

The small business owner's guide to inflation

Overcoming rising costs to protect your profits



How successfully are you navigating inflation?

Inflation has become a persistent challenge, with costs surging across supply chains, wages rising, and consumers growing cautious about spending.

This guide provides practical strategies and real-world examples to help you maintain profitability during these challenging times, including:

- Data behind the key drivers of inflation
- Strategies to combat inflation's impact
- The “Do this, not that” quick-tip table—inflation edition



Understanding inflation’s impact

Inflation touches every corner of your business, from raw materials to payroll. Successfully navigating it starts with understanding what’s driving costs higher:

1

Disrupted supply chains

2

Escalating labor expenses

3

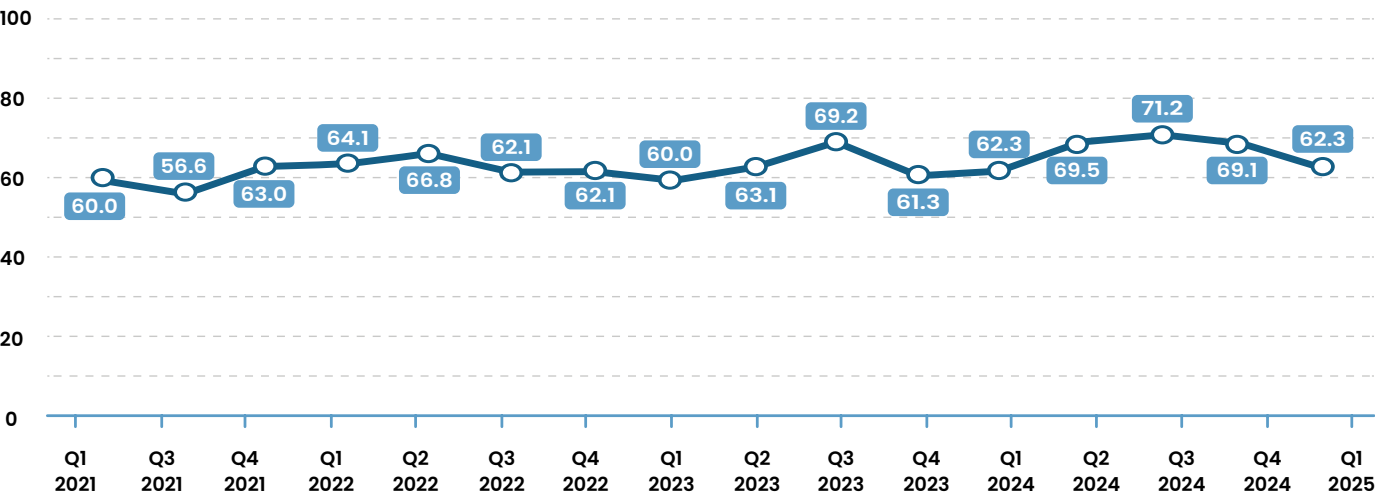
Soaring energy bills

4

Widespread material shortages

The Q1 2025 MetLife & U.S. Chamber of Commerce Small Business Index shows just how much pressure these factors are creating quarter after quarter:

Small Business Index Score Q2 2021 - Q1 2025



What’s keeping small businesses up at night?

The Small Business Index dropped from 69.1 in Q4 2024 to 62.3 in Q1 2025—a clear signal that confidence is wavering. Yet the data also reveals the resilience small businesses are known for. Here’s what else we’re seeing:

- 1. 58% of small businesses cite inflation as their top concern—a record high.
- 2. 35% are worried about revenue, up 10 points from Q4 2024.
- 3. 66% feel comfortable with their cash flow, down only seven points from Q4 2024.
- 4. 63% are confident in their business’s health, down three points from Q4 2024.

