The easiest, and cheapest, way of starting out a business is through a sole proprietorship. This means that a business owner operates an enterprise in their own name. The drawback is that creditors can attach the owner's personal assets in addition to their business assets to make good a debt.

There are no costs involved in starting a business as a sole proprietor. ■

LEASING

As a potential business owner, you may want to take heed of the following hints when you decide to lease a property:

▸ **Use of the premises:** A lease agreement should include a clause limiting the use of premises to a specific trade. Ensure that it doesn't interfere with your plans.

▸ **Additions and alterations:** Read these clauses carefully. Usually the landlord would request a lessee to gain permission to add air conditioners, remodel the kitchen, install gas lines and so forth. This usually becomes part of the premises with the lessee not entitled to compensation.

▸ **Renewal:** A clause setting out the conditions for renewal and right of first refusal may be included. Ensure that you are comfortable with these conditions.

▸ **Rental escalation:** South Africa is one of a handful of countries where rental escalates by a fixed percentage each year. It would be good for the lessee to know what the figures for current and expected consumer price inflation are in order to negotiate this very important facet of the lease agreement.

▸ **Signage:** You would certainly need to put up signage on the building to lure customers. Read the conditions regarding this carefully, and renegotiate them with the landlord if necessary.

▸ **Rental respite:** The agreement should include a clause respiting the lessee from paying rent for a number of days while the lessee sets up shop on the premises. ■

FINANCE TIPS

Not every potential business owner has a strong understanding of financial matters, which is a challenge if you wish to sell products or services. Luckily, and to a large extent thanks to technology, this can be addressed more easily than a decade or two ago:

▸ **ACCOUNTING SOFTWARE:** If your potential business is small to start off with, get yourself an online accounting package such as Sage One Accounting. It is easy to use, and you can grant your bookkeeper access to it. Keep it simple.

▸ **FILING:** Ensure that you have a workable and neat filing system for your business, with which you can sort your invoices, receipts, bank statements and other documents. This limits the time spent on administration and allows you to focus on sales.

▸ **LEARN THE BASICS**

• **Capital vs profit –** A new business should stock up on its capital account during the first couple of years of operations. This can be done in two ways: retain as much of your net profit at the end of the year, or boost it by depositing more of your own cash, preferably savings, into the business.

• **Cash flow vs profit –** A new company, especially one that is growing, can easily find itself in a position where it turns a nice profit but can't pay suppliers. It is imperative to know how cash flow operates: an increase in trading stock and debtors decreases cash, whereas an increase in creditors increases cash. You can add to your cash by borrowing money, but this will put strain on your retained earnings as interest payments reduce your profit. Balance is critical to operate a business' cash flow.

• **Assets vs capital –** Investing in assets will inevitably put strain on a business' cash flow. It is more prudent to borrow money to fund asset purchases, such as equipment, vehicles or even land and buildings. This would have an initial net zero effect on the new business' cash flow. Asset acquisition should not exceed the amount of retained earnings in a specific year.

▸ **KEEP A HANDLE ON DEBTORS:** Payment terms to debtors should be strictly enforced if the business isn't a purely cash operation. Outstanding debtors mean cash going out of your bank account. ■

BEATING

Shawn Winterburn started software companies Intuity Solutions and Oqlis. He talks about his journey of striking out on his own.

Winterburn worked as a sales manager at one of the largest IT companies in South Africa. In 2009 he started Intuity Solutions with the intention of leaving his permanent employer. He struggled, however, to find a business concept that made sense to him.

In 2014 he finally took the proverbial leap. Intuity now builds and maintains software solutions for organisations, while Oqlis, a second company, develops software products.

"Our business model is to build software solutions that are intuitive and easy for companies to use and add huge value to the people who use them," says Winterburn.

"Our first product is Oqlis [pronounced oculus], developed in South Africa by my partner Andrew Bosma. It is a business intelligence and analytics platform, designed to make it super easy to connect into a customer's database and extract nuggets of information in a visually appealing way."

He shares his experience on setting up shop.

How did you spot a gap in the market?

Most of my career has been within the information technology space. I realised early on that I should play to my strengths and to what I knew. When I started Intuity, I believed that there was two ways to get a business going.

Firstly, have a solid plan and stick to your guns and be true to your assumptions.

Secondly, have a general idea, but keep on testing the business model until you have something that organisations are willing to spend their hard-earned cash on. So it has been a continuous process of reinventing what we do and aligning it with what our customer is willing to pay for.

Why did you decide to try your own thing?

Growing up you get told to find a great company and work your way to the top. Initially it is great to gain experience working under collective bosses and with colleagues, but eventually I got very frustrated with the bureaucracy and inefficiency of large corporates.

What becomes very apparent is that, when working for a boss, the amount of work you need to do to reach success. You can only do so much, you do not have real ability to scale your earning potential unless your skills are unique and the output that you deliver is incredibly high.

Working for a company, you have certain benefits. However, you are often at the mercy of good and bad decisions that have a direct impact on your career.

THE ODDS

Shawn Winterburn
Owner of Intuity Solutions

To me it has become about the balance – as a business owner, your venture is an extremely important part of what defines you, but you need to maintain a balance with family time, health and quality of life.

Lastly, I thrive on a good challenge. Owning a business is what I wanted to do for many years, and this was a point I wanted to prove to myself – that I could do it and make a success of a venture.

What kind of preparation did you do before quitting your job?

I didn't know it at the time, but I think there are two areas that prepared me the most.

Firstly, I had opened a few businesses, tried a few concepts with fellow entrepreneurs, and was always looking for the right opportunity to come my way.

The second was education. This was important in understanding each and every aspect of how a business operates and how to make the right decision that will ensure longevity.

Owning a business is like driving a car – the more you practise, and the more you do it, the better you become at it, until one day, when you almost run on autopilot, so you need to live the dream each and every day.

How did you initially fund your business?

I saved up to have a three-month runway, but eventually sold my house to make sure that the venture had enough legs to succeed.

How did you survive the dreaded first two years?

To remain motivated I created short-, medium- and long-term goals that I wanted to achieve. Every day I work on these goals and do not lose sight of the end game.

Entrepreneurship is a lonely and extremely difficult journey. My saving grace was realising that a partnership can be mutually beneficial; it allows you to focus and enhance your skills, while your partner can do the same.

A partnership can be mutually beneficial; it allows you to focus and enhance your skills, while your partner can do the same.

What has been the most challenging aspect?

Initially the difficulty was how one is programmed to be a good corporate citizen when working for a company. You are hard-wired to follow, play the internal politics and work as a part of a team.

Once you start our own company, you quickly realise there's no one to follow, no corporate politics and – most of all – no team.

Whatever you do every day from that moment onward is your decision – and these decisions will either make or break you. You are totally alone in the journey, with no one to point a finger at but yourself.

Another challenge has been to call on the network of customers you've worked with before, who like what you're doing and think you have a great idea but then they're not willing to take the risk on your venture.

What would be your advice for people wanting to start their own businesses?

There's a reason there are so few people that have their own businesses: to get going is very difficult and extremely lonely.

Your friends and family can only support you up to a point, but you need to take the bull by the horns and make it work.

I personally romanticised the notion of being a business owner and having the freedom to do what I wanted.

There is also no place for an ego, for complacency and for someone who is not willing to roll up their sleeves and do whatever it takes to be successful.

You need to ask yourself if you are really in it for the long haul, and if your ideas will be adopted by people who are willing to pay for what you are offering.

You need to have enough capital to carry you for two to three times longer than what you think. There is nothing more stressful than having debt collectors knocking on your door every month end.

And *never* lose track of your money matters; keep a buffer in your account, or ensure you have investments for the rainy days.

You are the business.

If you are going to put your future on the line, be over-committed and truly believe that your business is going to succeed. You can't be half pregnant in this game – it's all or nothing.

