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BUSINESS ADVISORS

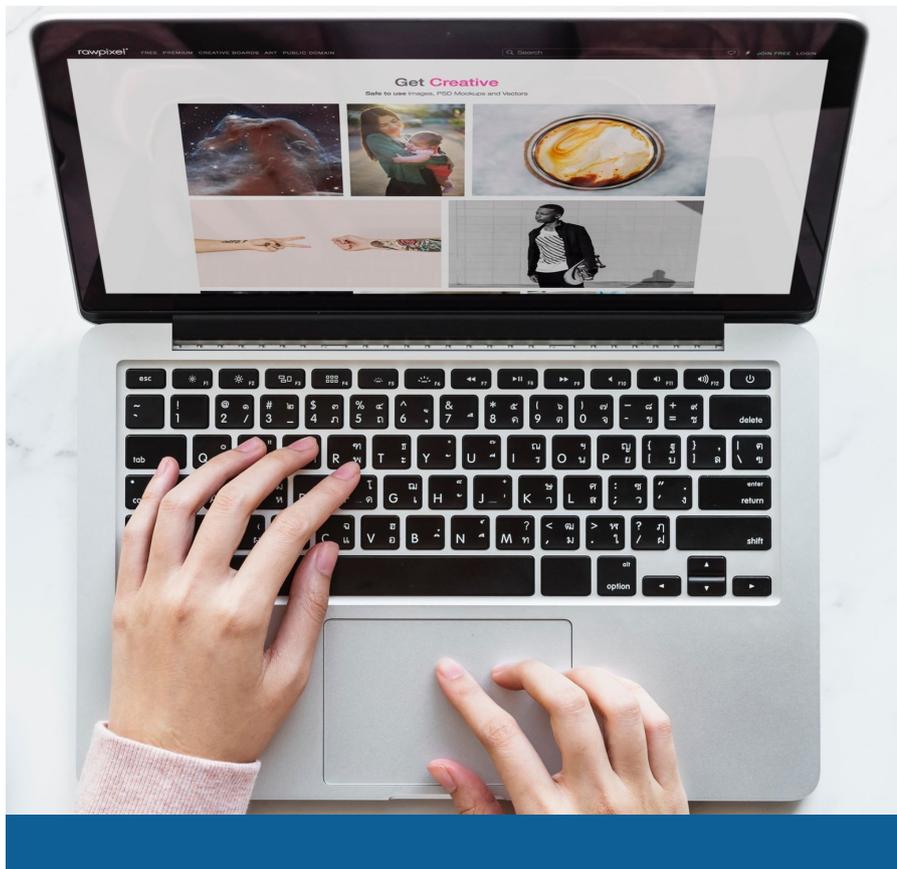
Issue 18

May 2022

Managing Costs in An Inflationary Environment

Like all situations, inflationary periods represent opportunities for business and numerous risks. Whether it could be an opportunity very much depends on the cash flow position of your business and how your business will fare in the coming months. For example, if you have spare cash you might decide to buy raw materials or goods for resale now to build stocks in the expectation that prices will rise. If you get it right, you could make a handsome return on the arbitrage. You could also use that stock to continue with today's prices for longer while your competitors are forced to increase theirs. But it is a big gamble. This used to be quite common in the paper industry where pulp prices would rise to astronomical levels as companies built up stock and then plunge as the market spent the next year using the inventories that had been amassed. But this hasn't happened for a long time for several reasons including that paper companies found it extremely difficult to plan their financial futures when raw material prices were so volatile. You may also hear some people talking about hedging. This can be advantageous if it is more important that you have a fixed set of input costs for the foreseeable future. It is quite common to hedge energy prices or currency rates. It can also be quite dangerous if you don't know what you are doing or if you choose a financial partner that turns out to be a legal quagmire. Before the last financial crisis in 2008/09, several smaller companies in the UK set up hedging contracts with their banks. When the markets changed against the hedge, the banks had clauses built in that cost these businesses huge amounts of cash and forced many into bankruptcy. If you are unsure of the prospects for your business it is more likely that you will want to conserve that same cash for the rainy day fund. We live in a world where the most unexpected things continue to happen almost every week. There are opportunities out there for those who have the risk appetite and have the cash reserves to survive if they get it wrong. For the rest of us, it is a time to tread carefully. This will mean conserving cash by any means. That includes postponing capital expenditures and any other discretionary spend. Many good companies could go to the wall in 2022, but many bad ones will survive because they didn't run out of cash.





Start-up Marketing

We are very lucky these days that there are far more ways to market your business to the world than there was a quarter of a century ago. But it also means there are new pitfalls of which you need to be aware. In the old days marketing meant spending lots of money on newspaper adverts, radio, television and events. For small companies, this type of marketing is usually way too expensive and often not relevant to the market segment that they are trying to reach. This is why the internet has meant a total reinvention of marketing for companies with smaller budgets. But that does not mean that the basic rules of marketing have changed. When spending money on marketing you must be clear about the aim of that marketing spend, you should be able to measure the results of that effort and it should be something that aids the development of your business. For many start-ups, the number one thing is to let people know that you exist. But you must be careful not to waste money advertising to people who would have no interest in your product or service. So if you are focused on teenagers in Portugal, it is unlikely that they use LinkedIn. That is an extreme example, but it is common that start-ups, in particular, are encouraged to spend a lot of money on slick videos and the like that will never help them advance their business goals but will fill the pockets of the myriad of marketing companies out there that are more than happy to take your cash.

Payment Methods

If you want to sell online directly to consumers it is essential that your customers can pay you using a payment method that is convenient for them and secure. That usually means allowing them to use their credit card, debit card or something like Paypal. But it is also important that the payment method works for your business. Like many other things in life, you tend to get what you pay for. Some services are much easier than others for the customer to use and usually the better the quality of the customer experience the higher the cost to your business per transaction. So there is a need to balance the customer experience with the cost that you are willing to pay. In addition, some services may seem cheaper than others but may increase the gap between when the customer has paid and when that cash is transferred to your business. Many only learn these lessons long after their website is set up and they start seeing the various charges coming through to their bank accounts. The time to understand all these factors is before your web shop goes live. Then you can make conscious choices based on your expectations of customer satisfaction, business cost and cash flow.



Website: www.plesona.com

Twitter/Facebook/LinkedIn: @plesona

Email: info@plesona.com

Phone: Portugal +351-911556662

Ireland +353-86-0223468