Failing to tap experts

BUSINESS OWNER
CLAIRE HEANEY

VICTORIAN businesses have been urged to get back to school and collaborate with educational institutions to lift their bottom lines.

New research by the Victorian Chamber of Commerce and Industry says collaboration between industry and research institutions, such as universities, is on the wane.

Of 334 businesses who took part in a survey, only 23 per cent said they had collaborated with such institutions over the past five years — and the proportion is falling.

Victorian Chamber chief Mark Stone said the findings in the latest Business Trends and Prospects survey confirmed Organisation for Economic Co-operation and Development statistics that rank Australia bottom for research.

"If Victorian businesses are to remain competitive, more business research collaboration is needed," Mr Stone said.

"Many other countries do collaboration much better than us and their economies benefit."

The report says collaboration can more than triple productivity growth through assisting commercialisation, training and sponsorship.

The survey found businesses in regional Victoria had even lower levels of engagement with research institutions, with 14 per cent of respondents saying they had collaborated over the past five compared with 29 per cent of their Melbourne-based peers.

Sectors leading the charge were education, health and community services, in which half the businesses said they had collaborated, while businesses in retail and wholesale sectors had the lowest levels of collaboration at 12 per cent.

The Victorian Chamber report outlined various levels of collaboration, from placing interns and recruiting graduates to sponsoring awards or endowments and co-investing in new products and services.

The greatest motivator for collaboration, for 52 per cent of respondents, was to open the business up to a pool of fresh and talented graduates.

Small businesses highlighted access to specialised scientific equipment and infrastructure as their prime reason. However, the report noted more than half of businesses were uncertain that they would derive any benefits.

About one in every five said they weren't sure how to go about collaborating.

"We want businesses to understand that there are many ways, big and small, to collaborate with the research sector," Mr Stone said.

"They can host interns, co-invest on new products or partner on a research project in their own business. Possibilities are vast and it all starts with a simple conversation."

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REAL FEEL FOR THE FUTURE

CLAIRE HEANEY

WHEN friends Nick Strongman and Tom Bennison were looking to rebadge their building project management business, they wanted the name to reflect their belief that their work had to have a purpose and add value.

They settled on Sensum, which means "feeling" in Latin. The duo, who met at an earlier workplace, had inherited the name BHA Project Management but thought it was a unwieldy.

"A lot of our projects have feeling and they tend to shape better futures," Mr Strongman said.

The pair started the business when the principal of an architectural firm they were working for urged them to tender for a project.

"He had a current project with the Department of Education and he was going to retire and did not want to continue on with that and recommended that we tender for it by ourselves," he said.

Mr Bennison said the chance to strike out by themselves came a bit earlier than they expected but they "were fortunate and happy to pursue the opportunity".

Having secured its second large-scale contract, Cremorne-based Sensum has arrived as a serious player in the delivery of offsite construction projects for school, housing and community use. Permanent modular buildings for schools are built offsite and shifted to the schools, meaning interruption to the school day is a matter of weeks instead of months.

Among the 3000 projects Sensum has helped deliver since 2015 are a triple-storey relocatable for Carlton Gardens Primary School and a replacement library building for Altona Primary School.

The modular buildings have a comparable lifespan to bricks-and-mortar structures.

Sensum is the Victorian winner in the Telstra Business Awards category for "emerging and energised" businesses.

The award recognises businesses that have been in operation for up to three years but are already making an impact.

Sensum will compete at the national Telstra Business Awards in October.

telstrabusinessawards.com

Tom Bennison and Nick Strongman's Cremorne-based Sensum Group is a Telstra Business Awards national finalist.

CARSALES PURRING

TECHNOLOGY

SHARES in Carsales have surged to a record high after the online classifieds group posted a leap in full-year profit as its overseas expansion strategy delivered an earnings boost.

The Melbourne-based group has posted a 69 per cent jump in full-year profit to $185 million for the year to June, while revenue rose 19 per cent to $444 million with help from takeovers in South Korea and Mexico. The result drove Carsales shares up 10.9 per cent to close at $16.25.

