

It's on for big and small



THE small but vocal Council of Small Business of Australia is working with the big end of town's Business Council of Australia to push like-minded policies.

While the two lobby groups are often at loggerheads over issues such as competition law, COSBOA chief Peter Strong said they increasingly realised there was some alignment in promoting issues on which they shared common ground.

Issues over late payment of invoices to small businesses — a real sticking point — are partly being addressed by voluntary codes of payments in which big businesses have vowed to pay on time.

Mr Strong said while the sector was not interested in a "war on unions", there were some issues where a united business voice was necessary to represent the needs of business.

He said synergies between the sectors could be helpful, with big business helping small business to innovate.

"Often big business will support a small business with



COSBOA chief Peter Strong and (inset) BCA chief Jennifer Westacott.

resources to help them to develop a product which the big business will sell," he said.

BCA chief Jennifer Westacott will speak tomorrow at this week's COSBOA annual summit in Melbourne. The panel will discuss how big and small business need each other and need to work together.

Mr Strong said while competition needed to be robust and negotiations were often hard, consumers were entitled to choice.

Mr Strong said he could see

big and small businesses sharing training resources. "For instance, if a big business is running a training program, it could include contractors who are small business operators," he said.

One area where he said there was little shared ground was managing energy prices.

"We have an energy crisis that we need to address but this is something we need to talk about," he said.

Mr Strong said continued attacks on business based on

the wrongdoings of a few people were unfair.

"With the BCA, we want to highlight the good things that business owners do," he said.

Mr Strong said he was concerned about proposals for the Fair Work Amendment (Protecting Vulnerable Workers) Bill proposed by the federal Opposition. "In any group of people... there are always some who will do the wrong thing and this is why we need rules and regulators," he said.

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Bega's Barry Irvin says Vegemite has an "individual taste".

Bega ready for a slice of rival

CHRISTIAN EDWARDS DAIRY

BEGA Cheese chief Barry Irvin is keeping a close eye on struggling rival Murray Goulburn as he casts around for expansion opportunities for his growing company.

A day after Murray reported a \$371 million loss and announced it might be a takeover target, Bega Cheese delivered an almost fivefold increase in full-year profit to \$139 million.

The result — inflated by a \$124 million gain on the sale of infant formula plants — came on the back of a 3 per cent lift in revenue to \$1.23 billion and the addition of new milk suppliers lured from Murray.

Mr Irvin said the company was very sensitive about speculation around milk supply and the effect that had on the emotional wellbeing of farmers.

But he said Bega was now well supplied and adding capacity to higher margin products such as mozzarella and cream cheese.

"We obviously haven't been public about how much has come over (from Murray Goulburn) but it's substantial," he said. "I'll put it this way — it's in excess of 10 per cent of last year's supply."

After signing a major deal to buy Vegemite back from US food giant Mondelez in January, Mr Irvin said Bega was seeking acquisitions and admitted he was watching closely as events unfolded at Murray.

"Of course, we're interested in assets that would enhance the business," he said, adding

PROFIT BY FORMULA

SHARES in The A2 Milk Company have hit a record high after a boom in infant formula demand in China and Australia almost tripled its annual profit to \$NZ90.6 million (\$83.1 million).

The company also announced an on-market share buyback of up to \$NZ40 million over the next year and said it would consider a special dividend in light of progress of the buyback and future market conditions.

A2 Milk listed on the ASX in 2015 at 56.5c a share, and yesterday closed up 6.9 per cent at \$4.81. It said sales in the year to June rose 56 per cent to \$NZ549.5 million, underpinned by a strong performance in infant formula.

that he could see merits in Murray assets.

His ambitions for Vegemite were more modest, however.

"I have been asked whether our plan is to take Vegemite to the world; if we could convince the world to want it, of course the answer would be yes, but we're not naive about the individual tastes of products such as Vegemite," Mr Irvin said.

Bega shares yesterday closed 1c lower at \$6.48.

WARNING ON FEDERAL GRANTS WEB SCAM

SMALL businesses have been warned against getting scammed when seeking information about applying for government grants.

The federal government's latest small business newsletter says unscrupulous operators are trying to make

money out of people who are pursuing options for grants to grow their businesses.

"Government grant information is available free online. You don't need to pay for it," the government said.

It said grants were awarded on merit and

applicants were not required to pay money to apply.

However, it said a third party provider could help applicants with their entry.

It said some websites may try to imitate government websites with fonts and official-looking logos. Official

websites would include a .gov extension rather than .com in their address.

Any scams can be reported to the Australian Competition and Consumer Commission which regularly releases details and warnings through its Scamwatch site.

'Overvalued' Aussie dollar akin to a nationwide pay rise

SINCE the beginning of the new year, Australians have received around a 10 per cent pay rise. But this is not your typical pay rise.

This pay rise does not result in more dollars in your bank account. Nor does it mean you can afford a bigger Australian home.

So what kind of a pay rise is it exactly?

At the end of 2016, one Australian dollar could buy around US72c. Today, one dollar will buy you about 10 per cent more US cents than it did back then.

This is not a mirage. This is a genuine increase in wealth for Australian households.

With this "pay rise" Australians can buy foreign



THE SHORT CUT with ANDREW MACKEN

assets more cheaply than they could eight months ago.

And buying foreign assets is the only way to "bank" this pay rise before it potentially disappears.

This can be a strange concept. What sort of a pay rise requires the recipient to use it or potentially lose it?

A relative one. Consider a publicly listed company whose stock price rallies harder than it should.

Stock prices overshoot and undershoot the fair value of their underlying businesses all the time.

For managers of overpriced businesses, a typical strategy is to acquire a competitor but with the consideration paid in the form of company stock, rather than cash. The idea is to use the company's stock as a form of currency.

To the extent the stock is overvalued, the acquisition is effectively cheaper than it would normally be if the stock was fairly valued. That is, the company with the overvalued stock had to use it or lose it.

The same is true for the Aussie dollar.

Now, this all assumes the Aussie is overvalued and will probably fall. Could it rise instead? Absolutely.

No one can predict with any sustainable accuracy how a free-floating currency exchange rate will move. But the balance of probabilities suggests there is a higher chance of a medium term decline in the dollar rather than an increase.

There are a number of reasons for this.

First, according to a theory called Purchasing Power Parity (PPP), exchange rates between currencies will approximately tend towards the levels that result in roughly equivalent levels of purchasing power of goods and services.

Said another way, take the values of an equivalent good or service in two countries and divide them by each other. This is the PPP exchange rate.

According to the Organisation for Economic Co-operation and Development, on this basis, the Aussie dollar is around 14 per cent overvalued against its US counterpart. It means US70c is about the right level for the Aussie dollar, according to this method.

Another way to assess the future direction of the Aussie dollar is to consider the trajectory of Australian interest rates versus those of foreign interest rates.

Projecting the direction of interest rates is not much

easier than projecting currencies.

That aside, if one were to believe that foreign economies were set to improve while the Australian economy could face some headwinds, then a declining Aussie dollar would be a sensible conclusion.

The 2017 rally in the Aussie dollar has been viewed by many as a negative.

For exporters, this is certainly the case. But households are, in effect, net importers and a stronger Aussie dollar represents an effective pay rise.

The catch? Use it before you potentially lose it.

ANDREW MACKEN IS MONTGOMERY GLOBAL CHIEF INVESTMENT OFFICER