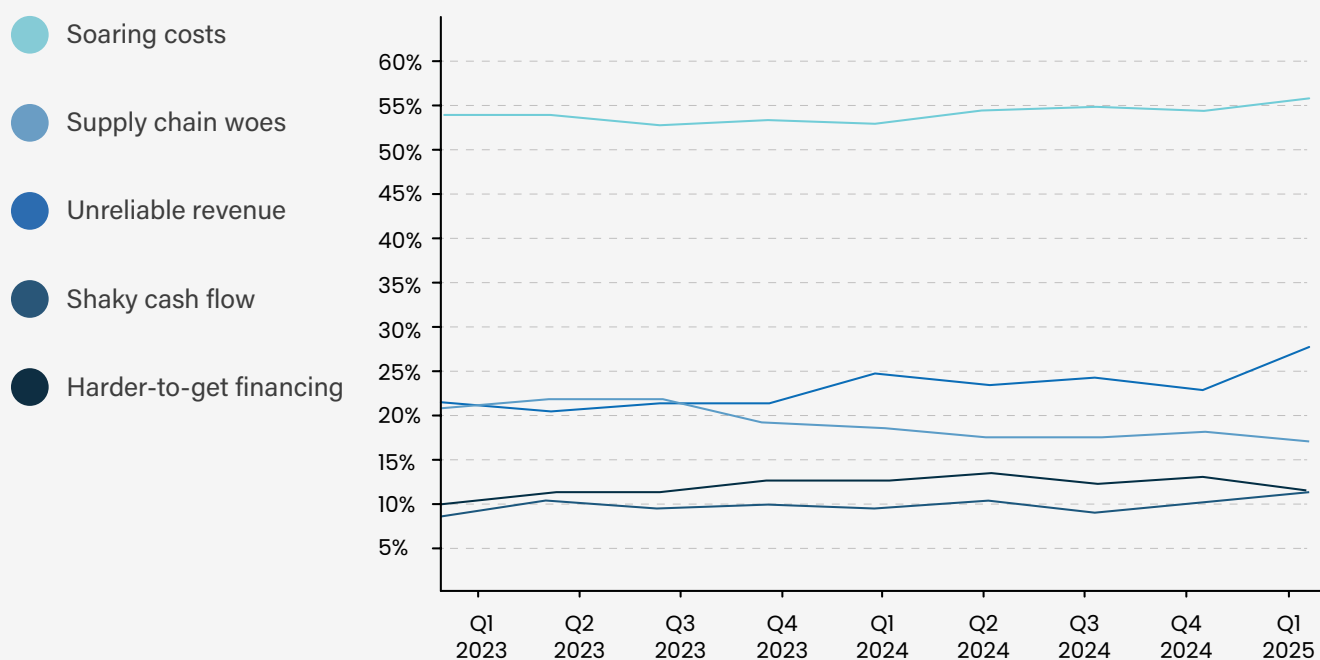
The numbers paint a challenging picture, but they also highlight an opportunity. By taking proactive steps now—before inflation forces your hand—you can protect your margins, strengthen your cash position, and avoid the costly scramble that comes with reactive decision-making. The businesses that thrive during inflationary periods are those that act early and strategically.

Understanding inflation's impact (continued)

Now, let's get specific about what's really keeping business owners awake at night. While inflation affects businesses in countless ways, our research shows five particular pain points are causing the most stress and uncertainty right now. Understanding these challenges is the first step toward solving them—so let's break down exactly what you're up against:

1. **Soaring costs:** Inflation is driving up prices for supplies, services, and labor, shrinking margins across the board.
2. **Unreliable revenue:** With consumers tightening their belts, predicting income has become a guessing game.
3. **Harder-to-get financing:** Higher interest rates and tougher lending standards are making growth capital hard to secure.
4. **Supply chain woes:** Disruptions and tariffs are pushing costs higher while creating inventory chaos.
5. **Shaky cash flow:** With costs up and income down, business owners face serious cash flow concerns.

Top 5 biggest challenges facing small business owners



It's no wonder these mounting challenges are causing sleepless nights. Inflation expectations are a major economic red flag that can send stress levels through the roof. But there's hope. By taking proactive steps to address inflation's impacts, you can boost confidence and gain clarity. Keep reading for strategies to stay resilient and competitive.

