

Season 3 | Episode 45

# Shrinkflation, Communication, and Other Tips to Handle Inflation



## Gene Marks

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### Gene Marks:

Hey, everybody, this is Gene Marks, and welcome to this week's episode of "On the Mark." Before we get started, if you've got any advice or tips that you would like or if you would like to suggest a guest for our podcast, feel free to visit us at [payx.me/thrivetopics](http://payx.me/thrivetopics). That's P-A-Y-X dot M-E/thrivetopics.

Every week we talk about news and, really, there is lots of news that's impacting your business this week. But, you know, when I talk to business owners across the country, inflation is still the biggest news. In the past two weeks, we have had data coming out from the government that has shown just how extensive inflation has become and how it's impacting small businesses.

The Consumer Price Index logged in at 7.9% on an annualized basis, which is the highest it has been in 40 years. And then, just last week, the Producer Price Index was released showing close to 10% increase in prices.

And listen, for a lot of the industries that I talked to, a lot of the business owners that are manufacturers or distributors doing other things, even the 10% price increase is not exactly tying into the increases they're seeing. I mean the prices of iron and steel are up about 50%. Lumber as well. Industrial chemicals about 30%. The price of freight even is about 25% and even labor, you know, at related cost; The average hourly wage has gone up about 6% this year in just the past 12 months. And overall compensation, according to the Department of Labor, has gone up about 10% in just the past year.

So, prices are rising and, unfortunately, they're continuing to trend up and that trend is going to continue at least for the foreseeable future. Now, you know this because you watch the news, you understand this. There's no reason for me to report anything more to you.

What you want to know, though, is what do you do about it? You know, as prices are coming up, how do you fight inflation? What do you do in your business to stay current operators to try and navigate your way through this?

So, let me share with you some thoughts on navigating inflation. What my clients are doing around the country, what small businesses are doing in my community, how they are grappling with inflation in this inflationary year of 2022.

Okay, I've got some help for you and some advice. The first piece of advice, of course, has to do with prices. Everyone I know, of course, is raising prices. You expect it from your own customers and vendors. Your customers expect this, as well. It's not a new thing. People are raising prices.

However, my smartest clients, when they are raising prices, they're doing it on a very specified basis. They are doing just on customer or by product line. They're not having blanket increases.

Why? Because you've got the data right now to specifically designate who's going to be getting price increases or what products it's going to come from. And if you do that, you can target the right customers in the right product lines where you can still maintain your margins without upsetting a lot of other people. So, yes, consider raising your prices this year, of course, but try to do it on a specific basis based on the customer and based on the product line. You will find that the price increases will be more acceptable that way.

Secondly, has to do with communications. My best clients are doubling down on their communications this year. Why? Because we all know the prices are going up this year. That's not that's not even a mystery. We just want to know when that's what you want to know when.

You want to try and avoid surprises when your suppliers and vendors raise prices on you. Your customers want the same thing. So, invest in communication systems, dust off your customer relationship management system. Subscribe to one of those bulk email services like a Constant Contact or MailChimp. Communicate with your customers in advance. Let them know, hopefully weeks or months in advance, when you're expecting price increases to happen or even what the story is with their lead times or product availability.

The more and better that you communicate with your customers in 2022 and beyond, the closer you will be with your customers and to lower the risk that you will lose customers because of that lack of communication.

Another thing I'm seeing a lot of my clients do and big brands, to be honest, is practicing "shrinkflation" and by shrinkflation I mean where people are actually selling a little bit less of a product to service but at the same price.

There are numerous examples if you Google shrinkflation from consumer products like Doritos to Hefty trash bags, where the manufacturers of those products are selling it for the same price, but just including a few less chips or a few less bags in the box.

You can be doing the same thing with your customers. Are you able to sell products or services where there's a little bit less being delivered, but at the same price? It's the same thing as raising your prices, but it just is coming at it from a different angle. It's called Shrinkflation. It's happening everywhere, and it's another strategy that a lot of businesses are using in 2022 to counter inflation.

Also, I see a lot of my clients locking in long-term agreements where they can lock in agreements with their suppliers, where they can lock in agreements with their leaseholder or landlords or any equipment renters. If they have high paid employees that they can lock in compensation agreements for a while or even with

their banks. We all know interest rates are going up in 2022; Can you lock in longer term rates? This is something that you need to be doing now.

Know this much. The people that I know, the business owners that I know that are locking in longer-term rates or longer-term agreements, they're not saving money by doing this. I mean, listen, what supplier is going to guarantee you that they're going to provide something at a certain price without asking for something in return, like an upfront commitment or an extended term of your buying?

However, the more you can lock in these long-term contracts, interest rates, leaseholds, equipment, leasing supplies, materials, the less surprises you will have going forward, the less uncertainty that you will have in your business in this very volatile area. And that's what I'm seeing a lot of my clients do, guys, they are going out and talking to their long-term relationship ups and trying to lock down where they can. Not that they're trying to save money, but just so they can reduce the levels of uncertainty that they're dealing with in their business.

One final thought for you before I let you go when it comes to inflation, and that has to do with this: buy. Now, don't buy crypto, please, or buy shares of GameStop or some other volatile stock. Buy inventory, buy property and equipment, buy buildings, buy real estate if you can. Get a loan that's guaranteed by the Small Business Administration, do what you do best. Buy the materials that you need to run your business because you know the price are going up in 2022. Buy that stuff now, store it where you can, try to get some working capital availability to pay for that stuff because you're going to turn it over during the year, and hopefully at a better margin if you can buy it at the lower cost now.

So, buy those materials revisit your pricing by customer and product line, double-down on your communications with your customers, and practice shrinkflation to sell something a little bit less of products and services for the same price. Finally, if you can, lock into some long-term agreements because the more you can space out those agreements, the more you reduce your uncertainty. Yeah, it might cost you a little bit more, but at least you'll be able to budget and quote around that stuff instead of dealing with the volatility of a world where inflation is high.

And listen, guys, inflation is high. It's a 10% right now. The Producer Price Index, that's a leading indicator, that's going to continue to go up — my predictions are over the next few months — and that means that consumer prices are going to go up, as well.

Those are all different things are going to impact the cost of running your business, and these are some of the steps that some business owners are taking — a lot of them actually that I talk to and deal with — to try and navigate their way through inflation.

For now, just take this advice to heart; Follow the news, know we're in a higher price environment, and be proactive with how you're managing your costs. You will find yourself navigating through 2022, hopefully, when inflation starts settling down and things become a little bit more certain.

So, listen, thanks for joining me. You've been listening to "On the Mark" and my name is Gene Marks. Again, if you've got any comments or advice or if you'd like to see some guests on our Thrive podcast, please go to [payx.me/thrivetopics](https://payx.me/thrivetopics). That's P-A-Y-X dot M-E/thrivetopics. We'll see you next week for some more news that impacts your business. Take care.

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