4 ways small businesses can tackle inflation

Strategies that can help your business stay strong during inflationary times

When good news isn't good for your business

We're happy to see you here, digging into another educational resource—this one developed to help you battle persistent inflation and keep your business going strong.

Sometimes, good news isn't good news for everyone.

Let's suppose for a moment that unemployment is historically low. The economy is performing unexpectedly well. Fears of a recession have largely faded.

Good news, right? Well, for your small business, not entirely.

Avoiding a recession is generally positive for the economy as a whole and for small businesses in particular. But low unemployment also means the labor market is tight, and good employees are hard to find—and keep. It also means consumer spending will likely keep the economy humming. A healthy economy would be good news, except for one factor: inflation.

With consumers continuing to spend at a surprisingly high rate, prices likely wouldn't go down anytime soon. Neither, in all likelihood, would interest rates, which the Federal Reserve keeps relatively elevated in times like these to fight inflation.

That means procuring whatever resources your business uses, be they raw materials or professional services, wouldn't get any cheaper for the foreseeable future. And inflation would likely be a fact of life for your business for months (and possibly years) to come.

So...why is the inflation part of the picture so persistent? Well, as we mentioned earlier, when the unemployment rate remains historically low, it generally leads to higher wages for workers. And higher wages drive consumer spending—even when prices are already high. The result? A strong economy, sure. But also, persistent inflation. For small business owners, *that's* the not-so-good news.

Luckily, small business owners are an optimistic breed, **showing optimism even in the face of record inflation**. That's why you need to know *how* to deal with inflation. There's a lot of advice online about what you can do—so much advice, in fact, that it can be overwhelming.

That's why this eBook will boil it all down to a few essentials for you. Let's get started!

How your small business can manage inflation

In our (not-so-imaginary) inflationary world, your customers are spending, which means you're bringing in revenue. But inflation can still hit hard. Employees are likely to demand higher starting salaries, bigger raises and bonuses, and better benefits. Loans are expensive due to high interest rates. The prices of the resources you need to run your business have gone up—as they have for the partners in your supply chain.

To help your small business cope with these factors, here are four broad strategies for managing your business during periods of inflation:

1. Make your business more efficient with automation and outsourcing

How much manual work do you and your employees do? And how much of it can you automate? Those are the first questions you should ask yourself when you start to tackle inflation. This doesn't mean you should have robots instead of people serving diners at a restaurant. That's an option that's likely to be both expensive and unpopular with the clientele.

Think about the less obvious analog work you do. Do you keep financial records on paper? If you use accounting software for your business, what kind do you use? Spreadsheets? QuickBooks®? Do you share files via email? Do you spend time maintaining your own server and updating applications? The less manual work you require, the more your employees can focus on other aspects of your business. You might even be able to hire fewer employees.

If you outsource elements of your IT operation, you can run your business without needing a dedicated IT employee or even tasking a non-expert employee with managing technology. Consider software that automatically imports data from spreadsheets into applications such as QuickBooks, for instance. It can save you hours of manual data entry as well as eliminate errors.

Or consider using a cloud provider who can securely store your data and applications, so you don't have to worry about an in-house server. The provider handles maintenance and updates while you run your business. Plus, in the cloud, you'll have a safe online environment for storing or sharing your data with customers and vendors. Bonus: You also won't have to rely as much on email, which can be notoriously unsafe.

Turning IT over to experts protects your data in a way you almost assuredly can't on your own. But it also gives you a simple budget line item for technology expenses, since a cloud provider will charge a set monthly fee for services. Everything is predictable, which is helpful at a time when many of your other costs are likely to rise unpredictably. Plus, outsourcing means putting less pressure on employees, helping them escape mundane manual tasks and perhaps even spending less money on hiring.

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2. Consider investing in stocks and savings accounts

This might seem a bit counterintuitive, and, yes, playing the stock market is always risky. But think of it this way: If you have cash just sitting around, it's always losing value in a period of inflation. What costs $100 today might cost $125 in a few months. Your savings don't grow, but your costs do. You're effectively losing money.

One way to grow the stock of money you have is to invest. With the right guidance, investments in stocks can grow your money so that the value of your unused funds increases. Prudence, of course, is important since the stock market can be volatile. Don't put all your savings into stocks—and definitely not into just one or two stocks.

