The shareholders of the 1990s are a new breed — wiser, more sceptical, more demanding than those of the previous decade. However, in a market likely to be swamped by new issues and privatisations, those shareholders are becoming an increasingly important target for companies competing for equity capital. Marc Phillips reports on the trend towards innovative and sophisticated marketing schemes designed to lock in shareholders’ loyalty while persuading them to put more money into their companies.

Until recently, shareholder entitlements did not go far beyond the right to vote at the annual general meeting and the right to receive interim and annual dividends. In the 1990s, however, the emergence of corporate marketing strategies has seen shareholders wooed with a variety of value-added benefits.

A number of companies have instituted shareholder benefit schemes, such as discounts on purchases, to cement the loyalty of existing shareholders. However, some of these schemes do not appear to be products of effective marketing strategies and some of their benefits have been undermined by inadequate planning and poor implementation.

In January 1993 the chairman of ANZ Banking Group, Mr John Gough, unveiled the “Shareholder Privilege Plan”, a package of 12 benefits including price discounts on services offered by the bank, ANZ Funds Management (10-15 per cent insurance discounts) and ANZ McCaughan (15-25 per cent stockbroking discounts), and a six-monthly newsletter.

ANZ’s objective was to boost its shareholder base and win back investor confidence following its $579 million net loss. The privilege package may not please all investors, however; it is available only to private shareholders and not to institutions, which might argue that they bear the cost but receive no benefits. Moreover, according to basic marketing principles, lowering the price of premium services such as those in the ANZ plan can diminish the value of the services in the eyes of the customers.

Another discount system was implemented recently by Pacific Dunlop, entitling shareholders to a 25 per cent discount on tyres, automotive parts and car maintenance. The major shortcoming of this plan is that the discounts are available only in retail outlets wholly owned by Pacific Dunlop, thus limiting the range and accessibility of cheap items for shareholders.

A more successful marketing campaign was launched by Western Mining Corporation at its November 1992 annual meeting, where it offered shareholders a range of 18-carat gold jewellery at prices between $700 and $3,000. Sales were reported to exceed $1 million; WMC claimed that the company made a profit and the employees and shareholders benefited. However, WMC encountered logistical problems with production and the processing of orders and there was some unhappiness among shareholders about lengthy delivery times.

Despite the problems, these marketing campaigns go well beyond the “free option” cliche that once symbolised...
ised the absence of creativity in corporate finance departments. Public share floats were once marked by offers of one free option with every two shares taken up. The recently floated River House went further, offering options on options. The "second" Compass airline offered free flights for initial subscribers. Brian McGuigan Wines' $10 million equity raising won private investor support with another low-profile promotion, emphasising a "clubby" relationship with shareholders.

Creative marketing of scrip was a feature of Britain's privatisation program, which raised £33 billion. In the British Telecom and British Gas floats, shareholders could apply for vouchers for discounts on their bills; in the water supply float, customers were given a discount on the share price.

Small investors were given priority in allocations to encourage into the UK share issues. Minimum purchases were set at low levels and purchase prices were split into instalments.

In Australia, with privatisation already occurring at federal and state levels, concerns have arisen about the effects on the market of an avalanche of new shares.

The 1991/92 financial year saw the partial or total privatisation the Commonwealth Bank and the NSW Government Insurance Office, as well as the floats of John Fairfax and Australian Consolidated Press. In 1992/93 Westpac has made a $1.2 million rights issue. More recently, Woolworths became Australia's biggest float, and the offer of the remaining 7.5 per cent of Qantas-Australian Airlines is imminent.

Accompanying these large floats are numerous "minnows", or small floats, in the wake of the publicity for Woolworths and Qantas. These have been well received by investors and those who invested in stocks such as Multistack International Limited and Just Jeans Australia Limited received healthy stag profits as investor support sent shares well above their listing prices.

**Marketer's market**

The oversupply of scrip in the marketplace is likely to become a corporate adviser's nightmare. As the queue for ASX listing approval grows, advisers will find it increasingly difficult to time public floats and share pricing could be jeopardised. Advisers could then be forced to use innovative selling methods. Those with effective marketing strategies will secure the business.

The chairman of the Australian Stock Exchange, Mr Laurie Cox, was reported in The Australian Financial Review in February 1993 as saying: "In order to avoid serious indigestion, privatisations will have to be attractively priced to appeal to retail investors and possibly include a deferred element." He made these estimates of Australian capital markets requirements:

- foreign investors contributing $3 billion in 1993 and $3.8 billion in 1994;
- retail investors putting in $4.5 billion in 1993 and $5 billion in 1994;
- a scaling-back of money put into dividend reinvestment plans from last year's $3.1 billion to $2.6 billion in the next two years.

In addition, institutional cashflows would be strained in 1994/95, he said.

The result of these factors will be an increased emphasis on the marketing of scrip and the development of more creative methods of adding value for shareholders. These trends will coincide with a more aggressive attitude by shareholders discontented with company results and critical of board performance. Directors will be taking care to keep the shareholders happy.

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**Small beginnings**

Marketing to shareholders is an indirect way to advertise the share price and, in theory, attract new investors and increase the company's market capitalisation. Seizing capital-raising opportunities will be important to any success Australian companies have in expanding internationally. Some alternative sources of new capital may at first seem insignificant — but so did the dividend reinvestment schemes in their early stages.

The success of these schemes grew out of the conflict between a company's desire to retain and reinvest its profits and the need to reward shareholders and investors. Dividend reinvestment schemes enable shareholders to reinvest their dividends in the company's shares, usually at a discount to market price and with minimal transaction costs. It is estimated that about one-third of dividends were reinvested through these schemes in 1990/91.

There is little doubt that the popularity of dividend reinvestment has encouraged companies to increase the level of dividends. With reduction of the company tax rate from 39 per cent to 33 per cent from July 1, there will be even greater pressure for increased dividend payouts to shareholders.

At the same time, opportunities for new shareholders continue to improve. Most privatisations and share offers now reserve shares for employees to acquire on favourable terms. The 30 per cent privatisation of the Commonwealth Bank offered a 10-year interest-free employee loan to ensure there was no shortfall in stock allocations.

It is inevitable that the existing shareholder will be an increasingly important target in corporate equity raisings. Companies and advisers with innovative strategies will win substantial rewards from the trend.