6 strategies to combat inflation's impact

While inflation creates significant challenges for businesses, there are proven strategies to minimize its impact and protect your bottom line. By taking a proactive approach across multiple areas of your operations, you can build resilience against rising costs and economic uncertainty. Here are six practical ways to combat inflation's effects on your business:



1. Implement strategic price adjustments

- Communicate increases transparently
- Offer tiered options at different price points

Example: A retailer facing 15% fabric cost increases kept sales steady by introducing budget-friendly options alongside a premium line.



2. Maximize supply chain management

- Negotiate better vendor terms
- Explore local sourcing options
- Optimize inventory with bulk purchases

Example: When faced with rising imported cheese costs, a family-owned Italian restaurant saved 12% annually by switching to a domestic cheese supplier and reducing food waste.



3. Optimize operational costs

- Conduct an expense audit
- Trim unnecessary costs without sacrificing efficiency

Example: A marketing agency cut expenses by 20% by consolidating underutilized software subscriptions.



4. Evaluate employee compensation

- Offer performance-based raises
- Provide non-monetary benefits
- Allow flexible work arrangements

Example: A tech startup improved retention without increasing payroll costs through remote work, wellness perks, and training.



5. Prioritize cash flow management

- Shorten receivables cycles
- Negotiate better credit terms
- Build emergency reserves

Example: A landscaping business ensured steady cash flow despite seasonal fluctuations with stricter invoicing and early payment discounts.



6. Leverage technology and innovation

- Use AI for inventory management
- Automate accounting and operations

Example: A bakery improved profitability by using AI to monitor ingredient demand, reduce waste, and optimize ordering.

These strategies provide a strong foundation, but success often comes down to making the right choices in the moment.

Next up, our “Do this, not that” quick-tip table to help you navigate inflationary periods like a pro. This handy guide shows you exactly which moves to make (and which to avoid) when costs start climbing.



Do this, not that—inflation edition

Get an at-a-glance comparison of smart moves vs. common mistakes businesses make during inflationary periods—covering everything from inventory and pricing to technology and workforce investments.

Do this	Not that
Optimize inventory management Use data analytics to track demand and reduce excess stock.	Ignore inventory costs Overstocking or understocking can lead to financial losses.
Strengthen supplier relations Negotiate bulk discounts and long-term agreements.	Stick to one supplier blindly Lack of flexibility can result in higher costs.
Invest in technology Automate operations to reduce labor costs and improve efficiency.	Resist digital transformation Manual processes increase expenses over time.
Adjust pricing strategically Use tiered pricing or value-added offers.	Drastically increase prices Sudden hikes alienate customers.
Diversify revenue streams Explore new product lines or service offerings.	Rely on one income source Limited flexibility in economic downturns.
Enhance loyalty programs Reward repeat customers to encourage spending.	Ignore customer retention Losing loyal customers increases marketing costs.
Monitor cash flow closely Regularly review financial statements and adjust spending.	Overspend without budgeting Poor financial planning leads to instability.
Cut costs strategically Reduce unnecessary expenses while maintaining quality.	Sacrifice quality for cost savings Low-quality goods/services harm reputation.
Stay informed on market trends Adjust business strategies based on economic shifts.	Ignore economic indicators Operating blindly leads to costly mistakes.
Secure flexible financing Explore low-interest loans, grants, or credit lines.	Rely only on emergency funds Limited financial security can hinder growth.
Invest in employees Upskill your workforce to increase efficiency and morale.	Ignore workforce development Losing skilled employees increases hiring costs.

Mitigating inflation starts now

While inflation presents undeniable challenges, the most important thing is to be proactive. Implementing the strategies outlined here can help you minimize negative impacts.

And you don't have to go it alone. Our team is ready to help you assess your unique situation and implement the most effective tactics for your continued growth and profitability.

For a thorough review of your finances and a customized inflation battle plan, schedule time with us using the get in touch button on our website. Together, we'll help your business thrive in any economic climate.

Get in touch to get started.

