Defusing the inflation time bomb:

How to survive and thrive

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Interest rates

"GDP is projected to continue to fall throughout 2023 and 2024 H1, as high energy prices and materially tighter financial conditions weigh on spending."*

**Source: Bank of England's Monetary Policy Report, November 2022.*

The impact

During 2022 and 2023 we have seen supply chain issues, labour shortages and energy price increases all contributing to inflation.

Crude oil and petroleum products provided the largest downward contributions to the change in the annual rates of input and output inflation, respectively.

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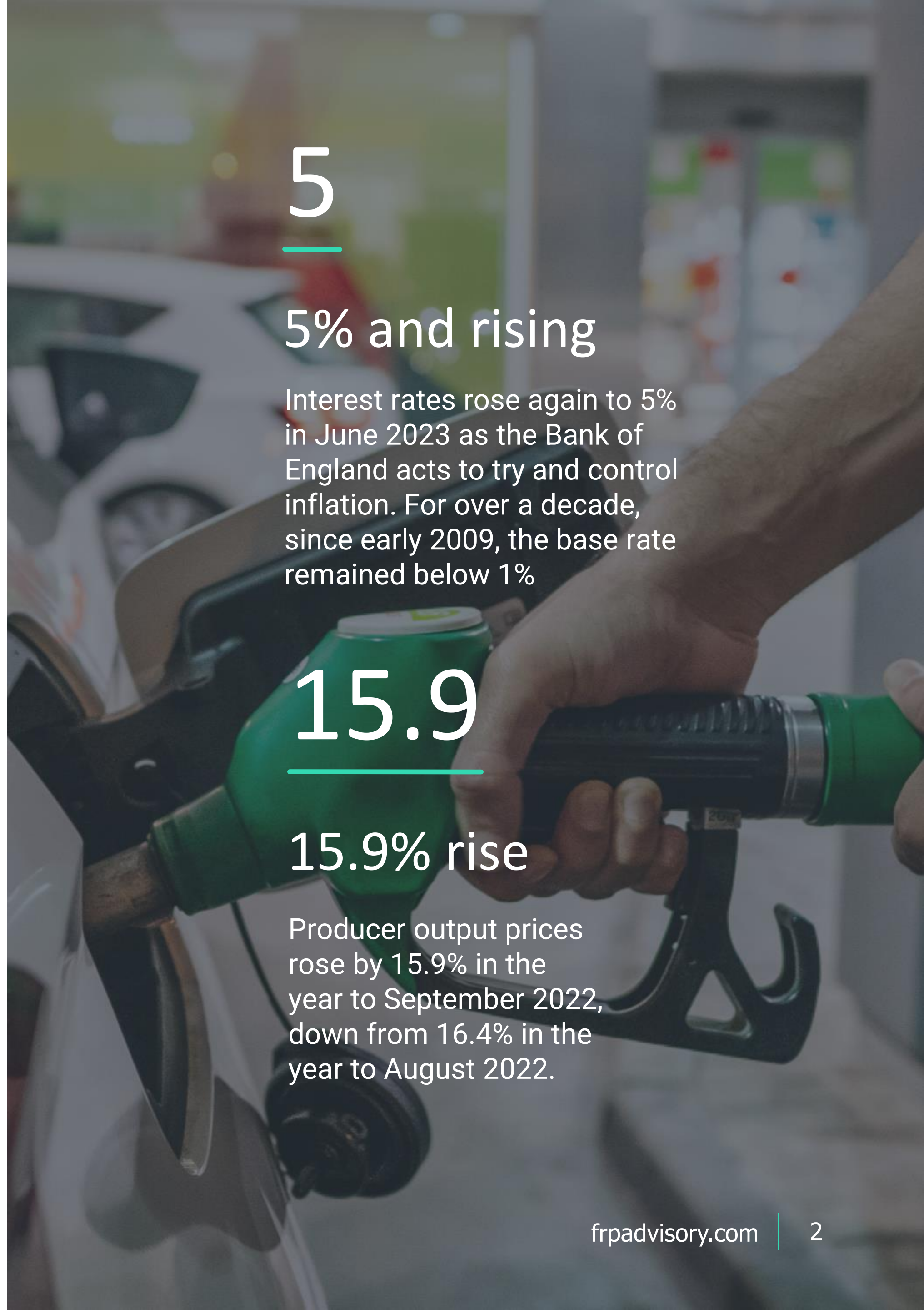