But considering all of this, I would still rather be riding the roller coaster with all its ups and downs than sitting on the sidelines wondering what it is to experience this amazing journey. ■

SABMILLER HAS LEFT THE BUILDING

By Ciaran Ryan

Now that the brewing and beverage giant is leaving the JSE, the Top40, All Share and Industrial 25 indices will all be affected. Here's how fund managers should look to rebalance.

As the JSE says goodbye to SABMiller – purchased by AB InBev for £79bn – fund managers tracking the JSE's Top40 Index will have to rebalance their portfolios.

SABMiller's weighting in the index has been distributed over the 40 remaining shares, with one new addition to the index – Impala Platinum (Implats). Other indices affected by the removal of SABMiller are the All Share and Industrial 25.

The big winners from the exit of SABMiller are Naspers*, BHP Billiton and Richemont. Mighty Naspers, already the biggest component of the Top40 Index, now accounts for 19.2% of the index, which is 2.5 percentage points more than it did last week. BHP Billiton gets an extra weighting of 1.5 percentage points in the index, taking it to 8.2%. Richemont climbs to 7.9%. SABMiller accounted for 13% of the index before it was removed.

Fund managers operating tracking funds or benchmarking their performance against the index will be scrambling to rebalance their portfolios.

Naspers's share price has increased nearly sevenfold to R2 360 in the last five years and is currently trading on a price-to-earnings multiple (P/E) of 103.4.

While the price gains are enviable, some fund managers may be wary to invest at current valuation levels. Tracker funds, however, will have no choice but to load up some more Naspers, which could push the share price even higher and, ironically, further increase its weighting in the index.

THE IMPACT ON ACTIVE MANAGERS

Andrew Dittberner, chief investment officer at Cannon Asset Managers, says active managers that are benchmarked against the JSE All Share or Top40 indices have had a particularly tough job of outperforming the index over recent years due to the weighting of a small number of large shares that have performed spectacularly well.

"As a manager, if you held these shares in a meaningful weight it would have been very difficult to perform poorly, on a relative basis, while if you did not hold these, you had your work cut out for you in trying to make up lost ground. While it is unfortunate to lose a South African icon from the market, a sigh of relief may have been breathed by some active managers at the thought of SABMiller delisting, given that one of the heavy hitters in the local indices was about to be removed."

However, with SABMiller now removed

Andrew Dittberner
Chief investment officer at Cannon Asset Managers

Stephen Meintjes
A director of Momentum SP Reid Securities

Gallo Getty Images/Reuters

JSE's loss of a brewing icon

The £79bn price paid by AB InBev for SABMiller flatters the South African component of what has become a truly global operation. Roughly 84% of the shares were held by overseas investors, and 16% in SA. On this basis, the amount flowing back to SA from the buyout is about R204bn, provided everyone went for the cash option.

The price paid by AB InBev represents a 1 500% return to investors since SABMiller listed in London in 1999. SABMiller raised capital in the London market and went on a buying spree, diluting the SA shareholding along the way.

In 2002 SAB acquired Altria, formerly Philip Morris, which amalgamated Miller with SAB, resulting in SABMiller. In 2005 it bought the Colombian brewing business Bavaria, which gave the Santo Domingo family 14% of the group's shareholding in 2005. Altria owns 27% of the group.

"While many may be forgiven for thinking that this is a South African company, they are all wrong. This is a global business being bought by a bigger global competitor. And we [are] lucky that we have access to AB InBev if you want to be invested in that space," says asset manager Vestact. ■

> "There are indeed many suitable replacement candidates, and such times are often appropriate for making long-term choices."

from the JSE and the bourse's Top40 Index allocation distributed to the remaining shares, the weighting bias to large caps has been enhanced. The larger shares received most of the allocation, while the newly introduced Implats makes up 0.8% of the index.

So the JSE lost a company (SABMiller) with a market cap of R1.3tr and gained a new addition to the index (Implats) with a market cap of around R50bn. The change in the indices does not mean a loss or gain in the index value, as SABMiller's allocation has been distributed among the remaining shares.

INDEX COMPOSITION

The top 10 shares in the Top40 Index now account for 59% of the index weight, while Naspers itself weighs in at 19.2% from 16.7% a week ago. Industrials now constitute 63% of the index, while resources and financials constitute 19.3% and 17.8%, respectively. So, if investment management is about beating a benchmark such as the JSE All Share Index (Alsi) or the Top40 Index, then active managers' jobs have just got a little tougher, says Dittberner.

Stephen Meintjes, a director of Momentum SP Reid Securities, notes that of the companies inheriting SABMiller's allocation in the Alsi 40, three are precious metal miners, and two are property stocks. The resources stocks picking up a decent slice of SABMiller's index allocation are Gold Fields, BHP Billiton, Anglo American and Implats.

The weighting of industrial stocks in the Alsi 40 Index jumps to 62.9% from 56.6%. Resources and financials will contribute around 20% each.

AB InBev remains listed on the JSE but will not automatically take its place in the Alsi Top40 Index, in part because it does not have enough local shareholders to qualify for inclusion in local indices. This could, however, change in the coming months and years.

Meintjes questions whether SABMiller shareholders will reinvest the proceeds from the buyout back into the market, thereby further fuelling the overall health of the market: "One should first note that the mood is not exactly ebullient, so that may not happen. Mood aside, there are indeed many suitable replacement candidates, and such times are often appropriate for making long-term choices."

Index tracker funds will have rebalanced their portfolios last week prior to the suspension of trading in SABMiller. The inclusion of Implats in the index appears to have given its share price a definite lift. It's been known for some weeks that Implats would likely take SABMiller's place in the Top40 Index, and this has kept trade brisk. The share price is up nearly three-fold since the beginning of the year, buoyed by stronger platinum group metals prices and improving fundamentals. ■

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NOT PLAIN SAILING AS COMPETITION AUTHORITY HONES IN

The Competition Commission has investigated six shipping companies operating locally for alleged collusive behaviour. Transnet has also come under the microscope.

The shipping sector clearly remains under the spotlight at the Competition Commission. At the end of September, the body carried out unannounced inspections at the offices of six cargo-shipping companies suspected of fixing rates for shipping cargo from Asia to South Africa, in order to secure paper and electronic data trails that could implicate the companies in collusive behaviour.

This follows an announcement in July that the commission was busy with an investigation into alleged excessive pricing and exclusionary practices by Transnet.

CEO of the Ports Regulator of SA, Mahesh Fakir, would not comment on whether the two events were linked.

Following the raids, Competition Commissioner Tembinkosi Bonakele said SA is a strategic hub for the trade of goods in and out of the Southern African region.

Therefore, "any cartel by shipping lines in this region results in inflated prices for cargo transportation", he said.

"Cartels of this nature increase the costs of trading in the region and render the region uncompetitive in the world markets.

"Such cartels have the effect of significantly derailing the economic growth of the region," added Bonakele.

Mikkel Elbik Linnet
Press officer at Maersk

> "...any cartel by shipping lines in this region results in inflated prices for cargo transportation."

The shipping companies are Hamburg Süd South Africa, Maersk South Africa, Safmarine, Mediterranean Shipping Company, Pacific International Line South Africa and CMA CGM Shipping Agencies South Africa.

They ship general cargo such as frozen foods, garments and footwear in large metal containers on behalf of clearing and freight forwarding agents.

The commission obtained warrants allowing it to search the premises under Section 48 of the Competition Act, with the warrants being issued in the Western Cape High Court and Pietermaritzburg High Court.

Maersk's Mikkel Elbik Linnet confirmed that the commission had carried out an unannounced inspection at its Maersk Line and Safmarine offices in SA, and said they were co-operating fully with the body.

"The fact that the commission carries out such inspections does not mean that a company has engaged in anti-competitive

www.compcom.co.za

Images: Getty Images/Kevin Sutherland/Bloomberg

A crane operator unloads shipping containers from freight wagons at the Port of Durban, operated by Transnet's Ports Authority.

