FUTURE PROOF YOUR BUSINESS
TRENDS THAT WILL IMPACT SUCCESS
(first in a series)

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It has been one crisis after another during the past year or so, leading to many changes in the business landscape. In this and subsequent articles in the series, I'll identify key trends and their impact. Some trends are still emerging and the business community will be required to make adjustments in both the short and long term. Despite these challenges, more people are considering starting their own business than ever before. Recent research by the Canadian Federation of Independent Business (CFIB) outlines what business owners are planning in 2021:

- Reach more customers with digital marketing, 22%
- Pay down debt, 21%
- Add more revenue channels, 20%
- Improve website, 20%
- Reduce operating costs, 17%

Compare these noble ambitions to your own plans.

The First Trend to Consider: Inflation

Inflation is like a tax that reduces the purchase power of both consumers and business. It's destructive for the economy if it gets too high and the goal of the Bank of Canada is to keep inflation around 2% (same as the US Federal Reserve). Inflation hits different sectors at different rates. Food inflation is currently at 4% - 5%, commodities such as lumber and copper are spiking, and inflation is driven by prices increasing at a rapid rate. According to a recent survey, small businesses are averaging a 3.3% price increase to cover increased costs in 2021 and expected increases in 2022 (CFIB). The CBC ran a story about a small manufacturer with 50 suppliers; all but one supplier raised their prices ranging from 5% - 10%. Can your margins withstand such increases and will your customers accept a price increase? High input costs and elastic demand may put a company in jeopardy.

The Bank of Canada sees inflation as transitory, but is still signaling an increase in interest rates as early as the 4th quarter of 2021, followed by further increases in 2022. It is fairly certain that the interest rate will rise, and the issue for business is the timing of the increases and the length of time in between (the usual increase is .25%). Companies need to adjust to operating in a higher interest environment, meaning that you should review your debts and capital needs for the next year or two. In addition, some plans that that depend on a low capital cost may need to be reviewed and recalculated. If you have variable cost capital, it may be prudent to lock in at fixed rates, and if you will be needing capital, it may be a good idea to start negotiations soon. Changes in the cost of capital is one variable that influences most operational aspects, for example, new hires, size of inventory, etc.

Suggested Actions

- If you have a board of advisors, put inflation/interest rate increases on the agenda. Or, if you have a management meeting, put this topic on the agenda.

- Ascertain your sensitivity to price increases (input costs) and test how your customers will react to a price increase. Model this for impact on revenue, profit, and free cash flow.
- Review your cost of debt and how it will be impacted by an increase in interest rates.

Knud Jensen is an advisor to small and medium enterprises.