PLÉSONA
BUSINESS ADVISORS

Issue 19 August 2022

Are you a low return saver?

It is an easy argument to encourage people to have a rainy day fund. Many small business owners have been wise enough to have done so and that rainy day fund is what will save them from hardship at some point in the future. This is especially true this year when businesses are continuing to deal with the effects of inflation and continued supply chain disruption. What is surprising is that many successful business owners are not the best at investing their rewards. That can be for several reasons. A big reason can be that running a successful business is extremely time consuming and that will mean that any activity that is required outside the business can be very limited. This is particularly true as business owners try to balance their work and personal lives. That vastly decreases the possibility of spending hours of research on the best way to invest your savings. If you are running a successful business, the business is likely to produce lots of cash. That will mean that there is far less urgency to get a better investment return on your savings. Weirdly enough, many business owners lack the financial expertise to make the right investment decisions. The best investment decision will be different for every individual depending on personal goals, the level of risk that is comfortable, the tax implications, pension plans and even inheritance implications. These are all good reasons to hire a good financial advisor. The problem with many financial advisors is that there are a lot of average ones and what they charge can vary wildly. It is worth shopping around but this goes back to the time problem. Most financial advisors get business through personal introductions with people who very often do not thoroughly test what they are being offered. This can often mean that investors are not getting the best return that they could or that they are paying much more for the financial advice than they have to. Once you have decided on the return you require and the level of risk you are comfortable with it is best to talk to at least three providers. Even if you are not a financial expert, you should get a better idea of what is out there and how much you need to pay an advisor. For those who say they are just too busy to get any of this organised, think about this. At a 10% rate of inflation, the money that you have in the bank earning almost nothing will only be worth about 35% in real terms in 10 years. Even at 5% inflation, you will have lost 40% in the next decade. So doing nothing is a really expensive decision.

Increasing Customer Prices

We live in an age when increasing prices is going to be very necessary for many businesses. But be mindful that there are different ways to do it right. The very first thing is to assess how much you need to increase your prices. Increasing too much will potentially scare customers away and increasing too little or too slowly might put the viability of your business at risk. The trick is to test, test and test. Pick a small number of customers and start with a gradual set of price increases. Continue increasing the price with the next test customer until you get some negative feedback. If there is no negative feedback then keep the increases going until you have reached the price level you had originally planned. When negative feedback on pricing does happen you should have a credible story that justifies why you need to increase prices and doesn't make your business look greedy. That will often be a successful end to the negative feedback. If there is constant negative feedback even after your justifications , you may need to think harder. One method is called value adding. In one case, a drain cleaning company used to charge a set rate per hour. They changed their pricing to have a set charge per manhole uncovered and cleared. This allowed them to increase their prices since most customers had more than one manhole and wanted a complete and not a partial job done. But this will be different for every business. In summary, you can increase prices without scaring customers but it is worth being careful.

Hiring in 2022

Hiring staff can always be a tricky task and many businesses are struggling to fill positions. There are many shortages of labour all across Europe and North America for positions at all grades. The reasons for these shortages are many and complex. It is clear that many potential recruits no longer want to perform roles that are perceived as low paying or without prospects. This has been particularly true in hospitality. Many people who were doing jobs seen as a bit nasty used the opportunity of the pandemic to retrain and find other less nasty jobs. Migration flows have also been disrupted. Much of the cheap labour that was available before the pandemic from poorer countries has either dried up or there are increasing immigration controls that prevent such movement. And there is also the fact that many younger people do not want to work at jobs that are seen as menial, unlike their parents generation. So even getting people to do summer jobs is a big task. There is a danger that employers will try to spend their way out of trouble. While money is always important, it should never be the only incentive to entice recruits. In the long term it is better to wait for quality and avoid attracting problem employees.

PLÉSONA
BUSINESS ADVISORS

Website: www.plesona.com

Twitter/Facebook/LinkedIn: @plesona

Email: info@plesona.com
Phone: Portugal +351-911556662
Ireland +353-86-0223468