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5% and rising

Interest rates rose again to 5% in June 2023 as the Bank of England acts to try and control inflation. For over a decade, since early 2009, the base rate remained below 1%

15.9

15.9% rise

Producer output prices rose by 15.9% in the year to September 2022, down from 16.4% in the year to August 2022.

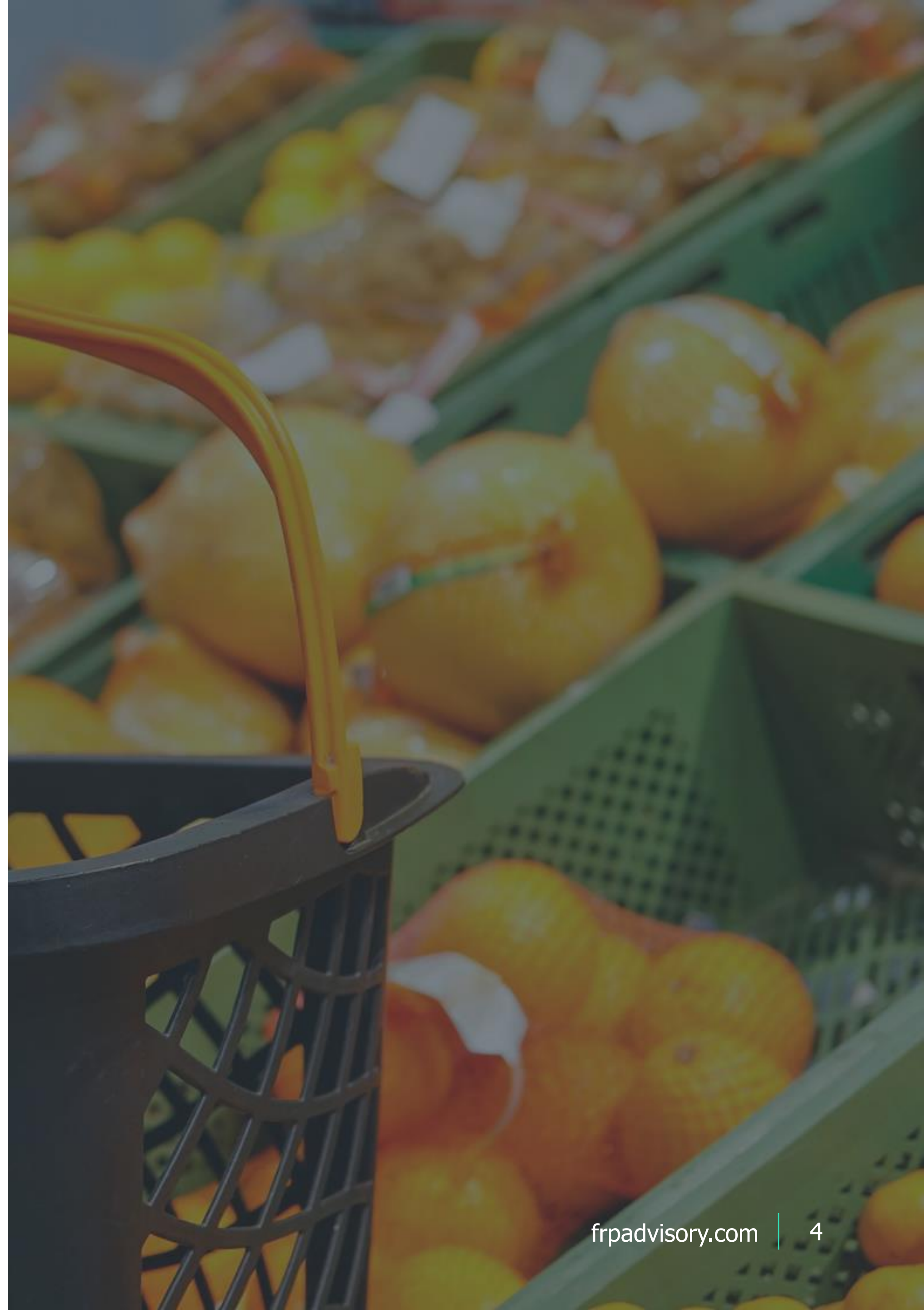
Three key strategies

The situation is complex and changeable, but that does not mean that the outlook is bleak. Turbulent times also create opportunities for those capable of seeing, understanding and grasping them. There are three key strategies businesses need to adopt:

1. Pass on the cost

The attitude that cash is king is no longer enough to guarantee business success; it's the focus on margin that counts. If businesses are simply striving to get cash in so that you can settle debts, you are not following a long-term strategy for success. Try to soften the blow with the strategies below.

- Create leverage – look at areas where there's justification for a price increase to a buyer
- Bundle costs together – this could be improving a product line or providing a greater service, such as improved delivery times, to include increased prices
- Change the product not the price – selling a smaller item for the same price (commonly known as shrinkflation) or using cheaper materials will offset the need to raise prices



2. Fix the cost and lock it in

In business, the devil you know is almost always the best one. Having certainty about future pricing is almost invariably a valuable benefit. That's why hedging – agreeing a price today for a purchase to be made at some point in the weeks or months to come – can pay off spectacularly well if everything goes in the right direction.

- Get a good working understanding of whether, when and how supplier contracts can allow price changes
- This will tie up cash, but should be viewed as an insurance premium where businesses are protecting their supply chain
- Positive results are not guaranteed – prices may go down as well as up, but it will mean businesses can forecast effectively

