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How to help manage inflation in your small business



While inflation may have peaked, Australian businesses of all stripes are feeling the pinch, and there may be a long road ahead.

Wages, energy, raw materials and services have all become more expensive. So has the cost of servicing debt for small business owners who have borrowed to buy assets or expand their operations.

Consumers, meanwhile, are pulling in their belts as they struggle to contend with the cost-of-living crisis. Some are delaying non-essential purchases and businesses are starting to feel the effects of that slowing demand.

While turnover may be static or shrinking, many overheads, such as rent, utilities and wages, are fixed. As a result, profits are being squeezed.

Negotiating with suppliers

It's a tricky situation for business owners, but there are things you can do to help keep your costs as low as possible, according to Helen Barker, Licensed Financial Adviser and Founder of On Your Two Feet.

Revisiting your supplier arrangements is one of them. While some contracts may be locked in, other services and supplies can be renegotiated.

"Many businesses are pushing back by asking for better rates and it's working," Barker says. "If you don't challenge the quotes you receive, there won't be a reduction."

"This is a good opportunity to demonstrate what it means to be a great business that really cares about its customers"

Scanning for savings

E-commerce gifting business The Neighbours Cellar has done so, to good effect. After seeing stock and shipping costs increase by 10 and 15 per cent respectively in late 2022, owner James Emery went on a savings quest.

“We reviewed our whole product range and swapped suppliers where it made sense, switching from mailer bags to cardboard boxes to ship our products, for example,” Emery says.

The business has also saved money by increasing the size of its stock orders, but doing so can put pressure on cash flow, Emery notes.

Around half their business’ cost increases have been passed on to customers. They’ve been receptive to messaging on the subject thus far but it’s possible orders may start drying up as more consumers pull back on discretionary spending.

“Ultimately, we can only control how we operate as a business and we’ve tried to take a proactive approach to managing expenses while inflation remains high,” Emery says.

How to pass on costs fairly

Sharing the pain of higher costs with customers is unavoidable, if the increases are too large for your business to absorb, Barker says.

You’ll stand a better chance of retaining customers’ trust and custom if you communicate with them honestly before raising your prices and resist the opportunity to boost your margins excessively, she believes.

“This is a good opportunity to demonstrate what it means to be a great business that really cares about its customers,” Barker says.

Cover when it counts

Inflation is also making insurance more expensive. The cost of recovering from an adverse incident is rising and those increases may be reflected in your premium. But while cutting back your cover may deliver a short-term saving, it could also mean your business is unable to bounce back from unavoidable damage, disruption and destruction.

If you’d like to discuss your level of cover and whether it’s appropriate for your business needs, contact your broker today.

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