the CORE group

360°

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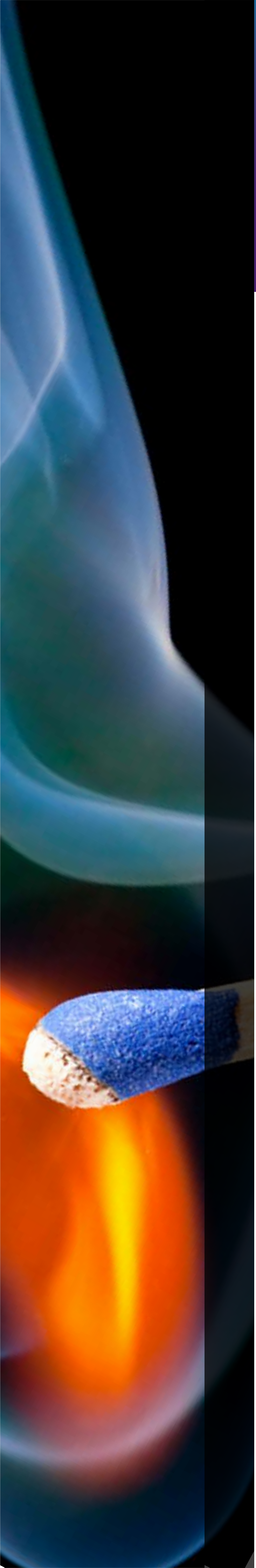
IGNITING POTENTIAL

& STAYING RELEVANT

the future - now



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Retention is better than cure

Will most of your future revenues come from existing customers or from new ones? This simple question is one that business owners should consider carefully, because it can provide a unique perspective on the health of your business – and provide important input to long-term strategic planning.

The world of sales and client satisfaction has changed dramatically. Advancements in technology have revolutionised the sales profession. Personal computers, e-mail, SMS messaging, social media, voice mail, cell phones, the internet, telemarketing, video conferencing, CRM software and big data have all made an impact on the modern sales process. Today the customers are in charge and they make the rules. Customer loyalty is very difficult to maintain due to high levels of competition, globalisation and the client's access to information.

Depending on which study you believe, and what industry you are in, acquiring a new customer is anywhere from 5 to 25 times more expensive than retaining an existing one. It makes sense: you don't have to spend time and resources going out and finding a new client — you just have to keep the one you have happy.

According to Rob Yanker, a partner at McKinsey & Company, to win back a lost customer can cost up to 50 – 100 times as much as keeping a current client satisfied. A recent study also states that the probability of selling to an existing customer is 60 - 70%, while the probability of selling to a new prospect is 5 – 20%. The bottom line: keeping the right customers is valuable.

It is imperative for today's business owners to not only have active targeting strategies in place, but also client retention strategies. To help you develop your retention strategy that is unique to your industry and client type, here are a few tips by Jami Oetting, Section Editor of Agency Post, to help you and your account executives to get started:

Set expectations early and often
If you don't set expectations and communicate these clearly, your clients can easily become upset. They might believe you can deliver a predetermined results, while in reality, those results are only seen in month six or with additional projects.

Create a roadmap for the future of the client relationship
Your account executives should create and revise on a regular basis a relationship roadmap. Build in steps for new projects and levels of commitment. Both parties should be able to look forward and be excited about the current and next stage of the relationship.

Ask for feedback and act on this information
You can't improve client retention without first understanding why clients leave your company. Once you know the reasons and the correlating signs, you can work to prevent client losses by proactively dealing with issues. Ask for regular feedback from the entire client team, including the decision-maker. Being able to identify and address these issues as early as possible will help you to prevent clients from leaving you.

Keep a record of communication and any past problems

Your company's culture, leadership, and business practices all contribute to retention, but another way to prevent disruption in changes in personnel is by adopting a Client Relationship Management system where you can store notes from meetings and phone calls, ongoing issues, personal preferences of the clients, etc. With detailed notes and a complete history of the relationship recorded, a new account manager will be ready to be a true advisor to the client much more quickly.

Prepared by CORE Marketing and Public Relations
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Final legislation on interest-free loans to trusts

The proposal to reform trusts were first mentioned during the 2013 budget. The legislator was very concerned about the transfer of wealth without being subject to tax. However, no draft legislation was released until 2016. The Davis Committee then issued an interim report in 2014 and a final report in 2016. The 2016 budget proposals resulted in section 7C being including in the Draft Taxations Laws Amendment Bill, 2016. In October 2016, the final amendment bill has been released and as far as trusts are concerned the final section 7C differs substantially from the first draft proposal.