By Lloyd Gedye

Tembinkosi Bonakele
Competition Commissioner

Cargo dues for the vehicle sector are
537%
higher than the global average, down from
743%
in 2012/13.

behaviour, nor does it prejudge the outcome of the investigation itself," he said. "Unannounced inspections are a preliminary step in the commission's investigations into suspected infringements of competition rules."

Due to the investigation, they could not share any further details at this point, said Linnet.

Christiane Kramer from Hamburg Süd said that they, too, were co-operating with authorities in SA, and could not comment further.

The other four shipping companies had not responded to questions by the time *finweek* went to print.

The investigation into Transnet

In July, the commission said that it had launched an investigation into Transnet for "excessive pricing" and "exclusionary practices", both contraventions of the Competition Act, following a tip-off from a member of the public.

The body said at the time that the investigation had been prompted by data that suggested that local ports charges are much higher than the global average, and by information indicating that Transnet was giving preferential treatment to certain customers to the exclusion of others.

The Ports Regulator of South Africa's latest *Global Pricing Comparator Study*, released in April 2015, found that bulk commodity shipments are charged much lower total port costs than the global average, while cargo shipments are charged significantly higher than the global average.

The report also stated that container costs in SA are 170% above the global average, with cargo dues sitting at a 267% premium, down from an 874% premium in 2012/13.

Cargo dues for the vehicle sector are 537% higher than the global average, down from 743% in 2012/13.

"Containers (export and import) and automotives are arguably still potentially cross-subsidising bulk export tariffs," reads the report.

"High costs are clearly contradictory to current industrial policy aiming to incentivise value addition, broadening of the manufacturing base and increasing manufactured exports."

The report also finds that smaller manufacturers are the worst impacted by the high costs.

In a statement in July noting the commission's investigation, the Port's Regulator said it "wishes to inform the public of the following: the regulator has been responsible for the approval of tariffs for the last five years, the latest having been a 0% average increase for the 2016/17 financial year".

"The Regulator has over the past few years undertaken price benchmarking studies that assist in benchmarking South African ports with a sample of global ports," it stated. "The studies, whilst assisting in giving direction are not the basis on which port tariffs are calculated."

It said it would "shortly" be meeting the Competition Commission to understand "the nature and extent of the complaint initiated".

The regulator's Fakir told *finweek* that it had a memorandum of agreement in place with the Competition Commission and would be meeting them in November to ascertain where the port's regulator can assist.

A competition law expert told *finweek* on condition of anonymity that the fact that a complaint has been laid with the commission is evidence of unhappiness with Transnet's charges.

Transnet is effectively the landlord of all South African ports, including the ports of Cape Town, Durban, East London, Ngqurha, Port Elizabeth, Richards Bay and Saldanha.

Through the National Ports Authority, Transnet is also responsible for operating the ports and issuing licences and concessions to operate in the ports.

Transnet also operates terminals in South African ports.

The National Ports Act was promulgated in 2006 and provides for Port Authority functions to be moved into a separate company to prevent conflict with Transnet's commercial operations.

This separation has not taken place.

Transnet's port authority function does net it significant income in rent and cargo dues and this would be lost to Transnet if the separation took place.

The expert said the investigation was into Transnet's terminal charges.

"Practically Transnet controls ports and this makes it difficult for port users to challenge it," said the expert. "Having a right in principle is very different from practically enforcing that right against someone who can make your life as a port user very difficult."

The competition law expert said that there is a perception that Transnet's cargo dues, which are regulated by the Port Regulator, are not subject to scrutiny by the Competition Commission, but that the fact that a price is regulated doesn't necessarily have this effect; it just makes a challenge more difficult.

If Transnet is found guilty of anticompetitive conduct, the judgment could result in civil damages claims against Transnet, but these claims are difficult to prove, says the expert.

Transnet's spokesperson Molatwane Likhethe said they "will co-operate fully with the inquiry". "Transnet is comfortable and confident that its processes are fair, just and in line with relevant legal requirements." ■

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GOOD TIMING FOR ARCELORMITTAL'S BEE DEAL – BUT IS IT SINCERE?

ArcelorMittal's R2.3bn black empowerment deal should be seen against the backdrop of the steelmaker's history in the country.

When Lakshmi Mittal, the London-based Indian-born billionaire, strolled into South Africa back in 2001 to take over the country's steelmaking giant, then called Iscor, he was welcomed with triumphal ululations. It was easy for many to place Mittal in the economic transformation camp owing to his place of origin and the colour of his skin.

Many things have since changed. Some valuable lessons in political economy were learnt over the past 15 years of Mittal's presence in South Africa.

These lessons were amplified last week when the Mittal-controlled steelmaking operation, ArcelorMittal South Africa (Amsa), released details of its R2.3bn black economic empowerment (BEE) deal.

The transaction comes amid heightened levels of mistrust towards Mittal from the ruling party. It took a good 15 years for Mittal to conclude his first BEE deal. And this transaction does not seem to come where BEE deals are meant to come from, the heart. The circumstances from which this deal is emerging from are akin to a gun being held to Mittal's head. He has to do this deal for the business to survive.

Consider the comments made by ArcelorMittal SA CEO Wim de Klerk on the need to make this BEE deal. He characterised this deal as a part of key initiatives to maintain a licence to operate.

In a statement released last week De Klerk said: "Maintaining our licence to operate is a strategic objective and these initiatives all play an important part of our efforts to position ArcelorMittal South Africa as a transformed and responsible business."

Former Amsa CEO, Paul O'Flaherty, revealed even more in his reported farewell speech. He was quoted as saying that ArcelorMittal behaviour has amounted to "complete and utter arrogance to our customers and the government".

He is said to have added: "If we had been a good citizen, we would have had protection."

Lakshmi Mittal
Chairman and CEO of ArcelorMittal

Wim de Klerk
CEO of ArcelorMittal SA

Amsa was also at pains to express the view that it is in solidarity with the South African government, describing the BEE deal as part of a "holistic approach to engagement between industry and government" to ensure sustainability.

So it appears that Mittal is no longer the hero he was to the post-1994 ruling elite. And not even the much-delayed R2.3bn BEE deal will buy back the position of trust and the spirit of camaraderie that he enjoyed in SA in the early 2000s. Realisations that Mittal, despite his kinship and the colour of his skin, is as averse to state meddling as businesspeople can be, have politicians' sentiment against him.

Amsa's history in the country

How did the business get here? Mittal turned his attention to SA in the late 1990s. He was on a mission to consolidate his position in the troubled global steel industry.

Coming out of India with Mittal Steel, he was snatching up struggling steelmaking assets across the globe. His economies-of-scale mission had been gaining momentum in Asia and Eastern Europe when he finally circled the financially troubled Iscor. And alongside Iscor's takeover Mittal merged with European concern Arcelor to create the world's largest steelmaker.

In the early 2000s, Iscor, an Afrikaner-Nationalist industrial development project, was failing. Years of underinvestment had left it trailing technological advancement in the industry and facing a massive cost curve. And the market conditions of the late 1990s and early 2000s were unforgiving.

Iscor demanded huge bailouts to recover. The South African government, which was flirting with privatisation, had no appetite to make such an investment. This created an opportunity for Mittal to acquire Africa's largest steel manufacturer for a song.

There were loud voices of discontent, but they

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By Sibonelo Radebe

were drowned out by the happy cheers. The objections stood no chance against the endorsement of a young ruling party whose view of the world was perhaps still very much black and white. An investor of Mittal's calibre fitted snugly into that world view.

Opposition from the shaken white interests was bound to be dismissed as sour grapes. The Indian element in Mittal's march to become a global steel magnate connected well with the South-South co-operation that pushed SA into the Brics affair.

