

Dealing with Inflation: Advice From the Experts

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Around the globe, family businesses are grappling with the effects of inflation, now at its highest level in 40 years. A recent NFIB report noted that over 30% of business owners feel inflation is their most pressing business problem that they need to navigate. As the profit dollars of small businesses are stretched thin, 60% have been forced to increase their products' prices to pass on the higher costs of labor and supplies to customers. Inflation also creates strain for business leaders, as it distracts their attention from fundamental business practices towards solving issues with rising costs of goods sold, locating substitute supplies, and hiring and retaining staff. As a result of rising inflation, the Small Business Optimism Index shows rising pessimism among small business owners.

To help family businesses navigate issues arising from inflation, we asked several members of our acclaimed FamilyBusiness.org board for advice. Many of these board members lead family business centers and serve as consultants; thus, they know firsthand how inflation has affected the management of family businesses and some strategies they can use to weather the storm.

Keep Moving Forward

"Inflation and everything that comes with it creates a lot of uncertainty and fear. But, you should not let fear drive your decisions. Instead, stick with your values and remember past challenges that your family has successfully weathered together. It will provide hope and optimism, which tend to be far more meaningful drivers of decisions." – *Torsten Pieper, Ph.D., University of North Carolina at Charlotte, and Editor-in-Chief of Journal of Family Business Strategy*

"Inflation increases spending for all businesses, family- and non-family-owned firms alike. All businesses also worry about the consequences of raising prices to cover increased costs. It is important to understand that during an inflationary cycle, the businesses first to raise prices often see a drop in sales. However, those that don't

raise their prices until it is too late can get into a cash crunch because by the time they need cash to finance their operations, interest rates have risen to be prohibitive. Thus, do not wait too long before implementing price hikes." – *Claudia Binz Astrachan, Ph.D., Advisor and Head of Governance at Generation6, Family & Business Program at Lucerne School of Business, and Witten Institute for Family Business*

"Inflation often has lagging, long-term effects. Hence, the strategy to wait and hope for the best does not seem to be appropriate. Sooner or later inflation will hit. Look at it as a crisis that should not be missed." – *Thomas Zellweger, Ph.D., Managing Director KMU-HSG and CFB-HSG, University of St. Gallen*

"Firms traditionally tend to deal with inflation by raising prices, reducing product costs, or accepting smaller margins. This traditional way of responding to inflation makes sense, but family businesses enjoy a level of family-centered visibility in the market, and a level of agility that their nonfamily counterparts typically don't have. They should draw on these distinctive traits and view inflation as a chance to seize opportunities rather than as a painful issue to address." – *Alfredo De Massis, Ph.D., Director of Centre for Family Business Management, Free University of Bozen-Bolzano*

Adjust Product Portfolio and Brand

"Consider repositioning the family brand. Oftentimes family businesses underprice their products and services. However, with the combined uncertainty surrounding inflation and customers' acceptance of increasing prices, family businesses have the opportunity to reposition their products and services in a higher price tier and adjust their marketing strategy. For example, as my research shows, family businesses can leverage their family's history to establish higher value associated with the brand." – *Alfredo De Massis, Ph.D., Director of Centre for Family Business Management,*

Free University of Bozen-Bolzano

“Look at the changing price/cost structure associated with inflation as an opportunity to assess the firm’s product portfolio. For example, customers may not be willing to accept a price increase for some products, even though it is necessary to maintain a profit. It may therefore be time to prune back the firm’s product offering by focusing on those products for which the firm has pricing power and is able to defend its margin.” – *Thomas Zellweger, Ph.D., Managing Director KMU-HSG and CFB-HSG, University of St. Gallen*

“To deal with inflation, family businesses can adjust their innovation strategy and product portfolio. Drawing on their typical flexibility and lower degree of formalization, family businesses can, for instance, introduce less-expensive alternatives or, paradoxically, introduce higher-end products that make the existing product line appear more affordable to current customers. Many family businesses should also consider moving their product innovation strategy closer to an “innovation through tradition” approach that allows them to do more with less, thereby allowing them to easily develop and introduce less-expensive alternatives.” – *Alfredo De Massis, Ph.D., Director of Centre for Family Business Management, Free University of Bozen-Bolzano*

Manage Your Money and Your Family

“Family businesses tend to be reluctant to take on debt, which is often advisable early in an inflationary cycle. Their reluctance to do so, however, often leads to a higher cost of capital down the road since the overall value of debt, as a percentage of total assets on the balance sheet, goes down during inflation, particularly if you increased prices to maintain profitability. – *Claudia Binz Astrachan, Ph.D., Advisor and Head of Governance at Generation6, Family & Business Program at Lucerne School of Business, and Witten Institute for Family Business*

“With inflation increasing, family members often feel stressed about their ability to maintain a sufficient income. As a result, conflicts might arise between active and non-active family shareholders, or between those who have an emotional attachment to the business and those for whom the business is merely a financial investment and source of revenue. Some family members may push for an increase in dividend

distributions to adjust for the inflation. However, this is likely to hinder the long-term investment outlook of the family business as well as the financing of ownership succession. Such effects can become detrimental to both family harmony and business continuity. Therefore, be careful when considering increasing dividend payouts during inflationary times.” – *Rania Labaki, Ph.D., Director of the Family Business Research Centre, EDHEC*

“Consider raising your debt ceiling now. One advantage of taking on debt early is that you’ll have the capital later on to purchase companies that fail to manage themselves properly during the inflation. Early movers will be in a good position to acquire these companies at a discount.” – *Claudia Binz Astrachan, Ph.D., Advisor and Head of Governance at Generation6, Family & Business Program at Lucerne School of Business, and Witten Institute for Family Business*

“Family business owners often make responsible business decisions. However, in moments of crisis, some become emotional and give in to the needs of loud and demanding family members. Higher inflation, for instance, often reduces organizational profitability. While it would be prudent to reinvest dwindling profits in higher-margin opportunities (e.g., innovation), some family owners increase dividend payouts instead. In doing so, they protect their family members’ lifestyles from inflation but weaken their businesses’ competitive position.” *Peter Jaskiewicz, Ph.D., Academic Director Family Enterprise Legacy Institute, University of Ottawa*

“Resist the temptation to maximize individual interests and needs, and instead aim to optimize the family business system as a whole. The impact of inflation can be handled more effectively when the family stands together and members support one another. Look at this as a time to reinforce family cohesion and the importance of the business to the family.” – *Torsten Pieper, Ph.D., University of North Carolina at Charlotte, and Editor-in-Chief of Journal of Family Business Strategy*