In order to limit taxpayers' ability to transfer wealth without being subject to tax, the legislation proposes rules focusing on interest free loans or loans with interest below market rates that are made directly or indirectly by a natural person, or by a company that is a connected person in relation to that person to a trust.

The final section 7C can be summarised as follows:

- Interest-free or low interest loans to trusts will trigger donation tax at a rate of 20%.
- Part of the reform of taxation of trusts is to limit the use of trusts as vehicles to avoid estate duty/ capital gains tax ("CGT").
- The proposed effective date for the amendments is 1 March 2017 and applies in respect of any amount owed by a trust in respect of a loan, advance or credit provided to the trust before, on or after that date, therefore loans granted before 1 March 2017 are also included.
- The provisions will apply to a loan, advance or credit made by a natural person, or at the instance of that person, a company in relation to which that person is a connected person to a trust and no interest is incurred by the trust in respect of the loan, advance or credit or, interest is incurred at a lower rate than the official rate of interest (contemplated in paragraph 1 of the Seventh Schedule to the Income Tax Act - currently 8%).
- The result of the abovementioned provisions will be that an amount equal to the difference between the amount incurred by the trust in respect of the year of assessment and the amount that would have been incurred by the trust at the official rate of interest mentioned above will be treated as a donation made to the trust, on the last day of the year of assessment, by the person who made the loan to the trust.

For example, Mr Y made a loan to his trust amounting to R 20 000 000.00 which was utilised by the trust to buy property. He charges interest at 5%. The official rate, as defined, is 8%.

Donation: R 20 000 000 x (8%-5%) = R 600 000.00

Donation Tax:

Donation:	R 600 000
Less: Annual Exemption	R 100 000
	R 500 000
Donation Tax @ 20%	R 100 000

In addition, no deduction, loss, allowance or capital loss may be claimed in respect of a disposal, including by way of reduction or waiver or; the failure wholly or partly of a claim of the payment; of any amount owing in respect of a loan, advance or credit referred to above.

Where the loan, advance or credit was provided by a company to a trust at the instance of more than one person, that is a connected person in relation to the company, each of those persons will be treated as having donated to the trust the part of that amount that bears to that amount the same ratio as the equity shares or voting rights in that company that were held by that person during the year of assessment bears to the equity share or voting rights in that company held in aggregate by those persons during that year of assessment.

The following exemptions are available from the section 7C donation tax provisions:

- if the trust is a Public Benefit Organisation,
- if the loan, advance or credit was provided to the trust by a person by reason of, or in return, for a vested interest held by that person in receipts and accruals and assets of that trust,
- if the trust is a special trust as defined,
- if the trust used the loan wholly or partly for purposes of funding the acquisition of an asset, which asset was used, throughout the year of assessment, by the person granting the loan or the spouse of that person, as a primary residence, etc.

The typical scenarios relevant to trusts which will be effected by this legislative change are where a person sells an asset to a trust on an interest free loan or charge interest on the loan at a rate lower than the official rate prescribed by SARS and/or where the trustees of a trust make a distribution to trust beneficiaries and the beneficiaries loan the money back to the trust.

It seems from the wording that an interest free or low interest loan to a company, even if a trust owns all the shares, will not fall foul of these provisions. As the legislation stands now, this seems to create an opportunity to circumvent the provisions of section 7C.

Should loans to a trust be written off? If the trust is able to repay the loan, the decision to write off the loan will definitely be considered to be voluntary and therefore be subject to donations tax. Since there are donations tax, there will be no further tax consequences in terms of par 12A.

However, if the trust is unable to repay the loan, meaning the loan is irrecoverable at law, the decision to write off the loan is not regarded as voluntary and therefore will not be subject to donations tax. Under par 12A the trust must reduce the base cost of the asset with the loan amount which was written off. If the trust does not own the asset anymore, then any assessed capital loss of the trust must be reduced.

While these new provisions will affect estate planning via trusts it does not mean the end of the utilisation of trusts. Careful planning by knowledgeable advisors should still make it possible to utilise the trust as a more than useful estate planning vehicle.

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CORE
business development

Climate change and the expected negative impact on food security

The recent protest march by emerging farmers to present their grievances to the South African government is not unexpected when the latest information from the United Nations' Food and Agriculture Organisation (FAO) is analysed. Small-scale and emerging farmers are the victims of factors that impact very negatively on their ability to decrease even household food insecurity.