Even leftist views were shut out. There were loud warnings that the reform of Iscor into an uncompromisingly profitable operation was short-sighted. The argument was that an Iscor that sought profitability at all costs would devastate the South African economy. This is because a significant portion of the manufacturing sector – which adds enormous economic value and creates a great number of jobs – depends on reasonably priced steel products. And because the country boasts an abundance of steelmaking inputs – including coal, iron ore and power – whoever makes steel in SA must pass on the benefit to the rest of the economy.

The South African government went into the Iscor/Mittal deal hoping to maintain a developmental steel pricing model. Those hopes were dashed over the past 15 years. Instead, ArcelorMittal has been abusing its monopolistic position to maintain punitively high prices, yet stakeholders have been protesting, crying cronyism.

Likamva Resources will be assuming **17%** interest in ArcelorMittal South Africa and is expected to install a broad-based element to the group within the next two years.

A closer look at the deal

This background makes the current BEE deal a bit special. A bright spotlight is shining on the transaction, and the expectations are extraordinary. Ajay Lalu, a veteran BEE analyst from consulting firm Black Lite, says its architecture seems fit for purpose as the people at the centre of the BEE consortium, Likamva Resources, are of the right calibre in that they understand how government works and have good connections. Yet they are also not too close to those in power.

Likamva includes prominent businesswoman Noluthando Gosa. She has been operating in the BEE space for a while via a vehicle called Akhona Group, which has invested in the property and energy sectors. Gosa served as a member of the National Planning Commission between 2010 and 2015.

Noluthando Gosa
Chairperson and CEO of Akhona Group and leader of the Likamva consortium

There is also former deputy finance minister Jabu Moleketi, who ventured into the corporate sector after leaving government in 2008. The consortium also includes South African executive representative in the Brics Development Bank Leslie Maasdorp; chairman of the Xitsavi Group Themba Hlengani; Harith Fund Management chief executive Tshepo Mahloele and Warren Wheatley, the chief investment officer of TSS Capital.

Likamva Resources will be assuming 17% interest in Amsa and is expected to install a broad-based element to the group within the next two years.

In addition, Amsa workers will be allocated 5% equity, which somewhat assuages concerns that BEE deals are dominated by the new black elite. Lalu says the deal has struck a good balance between the strategic partners and broad-based elements. Considering the state of business and the market, he warns that investors will have to be patient, as it will take some time before they will see profits.

Facing an uphill battle

Amsa faces several challenges, largely due to depressed global markets. The business has been in the red for a while and reported a net loss of R450m during the six months ended June.

In addition to depressed market conditions, the business has to contend with dumping from China and needs national protection. This means Amsa is coming to be more amenable to governmental demands, including the developmental pricing model and BEE.

The group wants more protection in addition to the 10% import tariffs imposed recently. This is where the usefulness of the BEE partners will be tested.

Gosa says they are entering into the deal as a partner who shares "a joint vision of being a catalyst for the rapid industrialisation of South Africa".

"We are well aware of the importance of a primary steel market in developing economies, and we look forward to deploying our skills towards this objective with the primary goal of creating employment and wealth creation for all South Africans," she says.

"If they play their cards right, they will be rewarded handsomely. High risks come with high rewards."

Says Lalu: "This might be the best time to do this deal. They are entering the deal at the low point in the share price. If they play their cards right, they will be rewarded handsomely. High risks come with high rewards."

The deal was struck at R7.36 a share on a stock that is 85% down over the past five years. ■

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on the money

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>> **Entrepreneur:** Keeping businessmen looking dapper over generations *p.42*
>> **Careers:** How to network like a pro *p.44*

CEO PROFILE

By Jana Marais

Doing business according to the DNA

Exploring where its peers fear to tread, yet following a conservative strategy, has paid off for mining company Randgold Resources and its adventurous founder and CEO Mark Bristow.

The group's existing Tongon mine in Ivory Coast paid back its capital in 2015 and declared its first dividend, of **$22m,** in July.

Images supplied

If a fairy godmother would grant Mark Bristow – entrepreneur, adventurer, gold miner extraordinaire – one wish, he'd ask to discover a gold deposit of more than 5m ounces in the Ivory Coast.

"It's just so easy to do business there. Their mining code [legislative framework] is the best in Africa," Bristow, CEO of Randgold Resources, told a group of reporters over lunch in Johannesburg late in September. "We would fund a $2bn investment there should we find a deposit that meets our criteria."

Randgold has been operating in Ivory Coast since before reforms brought about by President Alassane Ouattara, who came to power in 2011, that saw the country transform into the fastest-growing economy on the continent. Growth has averaged 9% since 2012, with the International Monetary Fund (IMF) forecasting 8.5% this year and 8% in 2017.

The group's existing Tongon mine in the country paid back its capital in 2015 and declared its first dividend, of $22m, in July. It is expected to produce 260 000 ounces of gold this year, out of total expected production of between 1.25m and 1.3m ounces for the group. Randgold also operates four other mines in Senegal, Mali and the Democratic Republic of the Congo (DRC).

Bristow, a geologist by background who founded Randgold in 1995, has built a formidable mining company operating world-class, mechanised mines in countries seen by many others as too risky.

Bristow, a geologist by background who founded Randgold in 1995, has built a formidable mining company operating world-class, mechanised mines in countries seen by many others as too risky. Its conservative strategy to allocate capital to operations that would be profitable at a gold price of $1 000/ounce has stood it in good stead. It's been the only big gold company not to cut exploration expenditure, capital or jobs in the past two years, when a low gold price put its often highly indebted rivals under immense financial strain.

In addition, it is on track to build a cash reserve of $500m by year-end, which would allow it to finance the construction of a new 5m ounce-plus mine with the help of future cash flows and without having to raise equity or debt or cut dividends, Bristow said. "Our biggest challenge is to fight inefficiencies. It is a constant battle in the industry."

Finding the next big thing

While others fret over the gold price – the "spectacular" $300 gain in the price since the start of the year saved a number of listed mining companies' bacon – Randgold's primary challenge is where its next major discovery will be.

It has extensive exploration activities in a number of countries, mainly where Randgold currently operates, and the group is not excluding the possibility of a takeover or merger, Bristow said. So far its focus has been sub-Saharan Africa, but Bristow doesn't exclude spreading the wings, provided the deposit meets Randgold's criteria. "Asset quality trumps jurisdiction," he said.

The pressure to find replacement ounces may come at a cost, however. "Our biggest risk is that management get seduced into doing a bad deal, and you screw up our DNA," Bristow said.

The Randgold DNA is built around a number of factors, including a significant focus on exploration; a partnership approach when it comes to relationships with governments and host communities; and – most importantly for shareholders – a concerted effort to mine profitable ounces. With a very flat management structure, it is easy to hold people to account. It also invests in developing its own staff and management – in Mali, for example, the mechanised operations are fully run by Malians. The management team consists entirely of people trained by Randgold, and everyone on the team is younger than 35.

In December last year, the group walked away from a $1bn joint venture with AngloGold Ashanti to develop underground operations at its Obuasi mine in Ghana, an opportunity that was widely seen as the next big thing offering the replacement ounces Bristow has been waiting for. (Randgold and AngloGold are also partners in the Kibali mine in the DRC.)

However, there were technical problems with Obuasi, one of Ghana's oldest gold mines, as the orebody couldn't be accessed in an efficient way, Bristow said. In addition, there were significant environmental issues that had to be resolved, and the social risk at the mine was "enormous". Most worryingly, perhaps, was the "complete lack of support" from the Ghanaian government.

The mine has since become overrun by illegal miners, and the lack of Ghanaian government support for AngloGold continues, making it difficult to resolve the issue.

Corruption has also become a big problem in Ghana, eroding the country's good historical reputation of being the "go-to place" for gold mining investment in Africa, which was based on its good mining code and the fact that English is widely spoken there, Bristow said.