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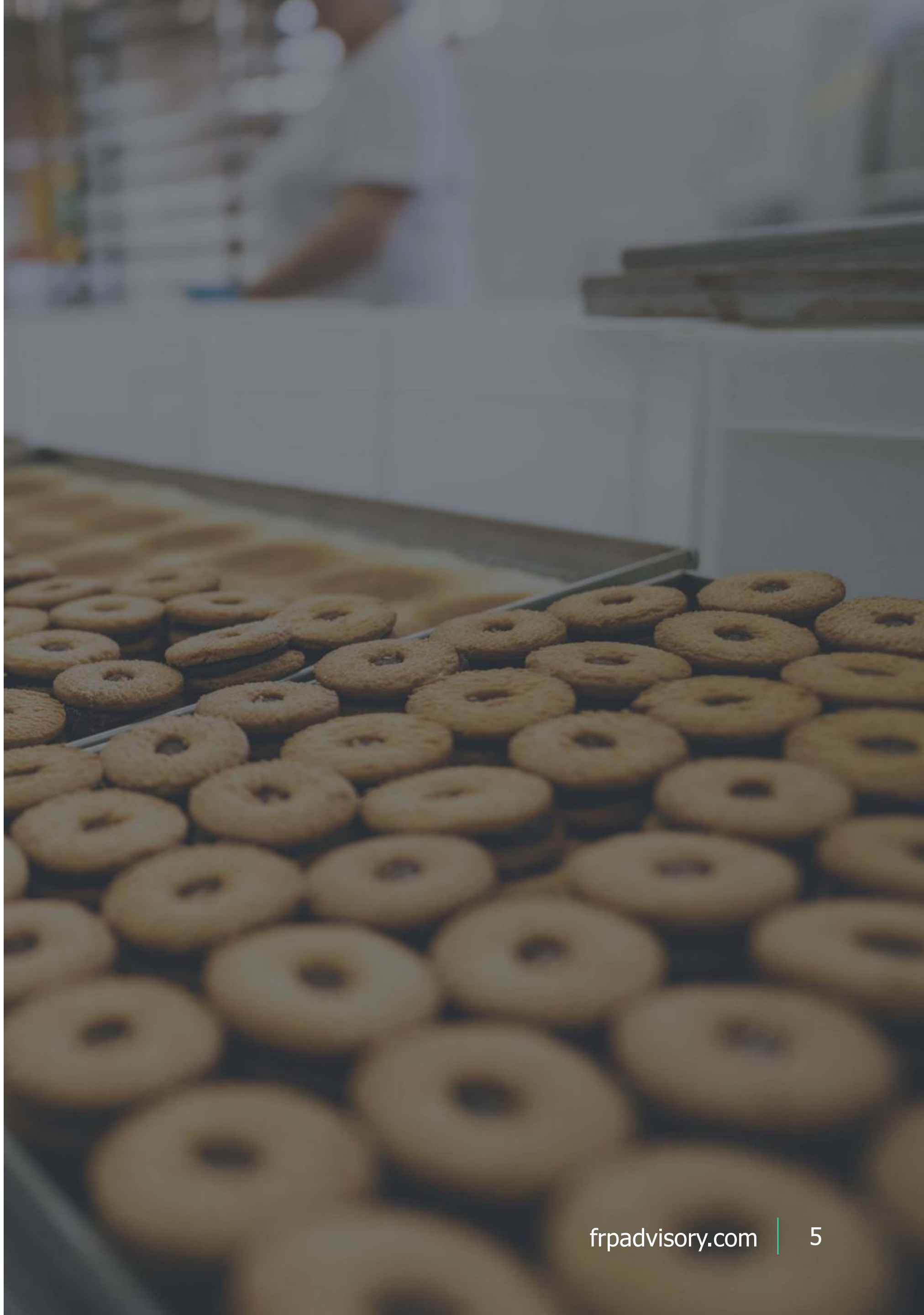
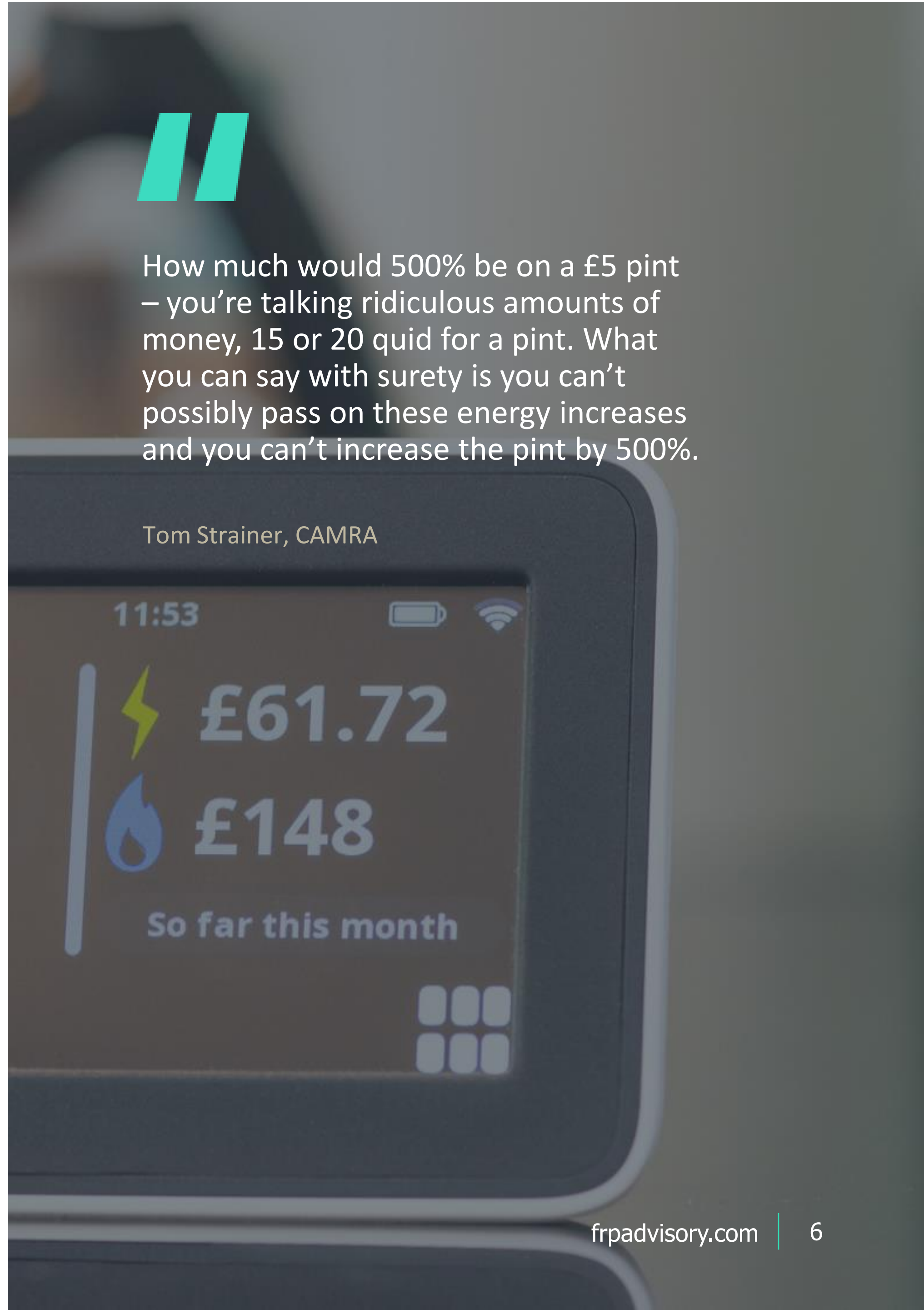