Countries south of the Sahara have the biggest number of small-scale farmers, about 425 million, and there are already sufficient evidence of the extremely negative impact of climate change on increased productivity that is so necessary to fight chronic hunger and poverty. The FAO emphasises the necessity of adapting to climate change. Better access to technology, markets, information and especially tailor-made credit are not negotiable in terms of necessary productivity adaptations. Unless actions are taken to make agriculture more sustainable and resilient, the expected impact of unavoidable climate change will have a destructive impact on food security – especially in countries or areas already experiencing a high level of food insecurity.

Ironically the section of the population that contributed the least to negative climate change will suffer the most. This is why they deserve attention because this tendency could impact very negatively on the United Nations' goals in terms of fighting hunger. Less food can lead to higher prices and as such fewer people will be able to afford the necessary food of an acceptable standard. The FAO's December edition of The State of Food and Agriculture provides guidelines for what this support should look like and how it should function and argues persuasively that the cost of prevention could be offset easily against the advantages. Thus there are profits in effective climate management by adaptations and support to especially small-scale farmers.

Broad-based transformation from preproduction to the consumer is at the same time a prerequisite for maximising efforts to curb the impact of climate change as well as to optimise other risk management initiatives. There are preventative actions in existence and more can be developed through committed research and development in order to develop and use multipliers despite a climate of negative expectations. This will require more intelligent investments in especially agriculture initiatives of small-scale farmers, because only a multi-dimensional approach of which the impact will be wider than current efforts will suffice. The FAO emphasises that for the required transformation to be successful in terms of sustainability and less inequality, access to proper information and markets must be improved. The right to access resources, accommodation security, ownership of land and lower transactions costs in the midst of lowering beneficiation of donations, etc. are some of the biggest challenges. Assistance in the form of more effective social protection, assistance in managing risk better, less vulnerability in terms of food price uncertainty together with job opportunities away from the farm are some measures that could complement small-scale farmers' contribution to food security.

The recent protest actions by small and emerging farmers are in step with what is considered necessary requirements for proper development world-wide. The factuality of the demands indicates administrative red-tape by two departments involved. Measured against the core requirements as set out, the government is failing the most vulnerable section of agriculture. The South African small-scale farmer is no different from his or her cousin in other countries. They strive to get ahead, but the non-compliance of the state with minimum requirements increasingly indicates that the state's involvement does more harm than good. The state overestimates its ability to make agriculture work and should rather provide money for clearing failures and the right investments, but in the hands of farmers.

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CORE financial solutions

'Buy and sell'

cover a necessity for partners

In this newsletter CORE Financial Solutions discusses the cover that partners or shareholders of companies can take out on each other's lives. During the past few months we have met with various business owners to evaluate their personal affairs. Whenever we work through their financial statements and auditors do a thorough evaluation, it becomes clear that the value of the share often catches the shareholder off guard. Many of them are so focused on the business, the next transaction and the growth of their company that the shares sitting right under their noses are worth more than they ever expected.

Something that is positive in itself then suddenly becomes a bit of a problem: What will happen to this share if he or she suddenly dies? It took a lifetime of effort to build this value, but will their next-of-kin be in a position to enjoy the fruits of their labour as intended? In most cases, we find that clients do not have the necessary structures in place to realise that hard-earned share.

What options are available to address this problem? The other shareholders can approach a bank for a loan to buy out the deceased's share, but what happens if they are unable to secure such a loan, or if the terms of the loan are such that the business cannot repay it? In addition, the business could possibly be in a negative cycle and their recent statements may not give a bank enough security to grant a loan. A new "shareholder", i.e. the partner's spouse, who might not be interested in or knowledgeable about the business may become necessary. This person may make things very difficult for you by constantly looking over your shoulder. This can make future decision-making problematic.

The easiest way to prevent these possible problems is to take out "buy and sell" cover on each other's lives. In the case of your death, this cover pays out and thus provides the necessary liquidity to fund the transaction. The premium of such cover is significantly less than the cost of a loan. In order to make this transaction run smoothly, the following elements are needed:

- An agreement between shareholders or partners which clearly stipulates the method of valuation.
- A complete "buy and sell" agreement which will enable the executer of the estate to deal with the transfer of the shares.
- Knowledge about the implications of estate tax and provision for it.

Clients who have any further questions about the drafting of such an agreement may contact CORE Financial Solutions.

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CORE trusts & estates

Livestock and game farmers: Possible plan to save income tax at death

In a previous newsletter CORE Trusts & Estates wrote about the addition of the new article 9HA to the Income Tax Act which could have a negative influence on the estates of especially livestock and game farmers. In short the new articles determines that when a person dies after 1 March 2016 all his assets, including his stock, are deemed sold at market value. For a farmer his livestock and game are his stock.