Meet Mark Bristow

Born in Estcourt in KwaZulu-Natal, Bristow completed high school in the town and then obtained BSc and PhD degrees in geology from what was then the University of Natal. He first worked as a junior faculty member before joining the mining industry in 1986. Randgold Resources was founded in 1995 with $10m in private equity and has since been built into a FTSE 100 company with a market capitalisation of £7.3bn.

He also serves on the board of Rockwell Diamonds.

Bristow is an avid adventurer. His BoyzonBikes motorbike safari initiative – which benefits Non Vies en Partage (NVEP), an independent charity established by Randgold in 2014 – raised roughly $2.7m to date this year, adding to the almost $2.4m raised in previous years. The money is earmarked for charitable causes that help relieve poverty in a number of countries in sub-Saharan Africa.

This year's safari, Bristow's fifth, covered 8 500 kilometres in 28 days, stretching from Mombasa in Kenya to Matadi in the Democratic Republic of the Congo. On a similar trip in 2011, Bristow had a bike accident on a dirt road in Senegal, breaking a vertebra in his lower spine. ■

Risk

Despite the recent pre-election violence in the DRC, where Randgold owns extensive exploration properties in addition to its 45% stake in Kibali, Bristow sees Mali as the most risky of the countries it operates in.

Where the country was once very easy to operate in, an Islamist insurgency and the resultant involvement of United Nations peacekeeping forces have been a "great drag" on the economy. In addition, the IMF is now managing Mali's balance sheet, "which sucks the joy out of anyone's day", Bristow commented before adding that investment continues to flow into the country's mining industry.

One gets the sense that solving the numerous challenges – from managing the risks involved with the often-fragile political environments in which Randgold operates to the day-to-day grind of ensuring there is enough electricity to keep mines and mills running – is exactly how Bristow wants to spend his days. In Mali and the DRC, for example, Randgold increased the tempo of its investment in health, safety and environmental programmes, Bristow said. "We want to keep people busy as we manage very dynamic political environments."

Bristow has said in the past that he won't retire before that next big project is in the bag. But while there are succession plans in place, partly to pacify the board and investors given his love for adventure biking (see sidebar), Bristow – like many other Randgolders – is in no great hurry to leave. "We don't have staff turnover. We see people go when they're one stop short of a Zimmer frame." ■

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Gallo Getty Images/iStockphoto

Bristow on the outlook for gold

Gold is priced for a long period of recovery, but the story for gold mining stocks may be different, says Randgold Resources CEO Mark Bristow.

Since 1999, the industry has replaced on average less than half of the ounces it's mined, despite record spend on exploration, Bristow says (graph below). In order to keep the industry supplied, gold miners need to discover 90m ounces of gold a year – currently, the figure stands at 10m to 15m ounces, he says.

While the story for gold is bullish, the short-term outlook for gold producers – which have seen their share prices rally between 100% and 200% over the past eight months thanks to a "spectacular" $300 jump in the gold price – is more uncertain, Bristow says.

"There's a lot happening. Bankers are running around trying to tell everyone how to run their businesses again. It's feeling a bit like the top of the market again," he says. "The only way the industry can continue to deliver in the next six months [in terms of shareholder returns] what it has delivered in the past eight months is to have another $300 rise in the gold price, and that's well nigh impossible."

A number of factors will influence the gold price in the near term – most notably, an increase in interest rates by the US Federal Reserve could weigh on prices. It is inevitable that an increase will happen, Bristow says, "which will pour water on the party". However, uncertainty remains over the timing and how steep these increases will be.

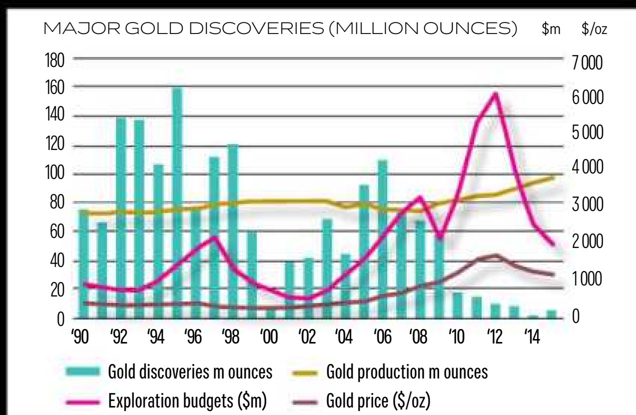
On the plus side, negative interest rates in a number of developed markets as well as fears that equities are overvalued make gold more attractive as a safe haven. "On top of that, you have two visionaries running for president [in the US] – that is the best friend for gold you can imagine."

Bristow says the surprise outcome of the Brexit referendum, when markets were caught by surprise after the UK voted in favour of leaving the EU, should serve as a warning that the average Joe is tired of not benefitting "one ounce" from politicians and bureaucrats, whether they're in Brussels or Washington DC. "The bottom line is people are going to shit themselves and turn to gold if [Donald] Trump wins."

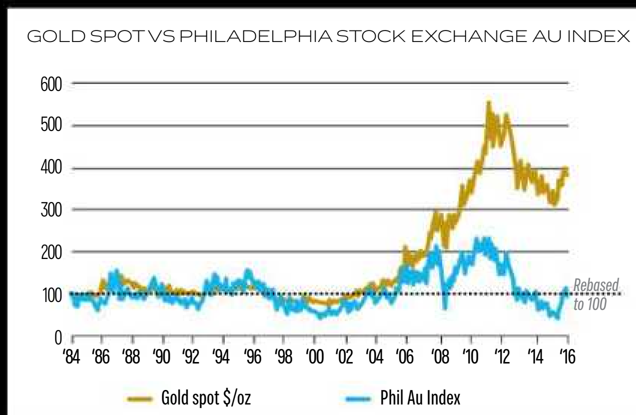
The outlook for the gold price may be bullish, but investors would do well to tread carefully when it comes to investing in gold mining stocks. Looking at the gold spot price and the Philadelphia Stock Exchange Index since 1984, it is clear that the industry overall has been a destroyer of capital, despite benefitting from two massive bull markets, Bristow says (see graph bottom right).

"The Philly gold index is the same today as it was in 1984. There has not been a dollar of value created in that index since 1984," says Bristow. The rise in prices bailed out a number of gold miners, who took on too much debt to benefit from the previous bull market and was caught with their pants down when prices came crashing down to the $1 050/ounce level. It forced many to cut exploration and even sustaining capital, halt dividend payouts or even raise equity, and cut jobs – actions Randgold could avoid thanks to its strategy to only mine ounces that will be profitable at $1 000/ounce.

"We believe we're the only real investable counter in the gold industry and certainly in Africa." ■



SOURCE: SNL Metals & Mining, supplied by Randgold Resources



SOURCE: Randgold Resources

A healthy leader is a good leader

In our rapidly changing world, leaders who can adapt will thrive. So what are the areas leaders need to focus on in order to do their jobs well in the prevailing environment?

While leadership is in fact a very personal thing, if a leader takes care of themselves, he will also be able to take good care of a team and the organisation as a whole.

Three unequivocal truths drive great leadership at any level of an organisation:

- Who you are drives what you do.
- Who you are is grounded in your healthy roots.
- Healthy leaders build teams and organisations that outperform.

This follows from USB Executive Development (USB-ED) and *finweek*'s regular We Read For You presentation recently held in Cape Town. The book reviewed was *Grounded: How Leaders Stay Rooted in an Uncertain World* by internationally renowned executive advisor Bob Rosen and presented by Dr Renata Schoeman, a general psychiatrist and a senior lecturer in leadership at the University of Stellenbosch Business School (USB).

Leaders across all industries and sectors find themselves ill-equipped to manage the challenges brought about by the current worldwide economic turbulence and disruptive change.