But do consider an investment strategy that favors short-term growth, if possible. You're trying to maximize the value of your cash reserves during a period of inflation, not save for retirement. Your window for returns should be months, not years and certainly not decades. Be cautious, but don't be afraid to be more aggressive.

There's a lot more to investing, of course, than playing the stock market. When interest rates are high, that's the time to consider putting money into an interest-bearing savings or money market account. Because rates go up and down, you'd want to time your investment carefully.

Many accounts require a minimum investment period when you can't take your money out without paying taxes, a fee or both. You might need to commit to two or more years. But keep in mind that when inflation starts to relent a bit, the Fed wouldn't be likely to raise rates as drastically. So, to combat inflation, a good time to lock in a high rate for your business savings is when rates are still relatively high.

3. Use your financial metrics to make good decisions

This seems like an obvious tip, and it is. But you might not be using your metrics as wisely as you could. The fact is that most business owners are not financial experts. That's why consulting help for investing is so important. However, when it comes to making data-driven decisions, you can do a lot of that yourself.

The most efficient companies of all sizes are data-driven. To help you join the ranks, there are a number of data analytics applications that can automatically take your most important business metrics and put them into a comprehensible format. These apps can reveal financial information about revenue drivers and profit margins you might have ignored or not studied carefully enough. They take the guesswork out of strategy by relying on existing numbers and forecasts.

In an inflationary period, nailing down your financials and learning where you can cut costs is critical. Data analytics apps help collect and present your metrics and give you real-time insights into the data. From there, you can proceed on your own or work with a trusted advisor to get recommendations for running your business more efficiently.

You're ultimately in control of your own business, and you know what you need to do to succeed. But having a numbers-backed guide is helpful, and an app that collates your financial information for you could save you and your employees hours of tedious work. Again, automation is worth investigating.

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4. Create a culture your employees will love

The modern employee is not entirely coin-operated. Will people really take or stay at a job because of culture and other soft factors, even if they could make more money somewhere else? The results of a Glassdoor survey suggest that the answer is *yes*. In a list of seven factors that affect employee satisfaction, compensation and benefits came in dead last—behind work-life balance, senior leadership, career opportunities, and the top factor, culture and values.

The truth is that most people don't think about money when they go to work every day. They think about relationships with their coworkers and about the tasks they have in front of them. They operate on a feeling. Yes, of course money matters. Everyone has to survive financially. But most employees would rather enjoy their jobs than make more money and be miserable.

Culture is about more than just swag and pizza parties, though. In fact, those kinds of efforts can come off as pandering if they're not backed by a genuine commitment to employees. That means business owners need to treat employees with respect every day. They need to prioritize work-life balance. They need to give staffers real opportunities to advance and do more interesting work. And they need to show that they mean it when they say their company embraces values beyond generating revenue.

One way to help build a comfortable culture is to give employees the opportunity to do the jobs they want to do. Outsourcing IT and eliminating manual processes can help toward that goal. So can streamlining your operation so that employees don't have to work overtime if they don't want to. (And depending on how you compensate them, avoiding overtime can save you money, too.) Culture keeps employees happy and on your payroll, even if you can't always meet the salary a competitor might offer.

Don't let inflation sink your business

There are other tactics your business can use to fight the negative effects of inflation, such as raising prices judiciously or rethinking your product or service offerings to sell only your most reliable revenue generators. You could even consider taking out a small business loan if you're short on cash, but high interest rates can make that option unappealing.

When you focus on automation, metrics, investment and culture, you're using low-overhead tactics that can make your money go farther in a time when everything steadily costs more. Wise investments can grow your cash reserves. Outsourcing is one way to make costs more predictable and rid yourself of work you don't need or want to do.

But perhaps most of all, you just need to be wise and trustworthy. If you show your employees and your customers that your business is worth their loyalty, you'll have a better chance of surviving not only periods of inflation, but any other difficult times that come your way.

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Summing it all up

We hope this eBook will help you find ways for your small business to battle inflation. If you'd like an experienced guide to assist you in the financial areas of your business—someone who can provide personalized advice based on your specific business situation—and would like to work with a trusted advisor, we're available to help.

Just click the **GET IN TOUCH** button and complete the brief form or give us a call. We look forward to hearing from you!