

7 Actionable Tactics to Counter Inflationary Threat

February 7th, 2022

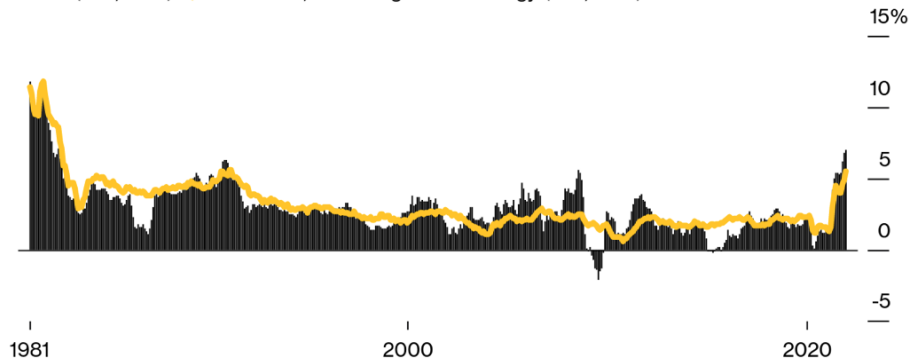
Challenge in Brief

Inflation has been on the rise over the past months, and economic data is now confirming the inflationary trend is impacting businesses, governments, and households worldwide. Astute privately held business leaders will consider strategic moves and tactical actions to counter the inflationary threat to their business health, cash flow and profitability. We polled 7 international senior coaches and asked, “*What guidance are you providing clients to counter the inflationary threat?*” and curated their responses below.

Hottest in Decades

U.S. headline inflation rate jumped in December by the most since 1982

■ CPI (YoY, NSA) / Core CPI, excluding food & energy (YoY, NSA)



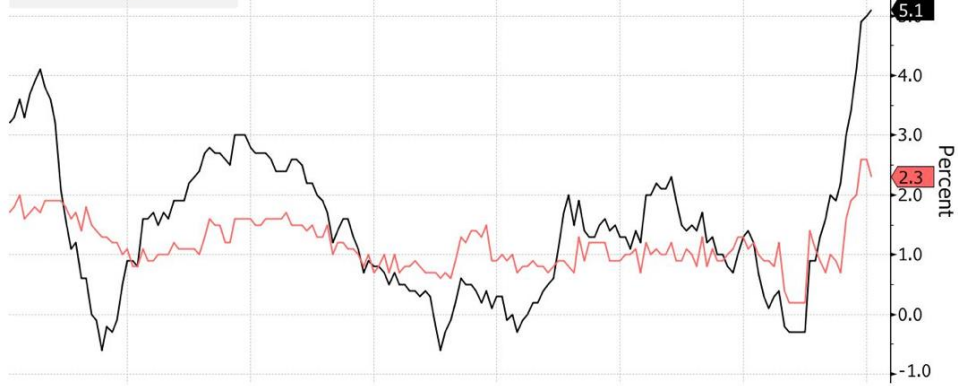
Source: Bureau of Labor Statistics, Bloomberg survey

Bloomberg

New Record

Euro-area inflation unexpectedly accelerated to 5.1% in January

■ Inflation rate ■ Core inflation



Source: Eurostat

Bloomberg

7 Practical Tactics to Counter Inflationary Threats

1. Activate Price Increases, based on sound reasoning.
 - Clients who deliver real value will always have pricing power, which will allow them to adjust prices. Understand, and improve, if necessary, the real value you provide to your customers. This begins with a clear understanding of the **Problem to Solve** for your **Core Customer**.
 - Be bold in making price increases. Actively, and fearlessly communicate with customers the reasons you are making these price increases.
 - Recalculate the company overhead factor every month to apply to product costs as a percentage (existing and new products). Raise prices, accordingly, including on the shelf in-stock items, to raise internal cash to mitigate increased costs.
2. Strengthen customer service, communication, and product/service differentiation.
 - Underscore the value you place in your customers. Show appreciation for the relationships, communicate more frequently and deeply into their organization.
 - Educate your Team on the necessities of delivering unrivaled service to customers, and reinforce the quality and differentiating aspects you offer, by providing team members with **Competitive Differentiation** “key messages” to share.
 - Study and seek to understand your customer’s market and competitive landscape more deeply; get in touch with their top three “Problems to solve” for their core customer(s). Offer value added ideas beyond your current services.
3. Execute scenario planning with your leadership team.
 - Focus on the 3 primary key variables:
 - Price increases (you control)
 - Cost (materials and/or services) increases (you do not control)
 - Labor costs (the market *and* you influence)
 - Keep track of specific supplier increases and monitor regularly.
 - Use the **Power of One** tool to run 3-5 possible scenarios and use them in decision making as market dynamics change. (Note: [Cash Flow Story](#) is an automated software tool incorporating the Power of One principles).
4. Focus on and improve key **Core Process** efficiencies on high expense processes.
 - Create (or update) and document the flow of your Service and Delivery Core Processes, so all key team members see them visually, together.
 - Strengthen your service and delivery models by leveraging technology to cut time, labor and cost out of the process.
 - Ensure each Core Process has an accountable leader to own, measure, improve and economize it.
5. Identify, track, and post key metrics on a weekly KPI list or dashboard.
 - Track and visually post financial key metrics (e.g., revenue, COGS, cash flow, net income, direct labor, materials costs, and Labor Efficiency Ratio (LER)).



- Embrace **Labor Efficiency Ratio (LER)** practical concepts from Simple Numbers. Calculate and optimize direct labor LER, Management LER, and Sales LER.
 - Focus and set salary caps for the company, and each department. Consider readjusting base/incentive compensation ratios and plans, while improving company culture for retention purposes.
6. Update (renegotiate) Vendor/Supplier agreements, tighten up expense control, Accounts Receivable reporting & relationships.
- Review and renegotiate vendor agreements, paying close attention to terms that create risk for your company. Research alternative sources, materials, and/or technologies to lower costs and increase competition for your business by providers.
 - Increase focus, frequency, and reporting around Accounts Receivable (A/R). Strengthen interpersonal relationships with customer A/P staff and CFO/Controller.
 - Execute the **Cash Conversion Cycle** exercise with front line supervisors and team members. Prioritize actions to increase cash flow.
7. Build more debt capacity and cash reserves
- Expand Lines of Credit and Debt capacity at low fee basis / ladder debt repayment based on interest rate costs / lock in current (or lower) rates if possible.
 - Apply for and secure new loans and lines of credit at lower fee bases. Consider investing in strategic areas that can be capitalized over a longer period (e.g., equipment, acquisitions, and technology).

Recommended additional resources:

- Confessions of the Pricing Man (Hermann Simon)
- Simple Numbers (Greg Crabtree)
- <https://www.multifunding.com/>
- [Cashflowstory.com](https://www.cashflowstory.com/)

Appreciation to the following Contributing Senior Gravitas Impact Coaches and Alumni.



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MARK GREEN



MIKE MIRAU

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