

## MANAGING YOUR BUSINESS THROUGH THE CHALLENGES OF INFLATION

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Despite all the challenges associated with the pandemic, 2021 was a record year for equity investment in NI's smaller businesses. The NI economy performed solidly, and continued to do so in the first half of 2022

Even in the last month, there have been a number of success stories, with local companies, such as LCC Group, Graham, and McAleer & Rushe all reported to have generated healthy profits. But there are worldwide factors driving up the cost of living and businesses are beginning to feel the pinch.

- The war in Ukraine has driven up the cost of crude oil, effecting energy bills, petrol and diesel prices.
- There are goods shortages as manufacturers in places such as Asia, many of which faced shutdowns due to Covid restrictions and have struggled to keep up with demand since then.
- Many people quit the workforce, retired, or changed jobs during and after the pandemic. Across many sectors, firms are having problems recruiting staff such as drivers, food processors and restaurant waiters. As a result, companies are having to put up wages and provide greater incentives to attract and retain staff.

All these factors have driven the inflationary pressures and these extra costs are being passed on to businesses and consumers.

Heaped on top of that is the more localised pressures NI businesses face, including the uncertainties associated with the NI protocol, the collapse of Stormont and the subsequent inability to agree a three-year budget.

In response to rising inflation, the Bank of England has raised interest rates by 0.5 percentage points to 1.75%, the biggest increase in 27 years, with a prediction that inflation will hit 13% by the end of the year.

Other local headlines were equally as grim last week

*"Half of consumers to rein in big ticket item spending, says Danske Bank report"*

*"Workload expectations diminish amid lack of big infrastructure projects"*

*"New car sales down again as cash-strapped buyers opt for second-hand"*

There is no doubt some businesses will face challenging times ahead, for what is forecast to be a year-long recession, according to the Bank of England.

Therefore, we have outlined below some actions businesses can take now to tackle the twin effects of inflation and recession:

- Cash may be a questionable investment during inflation, as its value decreases due to its diminishing buying power as prices go up. However, cash does become a critical asset for small businesses facing inflationary pressures. Cash reserves can serve as a buffer, as costs often increase faster than a business owner can raise prices. "Cash is King," even during inflation, so it is important to build and hold appropriate cash reserves to buy time until you are able to pass along higher prices to customers if required.

- Look at growing and protecting profits, not just your sales. Taking stock of your product mix, pricing structure and really knowing the finer detail behind your profit margins will help you to understand how inflation will affect your ability to break even and/or hit certain profit targets. It may also influence decisions to focus on higher margin products and services to protect bottom line profitability.
- You may have to consider price hikes to stay in alignment with rising costs in the market. Before increasing prices, analyse the competition and let their prices be one of your guiding points. You will also need to be upfront with customers about the price increases and why they are necessary. Transparency will help customers adapt to the new situation, and it helps them prepare for higher costs without compromising their loyalty to the business.
- Managing your working capital is always crucial but particularly so at times of rising costs. Review credit terms as cash flow comes under pressure, and maintain an awareness of the increasing base rate of interest and its potential impact on your business.
- Ensure that your debt collection is efficient and take steps to minimise any long-standing debt. Don't let customers manage their cash-flow challenges at your expense.
- In terms of rising prices, you can also save costs by pricing around other suppliers with a view to potentially diversifying your supply chain.
- Eventually, inflation will begin to create wage and salary pressures. Smaller businesses can see profits getting pinched as payrolls go up. When this happens, focus on the efficiency and productivity of your work force.

Our advice is to take a 'root and branch' approach – review, plan, communicate and act fast.

As ever, if you wish to discuss, please contact a member of our team and we will be happy to discuss further.

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