

# Fat and happy now, a failure tomorrow

Phillip Slater

**M**any Australian businesses are experiencing unprecedented prosperity and have been for some years. Profits are at record highs, as are share prices. This has been great for investors, business owners and managers alike, but are the companies that have become "fat and happy" in this period of extended prosperity also becoming lazy?

The emergence of China, the growth in resources, rising domestic asset values, easier access to credit and the associated consumer purchasing power have all led to a general feeling of confidence and wellbeing.

It is at least 15 years since we last had to mention the R word. As an economy it is that long since we have had to endure any prolonged periods of falling demand and economic tightening. Despite low inflation, businesses can set next year's budget higher than last year's with a feeling of confidence. Surely sales and share prices always go up, don't they?

This would be the reality for many managers today, especially those in their mid-30s and younger who have never worked through a period of economic downturn. There is talk of the business cycle, but to many this will just seem like theory. However, there is a reason it is called a cycle.

Rather than sit back and just enjoy the ride, now is the time for businesses to be thinking seriously about their cost structures and working capital investment. When the cycle turns, as it inevitably will, they do not want to be caught out. By ignoring these issues right now many businesses may be setting themselves up for a bigger fall than necessary.

For instance, costs are allowed to creep in and inefficiency prospers because rising prices and volumes have made achieving budget easy. Or bloated inventories may be masked by record sales, especially in large infrastructure-based businesses that hold significant investments in indirect inventory such as maintenance spares. These inventories tie up millions of dollars in cash that could well be put to better use. At more than one mining company I have been told that working capital is of no interest, the focus is to "dig it up and sell it".

The desire to maximise revenue and make hay while the sun shines is understandable. However, during this period of prosperity it is easy to put on organisational fat that is difficult to lose during the downswing because the business is used to operating in a manner consistent with the good times. This fat becomes a burden that exaggerates the effect of the downswing.

Surely a better choice is to take action while the pressure is off? Not at the expense of today's results, but to enhance them. Not just to prepare now for what will surely come, but to improve today's return on investment. By making smarter choices today managers can help ensure the capability of their businesses for better performance in both good times and bad. The alternative might just be that today's "fat and happy" will be tomorrow's failure.

■ *Phillip Slater is an author and principal of Initiate Action, a Melbourne-based management consultancy.*