With a new world order of global interconnectedness, leaders at all levels must contend with chronic uncertainty, intense competition and personal burnout. The prevailing paradigm of focusing on short-term results has been sabotaging who leaders are as healthy human beings – until now.

According to Schoeman, the book proposes a new approach to leadership and argues that leaders can become more self-aware, develop their untapped potential, and drive significantly better results for themselves, their teams and their organisations.

The book is based on long-term research with hundreds of CEOs and leaders from around the world, and the ground-breaking approach is drawn from Rosen's Healthy Leader model.

Today's rapidly changing business environment is characterised by speed, uncertainty, complexity, cynicism, competition and globalisation.

This rapid change can cause a leadership gap, with leaders assuming that what worked in the past will work in the future. Leaders may also focus too much on action and too little on introspection, while accepting and tolerating dysfunctional behaviour in themselves and others. A fundamentally flawed belief – that their status and actions alone determine the quality of their leadership – can also develop.

Leaders usually react to these forces in different ways. Some leaders simply ignore them and let chaos reign, while others show foresight and adaptability. Those with healthy roots are strong and can overcome these forces by thriving.

Deep curiosity, an adaptive mindset and paradoxical thinking are key issues.

Six roots or personal dimensions that fuel (and refuel) the world's top leaders:

PHYSICAL HEALTH – how you live. Central to this is body/mind awareness, energy management and a peak performance lifestyle.
Helps leaders to deal with: The speed of change in the world.

EMOTIONAL HEALTH – how you feel. Self-awareness, positive emotions and resilience as themes.
Helps leaders to deal with: Uncertainty in the world.

INTELLECTUAL HEALTH – this involves how you think. Deep curiosity, an adaptive mind-set and paradoxical thinking are key issues.
Helps leaders to deal with: Complexity.

SOCIAL HEALTH – how you interact with others. Central to this are feelings of authenticity, mutually rewarding relationships and communities.
Helps leaders to deal with: Cynicism.

VOCATIONAL HEALTH – how you perform. Important issues here are personal mastery, a meaningful calling and a strong drive to succeed.
Helps leaders to deal with: Competition.

SPIRITUAL HEALTH – how you view the world. Themes here are having a higher purpose, global connectedness and generosity of spirit.
Helps leaders to deal with: Globalisation.

Schoeman says that by developing themselves and mastering these six dimensions, leaders can gain the stamina and strength not only to weather tough times but also to achieve more than ever before. ■

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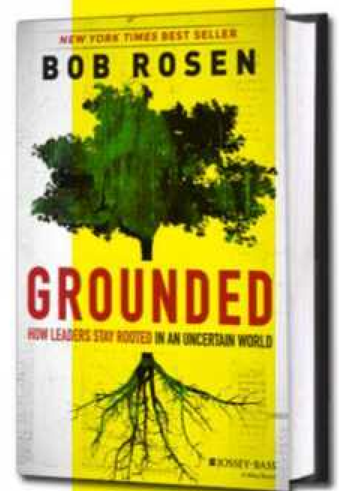
Dr Renata Schoeman is a general psychiatrist and a senior lecturer in leadership at the University of Stellenbosch Business School (USB). She is a virtual faculty member at USB-ED and an associate of the Virtual Learning Platform. She is passionate about corporate mental health and believes in a holistic approach to individual and team development.

Bob Rosen
CEO adviser, organisational psychologist and author



Images: www.bobrosen.com Michael Stewart/Asmik Arutyunyan

By Jessica Hubbard

Trading in style: When business savvy runs in the family

In 1940, Ismail Moosa founded what is today known as the premier men's businesswear brand, Khaliques. His son, Khalik, explains what it takes to build a family business.

With a rich heritage that dates back to a lively trading community in the 1940s, Khaliques has established itself as the premier men's businesswear brand in South Africa and has become synonymous with style and sophistication in the C-suite. Although rooted in its "old-school" beginnings in the country's bustling marketplaces and city centres, Khaliques has continued to innovate and infuse the brand with creations from the world's most revered designers and artisans. The Khaliques slogan, "For the businessman who knows what he wants", effectively captures the essence of the brand and its appeal to a powerful and demanding segment of the market.

Today, all the stores carry both business and casual wear in Khaliques' signature retail surroundings, which underscore the company's dogged emphasis on the customer experience.

Each store provides a high-end tailoring service to facilitate alterations and repairs. The Khaliques brand is still guided by the principles of its dynamic founder, Ismail Moosa, and his legacy lives on across the most influential boardrooms in South Africa.

The name Khaliques originates from the founder's son Khalik, who took over the business after Ismail Moosa's death in 1986.

finweek caught up with Khalik Moosa to dig deeper into the history of the brand and to explore the retailer's plans for the future. Khalik now heads up the business alongside his two sons, Mohammed Faeez and Ismail, whose combined input ensures that the brand remains fresh and relevant in a disruptive marketplace.

Khalik Moosa
Owner of Khaliques

I have always maintained ourtesy and honesty, as well as an intimacy with suppliers and customers that have helped the Khaliques brand develop into what has become the largest independent men's suit retailer.

How did the idea for a high-end, business-focused menswear brand come about?

Retail runs deep in the veins of the Moosa family, which has seen two generations follow in the footsteps of Ismail Moosa. In 1940, Ismail established the Esteem Silk Bazaar, a gentleman's outfitter-cum-general dealer in Pretoria. The store was located opposite the then fresh produce market, surrounded by a vibrant community of traders and merchants from all backgrounds. Ismail Moosa sold menswear (mostly suits and footwear) as well as some ladies' footwear. Then came the Group Areas Act, and this bustling community of traders disappeared.

In 1952, Ismail moved to Vrededorp and established a business that focused primarily on babywear and accessories. It wasn't

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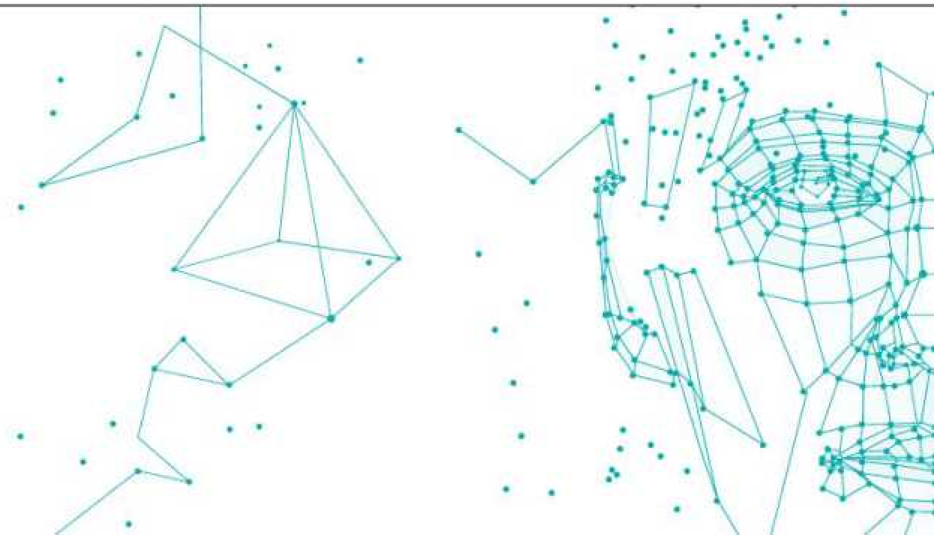

Q&A:

long before he started to sell menswear again, and this led to him establishing The Suit Centre in 1974. Ismail registered the business under the name Khaliques (PTY), trading as The Suit Centre. This marked the beginnings of a thriving business, fuelled by Ismail's passion for menswear. He began advertising the brand with a slogan that soon became well recognised and admired: "It's not a rumour, it's a fact."

When did the brand Khaliques, as we know it, gain mainstream awareness?