This article was already applicable to capital assets such as land and capital gains tax is payable in this regard. Previously capital gains tax was also payable on the difference between the market value and the standard value of all livestock in an estate. (The standard value of livestock is a very low tax value placed on livestock in terms of the Income Tax Act.) Game has a standard value of nil. From the point of view of capital gains tax the effective maximum tax rate is around 16.4% of the taxable profit (the difference between the base cost and the market value).

The impact of the new article 9HA of the Income Tax Act is that livestock and game will now be liable to income tax instead of capital gains tax. The maximum income tax rate could be as much as 41% of the value of the livestock and game. The increase in cost (in the form of tax) in the estate is around 24.6% of the value of the livestock and game in the estate. Should the value of the livestock and game in your estate be R1 million an amount of as much as R246 000 will be payable in additional income tax in the estate after 1 March 2016.

A number of approaches can be followed to address this problem. One such an approach is to make use of article 42 of the Income Tax Act. In terms of article 42 of the Income Tax Act someone's livestock may be "sold" to a company in return for shares with a similar value in that company. Such a transaction is free of income tax should all legal requirements be adhered to.

The result of such a transaction is that the person who transferred the livestock to the company in return for shares then owns shares in a company instead of livestock. In terms of shares capital gains tax is payable instead of income tax, which could result in the saving of about 24.6% in income tax, as explained above.

However, it is very important that professional advice is sought in instances where article 42 of the Income Tax Act is considered because article 42 has specific requirements which must be adhered to. The proper contracts must also be drawn up in this regard. As with any other legislation it could cause more problems when applied incorrectly.

Source: This article was originally published in Landbouweekblad.

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CORE
brand management

Let brand story-telling grow your brand

People relate to people, as the saying goes. This is also the basis for the concept of brand story-telling: Tell your brand's stories; don't give consumers a sales pitch. The emotions carried by a story is key to the success of brand story-telling. While brand story-telling is not a new idea, the way in which organisations tell their stories has changed. In an article on brand story-telling on the website Marketing Week, Steve Hemsley writes that social media and user-generated content are just as effective in telling a brand's narrative.

While the platform can be anything from a traditional speech to virtual reality, the story remains the most important ingredient. In his book Telling the Story – the heart and soul of successful leadership Geoff Mead writes that it is authenticity that makes a story stand out. It is often the little story behind how a company was founded, the challenges that the owner faced or the unusual circumstances that led to the creation of a business idea that attracts attention. Hemsley writes that the new Ford Focus RS was introduced through a documentary on YouTube that told the story of the challenges that the development team had to face. Instead of telling people that the company's values include passion and commitment, as story such as the one about the development of the Focus RS shows consumers what these values are.

Harvard Business Review recently published an article about luxury consumers preferring inconspicuous brands. Significant changes in consumer expectations are manifested through social media, consumer generated content and immersive digital marketing experiences. Content-driven, subtler approaches are sought after as opposed to direct sales pitches. Authenticity remains the key. Businesses that consumers perceive as "authentic" create real value. This intangible value can allow consumers to overlook flaws in the business. More than 90% of consumers rate honest communication about products and services as the most important criterion for company behavior. Trustworthiness and authenticity are 2 of the top 5 attributes listed by millennials for brand marketing. According to a Cohn & Wolf study, 63% of consumers surveyed across 12 global markets would buy from a company they consider to be authentic over and above its competitors. Moreover, 6 in 10 would recommend an authentic organisation to family and friends.

The new branding world is composed of authentic and experiential storytelling across platforms. Consumers are choosing understated labels, and seeking out niche brands that help them express and emphasize their individuality. This showcases a great opportunity for smaller brands with a story to share. The new consumer is willing to be a part of brand stories by sharing curated content or participating as an influencer. Businesses defining the future of remarkable brand story-telling will be exquisite storytellers who will become a part of consumer experiences seamlessly, share authentically and listen with empathy.

Sources:
https://www.marketingweek.com/2016/02/28/why-brand-storytelling-should-be-the-foundation-of-a-growth-strategy/
http://www.brandanew.co/7-promising-trends-defining-the-future-of-remarkable-brand-storytelling-in-2016/

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powered by BRAND NEW

It is with great joy in our hearts that we bid farewell to 2016. From everyone at The Core Group and Associates, we wish you a Blessed Christmas and a Joyously Prosperous New Year.

the future - **now**

Ons heet 2016 vaarwel met vreugde in ons harte. Vanaf almal by 'The Core Group' en Assosiate , wil ons u 'n Geseënde Kersfees en 'n vreugde- en vrugtevolle Nuwe Jaar toewens.

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