

What Can Business Owners Do About Rising Costs?

It's no surprise: U.S. consumers and business owners are concerned about rising costs.

The U.S. Chamber of Commerce recently reported that over half of small businesses named inflation as their biggest challenge, noting its negative impact on their ability to hire, invest and grow.

What's gotten us here? There's plenty of blame to go around. Tight labor markets, supply chain disruptions, regulatory burdens, monetary policies and geopolitical conflicts can all contribute to increased input costs. And while there's nothing you can do about these far-reaching factors, there are some steps you can take to keep your business in peak fighting form.

Here are ten action items for inflation-proofing your enterprise:

1. Reduce Your Expenses

The base price of goods and services may be out of your control, but you can do a lot to cut spending. Begin by negotiating with your suppliers – ask about discounts for preorders, bulk orders and early payments. Then, scrutinize recurring charges – like that software suite you're not using.

2. Raise Your Prices

You might view this as a last resort, but done judiciously, it doesn't have to drain your customers' goodwill. If possible, start with core products with greater inelasticity, so decreased sales do not cancel out the price increase. If you need to raise prices across the board, try to do it in small increments.

3. Implement Smart Shrinkflation

In the simplest terms, shrinkflation means selling less for the same price – and sometimes, it's a smart move. If you usually sell 16-ounce bags of coffee beans for \$20, reducing the weight to 12 ounces and keeping the same unit price would boost your revenue by 33%. But transparency is key – it's a sneaky tactic if your packaging hides the change.

4. Restock Your Storeroom

In the inflation report referenced above, a majority of business owners believed that the worst price hikes were still to come. If you're among them, it might make sense to bulk-buy materials and inventory before prices go up even more. Just make sure to prioritize items with low holding costs and high durability.

5. Diversify Revenue Streams

When you can't keep expenses down, try boosting your earnings with lower-overhead income generators. Could you offer virtual workshops, rent out unused space, host affiliate marketing or license your brand? The trick is to establish multiple inflows without spreading yourself too thin.

6. Reorganize Your Finances

If your day-to-day expenses are on the rise, think about freeing up your cash flow so you don't get caught short. Consider getting a secured, fixed-rate loan to boost your working capital or refinance higher-interest debt. Or look into accounts receivable financing to quickly convert invoices to cash.

7. Automate Key Processes

You can leverage recent advancements in artificial intelligence (AI) to deliver substantial savings on operations. AI can assist you with an extensive range of tasks, from customer service to optimizing the layout of your facility. Plus, low-cost merchant services solutions can make transactions smoother.

8. Boost Your Productivity

Given the climbing cost of labor and professional services, time is at a premium – so look for ways to save it. Ensure that your employees are trained – and cross-trained – and have the right tools for the job. Then, identify outsourceable tasks to avoid inflating your payroll and take advantage of economies of scale.

9. Retain Your Employees

From the Great Recession to the Great Resignation and beyond, the workforce has experienced continual upheavals. The cost of turnover can exceed a year's pay – so it's worth investing in your team's engagement and cohesion. Offer development opportunities so employees don't have to leave to grow.

10. Hedge Against Inflation

When it comes to your business's investments, a diversified portfolio can help you defend against devaluation. While all investments involve risk, historically, assets like stocks and real estate have outpaced inflation. TIPS (Treasury Inflation-Protected Securities) can also help preserve purchasing power.

Plan for Success

For more individualized guidance on mitigating the impact of rising costs, consult an S&T team member today!