

Poised to Pounce

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Yesterday I caught up with a friend who works at an investment house, and has spent the last two weeks seeing a steady stream of chief executives and chief financial officers from some of Australia's biggest companies.

I asked him to sum up the mood. He said top line revenue growth was very soft; companies started 2010 in reasonable shape, but in the last few months, momentum has slowed considerably and the outlook for 2011 is very, very cautious.

However, profits remained reasonably strong, with cost cutting and restructuring helping to protect margins to some extent. This is underlined in today's article by Craig James, who says that the average profit increase reported so far is about 45%, which is pretty strong.

But the one thing my friend and Craig James have pointed out is the impressive levels of cash being carried by many of these top companies. Like their customers, many businesses have chosen to pull back on spending in the last 12 months, and are now left with strong bank balances.

Many of the listed companies are returning that cash to shareholders in the form of higher dividends or share buybacks.

But we should also expect many of these listed companies – and many private companies, particularly in the SME space – to put some of this cash to work in the next 12 months chasing growth.

We're already seeing this start to feed through to increasing merger and acquisition activity, but there are number of other ways these funds could start to be employed, including:

- Pushing into new geographic markets, particularly overseas where a foothold can be gained relatively cheaply now.
- Investment in new products and business areas, particularly where assets (and indeed whole companies) can be picked up cheaply.
- Increased marketing spending.
- Increased hiring to build labour surpluses.
- New store opening or expansions.

We're seeing all of these tactics being used at the moment in varying degrees, depending largely on the health of the sector a business is in.

Smaller businesses need to understand that these expansionary tactics will create opportunities and threats, and rivals take their eyes off one strategy to concentrate on another.

The trick is to be ready to respond.