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How to manage rising costs in your small business



With Australia's inflation rate sitting at 7.4 per cent in January 2023, business owners around the country are facing higher costs.

Raw materials, goods and services and energy costs are all going up.

So are wage bills, as employees look for pay rises to help them combat the soaring cost of living.

Some businesses may be able to pass on their cost increases to customers in full, but for others, doing so may result in sales dropping. Not doing so, however, can see your profit margins squeezed and your profitability decline.

It's a tricky time, but you may be able to do some things to help reduce the impact.

Shop around

Shopping around for better deals is one of them, according to dentist Frank Farrelly, owner of Darlinghurst Dental. He's had to raise the price of some of his products and services but is hopeful that ongoing expansion of the practice and careful management of outgoings will help him keep a lid on costs.

"We have just ended our most recent term for electricity and internet and are actively seeking to change suppliers if costs can be lowered," Farrelly says.

"Price rises have prompted many consumers to become more conscious of what they spend"

Bulk-buying power

While the prices of some consumables, such as gloves and latex, have doubled and even tripled since Covid-19, buying less often and in bulk allows Darlinghurst Dental to keep the per unit cost as low as possible. It's also a hedge against supply chain hiccups, which can result in higher prices when essential items like these are scarce or unavailable.

"Maintaining good relationships with suppliers is essential," Farrelly notes. "Holding off on payments can seem like a saving, but this may lead to suppliers requiring payment in advance or holding future deliveries until your account is clear."

Investing in sales and marketing

Price rises have prompted many consumers to become more conscious of what they spend, with 51 per cent of Australians identifying the rising cost of living as their most common cause of stress over three months, according to the NAB Australian Wellbeing Survey Q4, 2022. It means proactively promoting your offering has never been more important.

While marketing is often one of the first things to be cut back, it often shouldn't be as it's designed to create sales, business consultant Shannon Stone points out.

Instead, it can help to double down on your efforts to keep customers, new and old, coming through the door, she says.

Cover for your business in all sorts of times

While business owners can manage their costs in many ways, cutting back on insurance cover shouldn't be one of them. Having adequate cover in place can help your business bounce back from unavoidable damage, disruption and destruction.

If you've not reviewed your policies for a while, it may be a good time to consider whether they're appropriate for your current business needs. Contact your broker today to discuss your level of cover.

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