3. Manage and reduce your costs

The UK has been in a period of growth for the last 30 years, so looking at the process cost base and strategic relationships in the supply chain has not always seemed a priority. However, this should be something that should be part of a business's usual operations.

- Regularly reviewing overheads and rolling cashflow forecasts to ensure business spending is relevant to today, not previous periods
- Ensure product and service lines are profitable, if there are areas that aren't considered viable, discontinue them and realign resources
- Focus on four core relationship areas: suppliers, employees, finance providers and customers



> "How much would 500% be on a £5 pint – you're talking ridiculous amounts of money, 15 or 20 quid for a pint. What you can say with surety is you can't possibly pass on these energy increases and you can't increase the pint by 500%.
>
> Tom Strainer, CAMRA

Action checklist

- Carry out a SWOT analysis of your current supplier base
- In this, look at non-essentials too – such as water coolers etc. Can you do without these, or get better deals from other suppliers?
- Speak with your customers – highlight the challenges you're facing
- Look for early settlements – offer discounts for getting cash in early
- Talk to lenders about the availability of facilities to manage inflationary pressures
- Seek to renegotiate existing loan terms prior to any further increases in interest rates
- Look at extending or negotiating credit lines with your suppliers
- Revalue stock and sell it at current rates. Don't look at historical data but look at current prices
- Stock control – quick turnaround on receipt of stock. Avoid long lead times which increases risk
- If you have redundant stock, seek opportunities to sell it at a discount, freeing up space to stockpile materials or to barter with other businesses
- Investigate how to increase the attractiveness of your business to employees and prospects by offering a balance of salaries with benefits and non-cash items. These might include flexible working or other nonmonetary items that provide similar value to employees, such as stock options and a strong culture and employee experience

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Our team

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