"We are delivering on our international growth strategy with the acquisition of the remaining stakes in SK Encar, our South Korean business, and Soloautos, our Mexican businesses, where there is significant long-term growth potential," chief executive Cameron McIntyre said.

A2's giant baby steps

DAIRY

A2 Milk has more than doubled its full-year profit thanks to what it says is continued strong demand for its baby formula in Australia and China.

The New Zealand-based company has posted a net profit of $NZ195.7 million ($178 million) for the year to June — up 116 per cent on the previous year.

A2, which is listed there and in Australia, said revenue jumped 68 per cent to $NZ922.7 million, led by the continued success of its baby formula, A2 Platinum.

Sales of A2 Platinum rose 84 per cent to $NZ724.2 million, with the baby formula's market share growing to 32 per cent in Australia and 5.1 per cent in China, the group said.

New managing director Jayne Hrdlicka described the year as "transformative" for the company. A2 Milk shares spiked 5.1 per cent yesterday to close at $10.60.

Kogan's results seem to glow but shares tell another tale

THE SHORT CUT
with ROGER MONTGOMERY

IN March, we highlighted the dangers of investing in Kogan, warning the company was trading at 100 times last year's earnings.

And we highlighted the October 2017 and February 2018 ASX announcements of directors selling shares.

Today the share price sits at $6.26, down 36 per cent from its high of $9.85 in March.

Kogan's result last week was a relatively strong one, with the company announcing revenue of $412.3 million, up 42.4 per cent, and operating profit up 108 per cent on 2017, the latter having doubled three years in a row.

Measured by earnings before interest, tax, depreciation and amortisation, the $26 million reported beat analysts estimates. There were, however, some currency-related gains, and stripping those out revealed an operating profit only marginally ahead of expectations. The company's net profit grew 87.7 per cent from $8.1 million to $15.2 million when adjusted for the amortisation of Dick Smith Assets, which have now been fully amortised.

Cash flow was strong, with operating cash flow before capital expenditure of $31.7 million, producing an operating cash conversion ratio of 121.9 per cent. Also strong was the growth in active customers of 433,000 (up 45.3 per cent) to 1.39 million at June's end.

Another highlight was the growth in mobile and internet services. Kogan Mobile produced a gross profit contribution of $12 million, equating to year-on-year growth of 233.3 per cent.

New business lines Kogan Insurance, Kogan Pet & Kogan Life, along with Kogan Health, fall under the Kogan Insurance division.

When combined with Kogan Internet, these new lines achieved gross profit of $800,000. Of that number, $600,000 was generated by Kogan Internet.

The challenge with the above numbers is the implication that, while management expect significant growth in 2019, the insurance division contributed nothing in the second half of the year versus the first half.

Also, of great interest is the slowing turnover of stock. In the first half of 2018, 93 per cent of the inventory was less than six months old. In the second half of the year, this number had fallen to 80 per cent of the stock being less than 120 days old. In other words, the proportion of stock over 120 days old has grown from 7 per cent to 20 per cent. Stock ages when it doesn't sell.

That leads me to wonder aloud about the "active" customer base growth. Could the ageing stock be a function of the fact the same stuff is being sold to the same people? Could it be that the active customers include new mobile and internet customers who don't shop with Kogan or don't need the other merchandise Kogan sells?

In a small market like Australia, it is not hard to hit a ceiling in terms of new customers. The consequence is known as churn, which equals slowing growth rates.

Unsurprisingly, some analysts are now downgrading their price targets. And let's not forget Amazon hasn't really flexed its muscles yet. The foreshadowed share price crashing from recent highs could be a rare opportunity to buy a fast growing, capital light business at a relatively cheap price.

It could also represent a pause on the way to maturity, or thanks to Amazon, oblivion.

Perhaps we should keep an eye out for directors selling or buying. The shares still trade on 43 times 2018 earnings. If profits double next year, the shares will still be a relatively expensive 21.5 times forward earnings. They are cheaper than they were but we don't think they're cheap enough.

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