Ismail, like most entrepreneurs at that time [1970s] was self-funded. The business moved to the Oriental Plaza in 1980, and this marked the first time that the Khaliques brand was exposed to a market that soaked up the suits, shirts and footwear, which always promised to be of excellent quality and value for money.

Khaliques opened a second store in Village Walk in Sandown, Sandton, followed by another in Cedar Square in 2007 and a fourth in the new Mall of Africa in 2016.

What drives the business today and serves as your inspiration?

Armed with the lessons learnt from my father, I have continued to deliver on the value and quality promise. I have not forgotten the relationships built with the suppliers in the garment industry in South Africa who helped my father in the early days. I have always maintained that courtesy and honesty, as well as an intimacy with suppliers and customers that have helped the Khaliques brand develop into what has become the largest independent men's suit retailer.

How do you maintain this high quality while managing expansion?

During the period of distribution growth, my son Mohammed Faeez was shadowing me in the business, and was being groomed to take it over. Mohammed has since overseen the expansion of the brand. He is a firm believer in investing in marketing and has been consistent in managing the brand and its reputation (focusing on businessmen who understand that quality and value for money go hand in hand with service). For example, we offer our customers on-site tailoring and made-to-measure services. Mohammed also recognised that the business needed to be innovative and to offer a growing and loyal customer base more brands and products.

How tough is competition in your sector, and what differentiates your product from others?

Khaliques currently have agreements in place with Bally of Switzerland to distribute men's footwear and leatherwear, as well as leisure bags from Piquadro in Milan. The Khaliques brand offers the most comprehensive range of men's suit and business wear in both locally manufactured as well as imported brands, such as Loro Piana and Vitale Barberis Canonico. They have a comprehensive selection of leather footwear and shirts and leather accessories.

As new competition has increased, Khaliques has always faced it head on, with the principles of the founder always the focus of attention. (Know your customer, offer value and quality and make sure you service your customer, and innovate.)

Mohammed Faeez
Khalik's son was groomed to take over the family business.

Khaliques has also introduced convenient online e-commerce solutions. The digital and technological distribution is run by Ismail who has his eye firmly set on meeting the challenges that technology and e-commerce brings. We have also introduced our own label products, and Jones and Kent has in a very short time introduced four stand-alone brand stores.

What does the future hold for Khaliques?

In 2015 we secured International Luxury menswear brand Ermenegildo Zegna and opened the first fully fledged Ermenegildo Zegna store in Southern Africa, situated in the Diamond Walk in Sandton City.

The company is firmly focused on building the brand equity in the group, and is intent on gaining loyal and passionate customers while never forgetting the values of the founding fathers. ■

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Images: Lourens Reyneke

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By *finweek* team

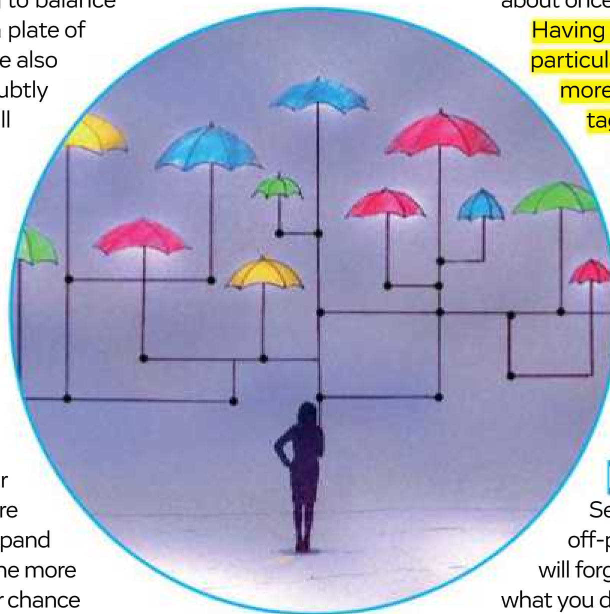
Networking without the awkward small talk

It's not what you know, it's who you know. But reaching out and establishing a new connection doesn't come naturally to everyone. Here's a networking guide for people who don't particularly like people.

Picture the scene. You are at a conference, trying to balance a wine glass and a plate of cocktail food, while also making small talk with – and subtly promoting your own unique skill set to – a complete stranger.

Sounds like a special kind of hell, doesn't it?

For people who don't particularly relish social situations, the very idea of "networking" (interacting with others to develop professional contacts) is alarming. Still, connections are what keep the wheels of business turning. The bigger your network of relationships, the more opportunities you will have to expand your business and your career. The more people you know, the better your chance to find a job, or attract the best talent in the business. A strong network also helps with getting new customers, and finance or other support for your business.



Here's how to keep networking painless:

It's about quality, not quantity

Don't try to make everyone in the room your best friend. Instead, focus on one or two people you would really like to meet, and focus on them. Before you go to an event, narrow down the list of people you want to get to know.

Reach out to them in advance, whether via LinkedIn, other social media, or an email introduction from a mutual friend, advises Susan Cain, author of *Quiet: The Power of Introverts in a World That Can't Stop Talking*, which sold 2m copies. "Not everyone will reply, but that's okay. Some will! Set up a meeting if you can. Instead of wandering the halls during breaks, looking for someone to talk to, arrange for pre-scheduled one-on-one sessions so you know where to go, with whom, and what to talk about once you get there."

The bigger your network of relationships, the more opportunities you will have to expand your business and your career.

Having a focused objective to meet particular people will also help you feel more in control amid hordes of name-tagged people.

Do your homework

Read as much as you can about subjects in your field, or the focus areas of the people you want to connect with. This will give you some solid conversation starters. Beforehand, rehearse a couple of opening lines and some points you could discuss.

Don't talk about yourself

Self-promotion can be extremely off-putting. "I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel," wrote the poet Maya Angelou. Instead of trying to get your own points across, listen carefully to what the other person is saying, ask questions, and make them feel important.

Think like a connector

In his best-selling book *Tipping Point*, Malcolm Gladwell identifies three types of personality types who can drive change: mavens (information specialists), salespeople (charismatic personalities who can persuade others) and connectors.

Connectors are powerful networkers. "They galvanise people. They're natural hubs. That's just the way they're oriented to the world," writes Gladwell. "These are people who, every time you ask a question, start flipping a Rolodex in the back of their mind, saying, 'Who do I know who knows this? Who do I know who has done this? Who do I know that I need to connect you with?' They love connecting you with people, because they're all about the people."

Connectors are generous and always eager

Gallo Images/Getty Images

to help. Even if you aren't naturally inclined to be a connector, learn from this tribe. Always keep an eye out how you can assist someone by connecting them to your own network, or providing help in another way – for example by sending them an article on a subject they mentioned.

Follow up

If you said that you will send an article, send the article. Keep the relationship going by connecting with the person on a regular basis.

Don't ask about job openings

This is an absolute killer in any conversation. Even if the person is working at your dream company, don't ever put them in the awkward position of having to play HR to a complete stranger.

> Don't ever put them in the awkward position of having to play HR to a complete stranger.

Online networking

Social media can play a powerful role in getting the attention of people in your industry. An evocative LinkedIn post on a hot topic can quickly help you establish new connections.

Be the speaker

There are people who would rather address a crowd about a topic of interest to themselves than make small talk about the peculiar weather conditions with strangers. If this is you, consider asking the event organiser whether you can be a speaker.

"Shy people will be surprised to hear this, but it's much easier to attend a networking event if you're the one giving the speech," writes Cain. "Once you step off stage, everyone knows you. Even more, they know just how to start a conversation with you."

If you don't want to address a conference, volunteer to give a short talk at a small event, or just make yourself heard in the office.

Or get involved in the organising of an event. Handing out name cards will give you something to do *and* connect you with people attending the conference.

Get back-up

Bring a friend or a colleague to a networking event to be your wingmate. This support can give you more confidence to reach out to new people.

