

Leading through Inflation

And Recession And Stagflation

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Rising costs, persistent shortages, and pricing that is often behind the curve pose a whole new challenge to business leaders, most of whom have never managed through a period like this.

Think of this economic shift as a chance to reset your business and learn from leaders who are shaping a realistic actionable path in the new economic context.

The Universal Truths about Inflation

1. Inflation consumes cash
2. Price increases roll through to the consumer like a freight train
3. Aggregate measures like consumer price index etc. don't tell you how inflation will affect your company.
4. The effects of inflation are cumulative
5. Inflation trends are partly psychological
6. Inflation can turn well planned capital expenditure into bad investments
7. Sacrificing customer trust to protect the business from higher costs has long term consequences.
8. Inflation reorders competition.

Inflation creates opportunities to improve your competitive position.

Inflation hurts those who cannot manage their cash right, because demand for cash is compounding.

Play offense, take inflation seriously, adapt faster, and bring the rest of the organization with you.

Because inflation consumes cash, every unit sold ties up more cash in inventory.

In March 2022, one third of 344 US companies surveyed had not made any price increases for inflation. Price increases that lag can lead to insolvency.

Finance has to be involved to manage cash and along with HR to review new metrics.

Communication with employees is critical as is keeping investors informed.

In high inflation, timing matters.

In terms of price increases you have to ride the curve, not fall behind the curve.

In March 2020, The CEO of Du Pont Ed Breen set up a weekly one hour call with the top 10 leaders in the company to monitor progress through Covid. This helped them iron out many issues, especially operational.

The Consumer price index is good for policy makers it doesn't tell you impact on any one industry.

Don't get stuck on any one single number.
Granularity makes the difference.

Lack of cash kills companies, inventory ticking up and accounts receivables lengthening are dangerous signals.

Cash management is the No 1 risk to your business in inflation times.

In the past , uncertainty was about how fast you would grow it was not about whether you would grow.

Inflation impacts working capital, in the past since interest rates were low, the relation between working capital and growth wasn't serious, but now its very serious.

A disciplined approach to cash and working capital is a good business practice.

Inventory becomes a cash trap, more so in inflation.

Pricing in inflation times is critical to survival.

You must evolve the pricing function and build new capability of the pricing function.

When a stubborn customer insists on cost plus price, then your profit margin is the cost of staying in the business.

If you leave it to sales and marketing, you will never get the price increases you need in inflation.

Look at your contract terms during inflation, there is a chance to enforce some of them like min order qty, or partial truck loads etc.

As you cope with inflation, you will run up against some costs that seem impossible to control. Go beyond the obvious and cut all direct and indirect costs.

The cumulative effects of inflation lead to lower consumption overall, one in which consumer behavior will change permanently.

Creating a new business model may be as new to you as inflation. Many CEOs with long tenures don't know how to change business models.

A business model entails
*sources of revenue, customer mix, product mix,
geographic footprint, cost structure, and
moneymaking model.*

No business model lasts forever. As consumer behavior changes, as competitors change products, your markets get redefined.

Innovation is a must whether you are in a steady economy or in an inflationary one, keep searching for how you can serve the consumer better.

Digitization can help some parts of the inflation in your chain.

The more you digitize, the more you increase your cash gross margin.

Inflation action list for the CEO

- 1. Shift your psychology from high growth**
- 2. Watch the balance sheet**
- 3. Rethink the business model and capital investments**
- 4. Pull together people with open, honest and frequent communication.**

Inflation action list for the CFO

- 1. Watch for cash traps**
- 2. Take charge of working capital**
- 3. Check assumptions in planning and capital expenditure**
- 4. Communicate with investors.**

Inflation action list for Sales and Marketing

- 1. Work on segmentation and customer profitability**
- 2. Update the pricing approach**
- 3. Ask IT to help with competitive data**
- 4. Train for the new customer dynamic.**

Inflation action list for Operations

- 1. Revisit and recommend Capex vs Opex**
- 2. Use digital applications to keep improving**
- 3. Be a conduit between the front line.**

2 % of the people in any company have 98 % of the impact. HR must reassess if the people holding the roles are fit for the roles.

Compensation plans should be around four parameters – cash, operating profit, working capita and customer satisfaction.

