

How Small Business Owners Can Navigate Inflation

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KEYWORDS: Finance, crisis management, Operations management.

Editor's note: This article is part of Lessons from Leaders, a Next Avenue initiative made possible by the Richard M. Schulze Family Foundation (<https://www.schulzefamilyfoundation.org/>) and EIX (<https://eiexchange.com/>), the Entrepreneur Innovation Exchange.

A recent [survey](https://www.newyorkfed.org/newsevents/news/research/2023/20230508) (<https://www.newyorkfed.org/newsevents/news/research/2023/20230508>) by the Federal Reserve Bank of New York found that American consumers expect the inflation rate to be 4.4% within the next 12 months and household spending to decline as consumers brace for a rocky road ahead — especially if Congress fails to raise the federal debt limit in a timely manner.

Businesses — especially those that sell directly or indirectly to consumers — undoubtedly see consumer pessimism and other signs of rising inflation with a certain degree of trepidation.

"Inflation is typically a leading indicator that a bumpy economy is on the horizon, and I believe all small businesses should start planning for that possibility today," says Dave Charest, director of small-business success at [Constant Contact](https://www.constantcontact.com/) (<https://www.constantcontact.com/>).

"We recently polled consumers," he adds, "and learned that in a recession, 85% of them would pull back on spending — particularly in convenience, lifestyle and entertainment categories."

Voices of Experience

We approached Charest and several other business experts to think like mentors, tap their deep wells of wisdom and offer practical advice to less-experienced colleagues on how to run a business during times of high inflation. These are their tips.

Develop the Right Mindset

Joe Camberato founded [National Business Capital](https://www.nationalbusinesscapital.com/) (<https://www.nationalbusinesscapital.com/>) in Hauppauge, New York, in 2007, right before the 2008 financial crisis. "Lending came to a complete halt as the economy found its footing, leaving me without a way to provide for my family after we bought a house and had a child," he remembers.

To say that he was nervous about what was around the corner would be an understatement, but Camberato says he was fortunate enough to speak with a colleague who put his situation in perspective. "He said, 'You're not dying, you don't have cancer and you're not in jail,'" Camberato recalls.

While challenges like inflation and supply chain issues can make it feel like the world is closing in, Camberato credits those words with changing his outlook, and says they provided the motivation to keep moving forward, one step at a time.

Review Your Prices and Fees

If your business relies on commodities or raw materials, he recommends re-evaluating your pricing model on a regular basis. "You might not want to raise prices to retain customers, but most are expecting it already," he says, "and if you're worried about how your customers will respond to a price hike, you can always ask them."

Whether you use a formal survey or talk with them casually, he says it's important to consider the opinions of your clients and patrons.

David Moore is the CEO of Blue Chip Mergers and Acquisitions in Charleston, South Carolina. He acknowledges that no one wants to contribute to inflation but says you may not have another viable option.

"As a small business owner, I've had to raise my rates



on my services, even though I didn't want to," he says. "Failing to recognize when you need to do this could cost you large sums of money for years to come."

Make Difficult Decisions

In fact, Moore says he recently raised his company's fee structure and began charging a retainer up front. "Marketing costs have increased dramatically as well as technology costs for software we have to use," he says.

Know Your Operating Costs

As a small business owner, you should have a clear picture of what it takes to operate your business. "For sourcing specifically, understand the cost structure of your products: how to break down the costs, what is the cost of the core product and packaging, what are the logistics costs, what are the raw material costs and labor costs, and so on," advises Min Yang, of Scottsdale, Arizona, an [Alibaba.com](https://www.alibaba.com/) executive. She is director of buyer growth and partnership at the China-based multinational technology company focused on e-commerce and technology.

If you have a cost map, you'll be in a better position to negotiate with suppliers and service providers and adjust accordingly. "I have spoken with customers who use Alibaba to find factories and buy from factories directly to get the best prices and cut off layers of middlemen," Yang says. If your purchase volume is high, she advises that it's definitely worth the effort.

Moore, of Blue Chip Mergers and Acquisitions, also advises that you carefully watch your operating cash. "How many days can you remain in business and solvent, with prices continuing to rise from your suppliers?" he asks.

While a rise in interest rates is expected to temper inflation, he says it could take some time to work. "I watch my cash on hand much more often than I have before," Moore says.

Make Your Business Shine

One key to staying solvent in a time of rapidly accelerating inflation is to make sure your customers

know your value.

Charest advises concentrating on what is most valuable to your customers and make it obvious how much value you bring to their lives. "Being proactive and honest in your communication will help ensure you earn their trust and remain a priority when times are tough and dollars are short," he says.

The Constant Contact executive also recommends leaning into your strengths. "As a small business," Charest says, "your superpowers are your connection to your community and the personalized attention you can offer customers — and no matter what the economy looks like, those are always great things to remind customers of."

Play to Your Strengths

Companies tend to cut marketing when times get tough, but Charest says some simple outreach efforts are still available. "An email newsletter or text message campaign can be a budget-friendly way to stay in touch with customers and communicate hours, new products, promotions and other content," he says.

If you share helpful, interesting and engaging content, he notes that marketing channels could be revenue drivers when other initiatives may be slower.

Build Your Own Branded Products

Yang says that some Alibaba customers have had success by building their own branded products. "With the concern of inflation, this is the way to go for retailers — having your own private-label brands, instead of being a reseller," she explains. "Designing your own products, owning your brands and finding your niche are strong defenses during inflation."

Consider Freelancers and Consultants

[Jeff Mains](https://jeffmains.com/) is a five-time entrepreneur, CEO of the Champion Leadership Group in Dallas and author of "Small Fish, Big Pond: Building a World-Class Business That Swims Circles Around Competitors." As a business owner, Mains says he's aware that inflation can be devastating to businesses. "Not only does this entail a decrease in income, but it

also means that each dollar you earn is worth less than it was the day before," he says.

In addition to reevaluating the company's product lineup and pricing strategy, he recommends considering ways to do more with fewer resources. "You may also want to think about employing [freelancers](https://www.nextavenue.org/freelancing-after-50/) (https://www.nextavenue.org/freelancing-after-50/) or consultants to undertake some of the hard work in your firm, given the current robustness of the gig economy." For companies trying to avoid the overhead costs associated with hiring more full-time workers, Mains says consultants and freelancers can be a viable alternative.

Thoroughly Review Your Insurance Policies

With established businesses, there may be a tendency to automatically renew policies without reviewing them. But Ron Wadley, owner and insurance agent at [Insurance for Texans Group, Inc](https://www.insurancefortexans.com/) (https://www.insurancefortexans.com/) ., in Colleyville, Texas, says this can lead to two potential problems.

"First, if the operations of the business have changed, you can wind up paying premiums for something that you can't make a claim for if your business has materially changed its scope of operations," he explains.

Keep Costs Down

And, just as you shop around for home and auto insurance, Wadley recommends shopping around for business coverage instead of assuming you're getting the best rate.

Don't Get Caught Up in the News

It's important to follow the news, so you can be an informed business owner. However, Camberato warns that while there's talk of a recession, no one truly knows what's going to happen.

"Everyone should prepare themselves for the possibility of a downturn, but more importantly, don't get caught up in the news," he says.

Facebook laid off 11,000 workers, he notes, "but does

that really matter to the typical small business?"

He advises business owners to be careful regarding the information used to make decisions. "At National," he says, "we're seeing more and more business owners stick to their growth plans despite the uncertainty."