Widen your scope

Don't always go to the same conferences and events; mix it up with new events that will enable you to establish new connections. ■

editorial@finweek.co.za

on the money quiz & crossword

To test your knowledge and for a chance to win a *Freakonomics* DVD, enter this week's quiz. It can be accessed via fin24.com/finweek from 10 October. Good luck!

1 What is Google's new smartphone called?
- GPhone
- Pixel
- Gugl

2 Which bank is currently engulfed in turmoil after the US department of justice fined it $14bn?

3 **True or false?** Cites is a multilateral treaty aimed at controlling global CO_2 emissions.

4 Supply the missing word: Prasa stands for Passenger Rail _______ of South Africa.

5 **True or false?** The International Monetary Fund has predicted that the South African economy will grow by 2.5% next year.

6 **True or false?** The island nation of Haiti is situated in the Indian Ocean.

7 Which body awards the Nobel Prize?
- The US Senate
- The Royal Swedish Academy of Sciences
- Cambridge University

8 **True or false?** Last week's cover story was about the bear market.

9 Which company is buying a 45% stake in Cell C for R5.5bn?
- Vodacom
- Blue Label Telecoms
- Grand Parade Investments

10 In which country was supermarket chain Choppies founded?

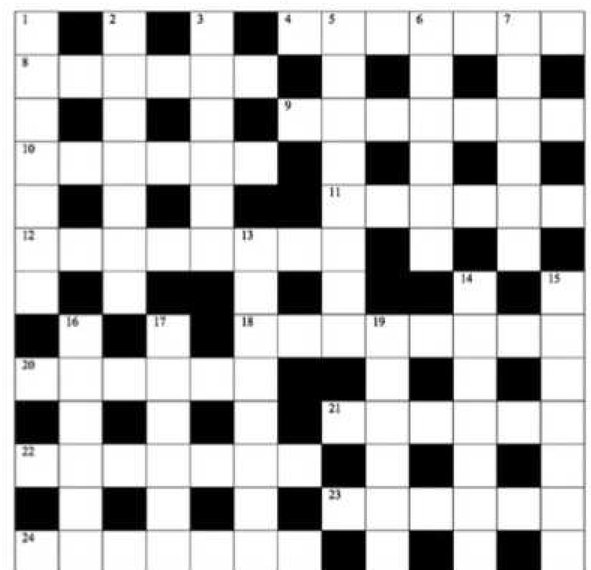
CRYPTIC CROSSWORD 652JD

ACROSS

4 Admit to being a partner at cleric's office (7)
8 A legal right expert (6)
9 The German is between times someone skilled in selection of foods (7)
10 English flower festival (6)
11 Small visual aid used in embroidery (6)
12 As taken by paparazzo after a no-ball (4,4)
18 Passes for the second time (2-6)
20 Speech a tired performance (6)
21 Religious learners – a rector's tower of strength (6)
22 South American bash held in field (7)
23 Dreaming I'm out after 50 goals! (6)
24 Indicates lady's man to detective (7)

DOWN

1 Speed contest postponed (4,3)
2 Worry about girl caught in sudden overflowing of river (7)
3 Heard mushroom grower's exhortation to acquire muscle (6)
5 Cloth tailored to 1 metre (8)
6 Duller moment (6)
7 Setback to top editor being questioned (6)
13 Wake king, he's to receive a bounty (8)
14 Old provider, we hear, of simple eyes (7)
15 Certain American vessel is harbouring a loan shark (7)
16 Sounds like chilli's cooked with English fruit (6)
17 Nursery's e-mail had contained back order for tuber (6)
19 Withdraw Scotsman ads for water plants (6)



Solution to Crossword NO 651JD

ACROSS: 1 Hardback; 5 Aram; 9 Swipe; 10 Myalgic; 11 Erne; 12 Outdoors; 13 Attention span; 18 External; 19 Nous; 20 Tripoli; 21 Facts; 22 Dose; 23 Infotech

DOWN: 2 At worst; 3 Deplete; 4 Communication; 6 Regroup; 7 Mock sun; 8 Harden; 13 Abetted; 14 Titbits; 15 Narrow; 16 Sunfast; 17 Aquatic

On margin

US politics made easy

A woman in a hot-air balloon is lost, so she shouts to a man below: "Excuse me. I promised a friend I would meet him, but I don't know where I am."

"You're at 31 degrees, 14.57 minutes north latitude and 100 degrees, 49.09 minutes west longitude," he replies.

"You must be a Democrat."

"I am. How did you know?"

"Because everything you told me is technically correct, but the information is useless, and I'm still lost. Frankly, you've been no help."

"You must be a Republican."

"Yes. How did you know?"

"You've risen to where you are due to a lot of hot air, you made a promise you couldn't keep, and you expect me to solve your problem. You're in exactly the same position you were in before we met, but somehow, now it's my fault."

Choices, choices

The New Yorker commenting on the US presidential election between the Democrats' Hillary Clinton, and the Republicans' Donald Trump:

To put them in perspective, I think of being on an airplane. The flight attendant comes down the aisle with her food cart and, eventually, parks it beside my seat. "Can I interest you in the chicken?" she asks. "Or would you prefer the platter of shit with bits of broken glass in it?"

To be undecided in this election is to pause for a moment and then ask how the chicken is cooked.

In short

"I have left orders to be awakened at any time in case of a national emergency –even if I'm in a Cabinet meeting." – **Former US president Ronald Reagan** after caught sleeping during a cabinet meeting.

Q: How many politicians does it take to change a light bulb?
A: Two: one to change it and another one to change it back again.

• I don't approve of political jokes. I've seen too many of them get elected.
• Why do Americans choose from just two people to run for president and 50 for Miss America?

Laughfactory.com; onelinefun.com

Sibulele Gwiliza @taodeez
If police want to be on campus, they must apply like all of us.

Shaka Wodumo @Shaka_Wodumo
Hypocrisy is when you look at the 1976 uprising and admire it and look at the 2016 uprising and condemn it. The goal is equivalent. #Wits

Babes Womzabalazo @NalediChirwa
The prayers of arrested students of black universities (UKZN, DUT, UJ etc.) probably go like, 'May You remember us as You remembered Wits.'

Ilse Salzwedel @ilsesalzwedel
If we had a government, I wonder what they would have said about the current state of the country. Just wondering… #FMF #SABC #Statecapture

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Tom Eaton @TomEatonSA
Twitter is pointing out that Hlaudi's pay rise means he now earns more than Zuma. Cute that people still use the word 'earn' for those two.

Adam Liaw @adamliaw
What if scientists already invented time travel, but they just keep going back to 1995 and ordering turkey, cranberry and brie focaccias?

Gillian Findlay @gillian_findlay
'Middle age is when you're sitting at home on a Saturday night and the telephone rings and you hope it isn't for you.' – Ogden Nash

Aamir Mughal @mughalbha
At a funeral: A visitor: 'What's the WiFi password here?' Priest: 'Respect the dead.' Visitor: 'All small letters?'

"Two things are infinite: the universe and human stupidity, and I'm not sure about the universe."

– Theoretical physicist Albert Einstein (1879–1955)

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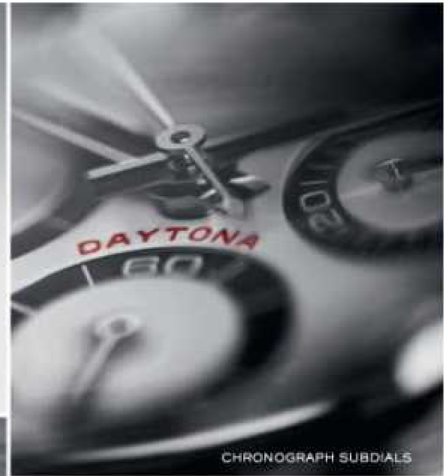

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