

Managing cash in inflationary times

With inflation running at more than ten per cent - its highest rate in the UK since 1982 - and not looking likely to fall any time soon amid the war in Ukraine and global supply and demand issues, many businesses are feeling increased financial pressures. Here, Andy Briggs (pictured, right), a director at Durham-based strategic consultancy IA Growth, looks at the situation and offers advice for organisations to navigate the difficult landscape.

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WHILE HEADLINES ARE DRIVEN BY ONGOING increases in gas prices, there is some evidence of stabilisation in other areas.

In June, the price of a barrel of Brent Crude Oil peaked at \$124.

It is now down to around \$98, although the drop is yet to be fully seen in forecourt fuel prices, which have fallen about ten per cent.

On the other hand, though, food prices, and dairy in particular, continue to escalate.

On top of this, manufacturers have seen raw material prices spiral upwards over the last 12 months.

Timber and metal prices have typically tripled and quadrupled, gas prices are predicted to continue their eye-watering climb, and inflation is likely to remain at high levels for some time to come.

So what can businesses do?

Well, much will depend upon the sector a business operates in, and different answers will apply to different sectors.

But differing approaches may be required within sectors, depending on the strength of the business or availability of resources, especially working capital.

Here are some ways businesses could look at mitigating ongoing inflationary pressures.

Increase prices

This is very simple but potentially very damaging.

In the current climate, people are expecting price increases, but they will also be looking harder for the best deals, so businesses must be mindful of how easy it is for customers to move supplier.

If this results in lower sales volumes (proportionate to price increases), you must also ask yourself what impact might it have on working capital?

Absorb price increases

Again, this is very simple but potentially very

damaging - organisations must have a clear understanding of product cost.

As a retailer, you buy a product, mark it up and sell it on - it is easy to understand the margin.

But what about increasing overheads? Sell more (cheaply) and there's more to allocate (fixed) overheads across.

From a manufacturing point of view, it is critical to keep your cost model up to date.

Purchase additional supplies ahead of price increases

If suppliers notify a business of a forthcoming price increase, you could buy excess stocks at the lower price to maintain price or improve margins.

But you must be mindful of having resources to pay for increased supplies, what credit limits you have to work with, and if you can negotiate extended payment terms.

Before deciding any way to progress, organisations must have answers for the following questions:

- Do you know what your competitors are doing?
- Do you clearly understand your costing model?
- Do you have a clear, integrated financial plan to model the impact of price and volume changes?
- Do you know what your (business-specific) fixed and variable costs are?
- Are you in a fixed price contract? If so, for how long? Can you renegotiate terms?
- What is the impact on supply lead times?
- How reliable is your supply chain? Will they sell to the highest bidder?
- Do you have enough working capital?

It is also imperative that businesses think of turnover in terms of volumes and values, and be sensitive to changes in sales, enquiries, orders and terms.



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- Not all of the issues specified in this article apply to all businesses. However, if you would like a more detailed discussion on matters relevant to your organisation, contact enquiries@iagrowth.co.uk