How to Live to 100, and Find Investments That Will Last as Long as You

How is a man from Sardinia like a woman from Okinawa? And how is a Seventh Day Adventist from Southern California like both of them? And what could this motley crew have to do with Coca-Cola or American Express?

There are certain parts of the world where human longevity is significantly higher than in other places. Sardinia, Okinawa, and Loma Linda, California, are just three of the places identified by scientists as having abnormally long life spans. As it turns out, even though these people groups are much different geographically and culturally, they all share a common set of characteristics.

To find out more about the common characteristics of these regions which have been termed Blue Zones, you can read Dan Buettner's 2008 book of that name or listen to one of his excellent TED talks. To save you a bit of time, we'll list just a few of the nine identified items common to each of the Blue Zones: a predominantly plant-based diet, moderate physical activity, community involvement, and moderate intake of alcohol. Sure, sitting around on your duff eating hamburgers and Twinkies every day won't guarantee you an early death, but it will certainly tilt the odds in that direction.

While this is plenty interesting on its own, it made us wonder if there were also a common set of characteristics of companies which have stood the test of time. In other words, what makes GE (founded in 1892 and still going strong) or American Express (1850 - ?) different from pets.com (1998 - 2000) or Circuit City (1949 - 2009)?

Going Medieval

Warren Buffett often talks about companies in medieval terms. He compares a company's ability to generate profits to a castle which must be protected. Tyco's security division ADT did not exist seven hundred years ago, so castle owners back then had to go with the next best thing: a moat. The wider a moat, the better. The deeper, the better. The more filled with crocodiles or other dangerous creatures, the better.

In the same way, companies must defend their profit-making ability, or they risk going the way of the dodo. In castle terms, you want width, depth, and mortal danger. What do those same things look like for companies?

The Coke Side of Life

What about product quality? Is Coke the best-selling soft drink in the world because of its superior taste? Call us crazy, but we think some much worse-selling colas are just as good. For those of you in the mid-Atlantic area, we particularly recommend the Wegman's private label soft drinks, as popularized on the NBC show "The Office."

So what does Coca-Cola have that Wegman's does not? Why can you not walk into a coffee bar in Krakow or a beachside hut on Kyushu and order a Wegman's cola? It's all about scale.

Coca-Cola has way more factories around the globe than Wegman's does. Therefore, it's available to buy in more places. And if Coke wants to air a TV ad promoting its cola, the price of that ad on a per-potential-customer basis is going to be vastly lower than it would be for Wegman's, or even R.C. or Dr Pepper.

Switching Can Be a Pain

Let's say you're fortunate enough to own a small but growing business. Your sales are increasing nicely, and you're having to hire employees to keep up with the demand. Payroll processing can be a pain. You have to hire, train, and pay a full-time staff person to handle it. If they make a mistake, you eat the cost. You have to buy your own software for it. You may have to deal with the IRS in the case of an audit.

Or, you could hire Paychex to take on all that for you, often for far less than you'd pay to do it yourself. Hopefully, your business will continue to grow. But then, by the time it would be more cost-effective for your business to do all the payroll work in-house rather than out-source it to Paychex, you'd be looking at significant up-front costs and inevitable system-switching snafus. You're probably going to decide that it's not worth the hassle of conversion, so you'll just keep paying Paychex to do it for you. It's all about switching costs.

Moat = Sustainable Competitive Advantage

So for Coke it's all about scale, and for Paychex it's all about switching costs. There are other examples too: Harley Davidson has brand cachet, American Express has a powerful network effect. Each of these characteristics can be described as a sustainable competitive advantage.

Sustainable is the key word of the phrase. Anybody can have a competitive advantage. Want to attract more customers? Just lower your price significantly below what your competitors are charging. Is that a sustainable business practice? Only if your costs are lower than your prices. Otherwise, you'll price yourself into oblivion pretty quickly. Just ask Woolworth’s or Circuit City.

Same Despite the Differences

But keep in mind that there are some major differences among some of our longest-lived companies. While Tiffany today does pretty much the same thing it started doing more than 150 years ago, American Express began in the middle of the 19th century—loooong before there was any such thing as a charge card or credit card. So, business model continuity is not a criterion for a business' long life.

Three of the longest-lived companies are all fairly similar in nature: Heinz started in 1869, Procter & Gamble started in 1837, and Colgate started in 1806, and all make simple household products for use in our kitchens and bathrooms. But DuPont (since 1802) and Corning (since 1851) are involved more in engineering and innovation of industrial products, while Wells Fargo

(1852) and Bank of New York (1784) are in the financial services area. So, having a certain type of business model is also not a prerequisite for longevity.

The one common theme among all of these companies is the fact that they have at least one sustainable competitive advantage, or "moat," protecting their fortress of profitability. Now the trick is to apply that thinking to some younger companies, and see if you can identify which ones will be with us for a long time to come.

Southwest Airlines has only been around for about 40 years, but it must be doing something right because it is the only U.S. air carrier not to have declared bankruptcy in that time. How? It is the low-cost leader in operating flights, and it can therefore charge a lower price, which is one of the chief—if not the only—considerations for customers purchasing air travel.

Amazon.com has been with us less than 20 years, but it continues to take market share from its brick-and-mortar competitors. What are its advantages? Because of its lack of physical stores, its costs are lower and can pass those savings on to its customers. Also, up-selling at Amazon is a snap compared to its off-line peers: once you put something in your shopping cart, Amazon automatically shows you four or five other similar products that its other customers have bought in connection with your intended purchase. Wouldn't it be creepy if a Best Buy employee followed you around the store calling out suggestions for products you may enjoy?

Conclusion

So it turns out that yes, we can identify some common traits of long-lived companies. But remember that, in investing, that's only the first part of the homework assignment. For instance, Amazon.com may continue to thrive into the next century, but that doesn't necessarily mean that its stock would be a great place to invest your cash right now. Its stock price is currently around 250 times its earnings per share, so we'll leave it up to you to decide whether it's worth that much.

FELIPE

Felipe Garcia, CFA
Chief Investment Officer
INKWELL CAPITAL LLC

Aaron

Aaron Byrd, CFA
President
INKWELL CAPITAL LLC