PLÉSONA
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The Effects of Inflation

There have been numerous reports in recent months of producer price rises across many sectors. Much of this has been caused by shortages of supply and a recovery in commodity prices. Fuel prices are on the rise as commodity markets expect a strong economic rebound in those countries that have high Covid vaccination rates. Many of the shortages have been caused by a confluence of different events. For example, buying timber for construction in Ireland has become significantly more expensive due to a shortage of supply. The shortages have been driven by a lack of licences to fell timber and Brexit has stopped a lot of supply that traditionally would have been sourced in Scotland to make up any local shortfalls. In addition to that, demand for new builds is up due to rising demand driven by the all-time record levels of saving in Irish banks due to the fact that nobody spent any money on holidays and socialising during Covid. And the rise in timber prices hasn't stopped yet and has no end in sight that anyone can pinpoint. For businesses, this creates a danger of over-trading. That happens when you exhaust the amount of working capital you can fund and run out of cash. This can happen because input prices are rising and expanding the value of both outstanding payments to suppliers or the cost of inventory. Traditionally, businesses will try to pass on these price increases. To use construction as an example again, if your sales price is based on cost plus an agreed margin then your customer will end up absorbing the cost increase. But this extra cost will then increase the financial pressure on the customer and stretch their ability to pay. We know of construction firms that are deliberately refusing new contracts so that they can avoid the increased risk of customers not being able to pay these inflated bills. The only way that such inflationary pressures stop is if the ultimate customer stops buying at the new high price, forcing a price reduction, or if someone in the supply chain absorbs the cost increase. Hopefully, it won’t be your business that has to take the haircut to your margin, but it might. The other thing to be careful about in times of inflation is the length of payment terms. In countries with a long history of inflation such as Brazil or Turkey, the solution has been to have short payment terms to battle against the depleting value of cash. So it is a good idea to following the example of short terms with customers and longer terms with suppliers. If you are unable to do any of these things, your business will be squeezed out of existence. It can all be prevented but it means understanding the new reality and taking steps to mitigate your risk.

Sales Process

What your sales process looks like very much depends on the business you are in. Retail is driven by brand and location. So if your favourite supermarket is 50 kilometres away, it is likely that you will find something closer to hand. Then for the fast-moving products on the shelf in that supermarket, it's all about the brand. They usually spend a lot of money on advertising and promotions to get you to buy the product when you are in a store. On the other end of the spectrum, if you sell non-repeatable services you need a steady sales pipeline of new prospects all the time. Many of these prospects will never buy your service so it is necessary to understand who they are, what they want and to build a bond of trust so that when they are ready to buy that you are in the right place at the right time to deliver that service. Very often telemarketers or email marketers are used to identifying and establishing first contact with new prospects. For these businesses getting the message and the sales channel right is essential. Increasingly, this is an area where digital marketing is having an impact. They know that most of us are staring at our phones and computers all day and have the skills to understand what will work in particular mediums. No matter what your business, today's facts are that there are a bewildering array of methods to reach potential customers. The trick in today's world is understanding what will work well for your business and a willingness to experiment.

Importing

Many importers have had a tough time in the last 12 months, mainly for reasons out of their control. The first reason is the cost of ocean freight. Many of the large global shipping giants were afraid up to 2020 that they had created huge overcapacity with super-hubs designed to berth ships with more than 20,000 standard containers. For them, Covid has been a godsend that they could never have expected. One of the effects of the supply chain disruption caused by Covid is that thousands of containers are in the wrong place across the world. So the cost of getting a container has gone up. The strong economic rebound in the OECD countries has meant that demand for shipping space is at an all-time high. Even bulk carrier rates have gone sky-high. There have also been more local issues. There are a number of countries such as the UK and USA, where there is a shortage of truck drivers. In the UK, it seems to be a direct consequence of EU drivers not wanting to drive in the UK. Also, fuel costs are on the rise as the world economy recovers. Pretty much all importers have seen transportation costs rise and the level of increase depends on where you are shipping to and from. According to most in the shipping industry, these elevated costs are here to stay for the nearer future. But for importers, it has meant that they need to keep a close eye on margins.

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