The Issue

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Six Things Your Company Can Do to Fight Inflation

and Four You Might Not Have Thought of Yet

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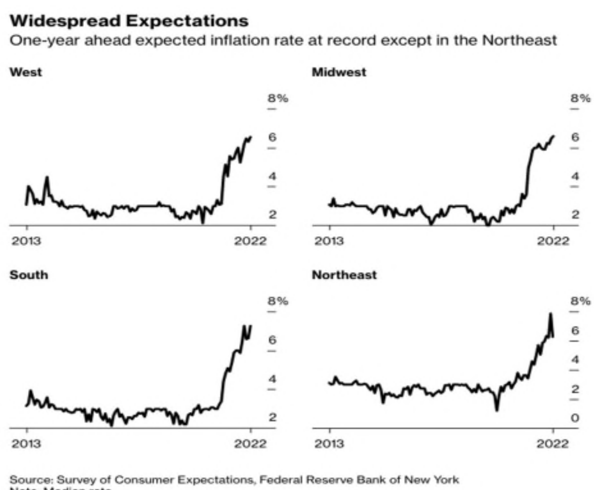
Inflation has been a hot topic lately. CFOs, management teams, and business owners have been working tirelessly towards understanding rising input costs, plus the strategies and tactics they can take to deal with this pressure. As context, the average year-over-year inflation between 1991 and 2019 was 2.3%. Compare that to what we see in 2022: it started at 7.5% in January, rose to 8.6% in May and is now 9.1% in July. What will the future hold? When will it go down?

Those questions and more are topics of great discussion and there are many different opinions around what this impact will be over time. The one-year ahead inflation forecast appears to be lower than what we are experiencing now; however, it is still much higher than historical rates. The chart to the right, taken from a Federal Reserve Bank of New York consumer survey shows the range and variability by geographic region.



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Let's look at some of the more traditional approaches businesses are taking to manage against inflation. While some of these approaches are pragmatic and effective, they are not without their risks and each business should evaluate the impact based upon their specific situation.

1. **Price Increases –** price increases are happening. Companies are bumping up their prices to grow their top line revenue, and gatekeepers are passing them through to the consumer level. The consumer has accepted a certain amount of price increase but how much is too much? What is the point where you hit a ceiling, or the buyer or retailer delists your product and your volume tumbles? Or what if you increase price and your competitors don't follow?

2. **Discount reductions –** another form of raising your top line is to alter or reduce certain discount programs. Maybe quantity purchases are no longer incentivized, or maybe certain customers or trade channels aren't as appealing because of the high cost of doing business. But losing placements, which took time and effort to achieve, can have a lasting impact. And what if those accounts or channels pick up in the future?

3. **COGS changes –** with rising input costs, companies need to work with their vendors to see what is possible or what can change instead of just trying to get a lower price for the current materials. Businesses that are partnering with their supply chain vendors and looking at new options, formats, and materials are often finding more cost- effective solutions. Yet, what will the consumer think of some of these changes? Will they accept the changes or trade to something else? If packaging

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changes are implemented, will that make the product less secure or safe? Will returns or damage increase, resulting in higher overall costs to the business?

4. **Overhead optimization –** doing an in- depth analysis of your company's overhead spending can be eye opening. If you were to look at overhead spend, by vendor, by year, or cumulatively across multiple divisions, amazing insights often pop out. Normally there are ten vendors who contribute to the majority of your spend/budget. Making sure those are sorted out can be time well spent. You might also see other vendors or spending that made sense at one time but may not be critical at this stage. Looking at this with fresh eyes and an open mind is valuable. The challenge is that people costs continue to rise with higher wage expectations and increasing benefit costs. Rising rents are also challenging to offset.

5. **Marketing reductions –** marketing is often the first area to be reviewed to preserve profitability. Making sure the programs and investments are needed, effective, and reaching the right audience are critical. Yet, a reduction in marketing can often negatively impact the perception of the brand and the future growth of the business. These decisions are not to be taken lightly.

6. **Innovation –**companies are looking at new prospects as a response to inflationary pressures. Analyzing markets, consumer preferences, and white spaces often highlight untapped opportunities. Those companies that can launch products and services at different price tiers at good gross margins can help offset the rest of the business where margins are declining. Having the right management team and ability to execute on these opportunities can be challenging. Also, some companies innovate in a new space and start to dilute their true brand equity. These decisions should be taken with care.

While the options above might be top of mind, there are other opportunities that may be interesting to consider. These next options can have a significant, positive impact on your business's cash flow. While inflation continues to impact on your business, these tax considerations can help keep cash in your account and provide benefits for years to come.

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7. **Research and Development Tax Credit –** perhaps one of the most significant tax credits available to companies. These were originally introduced in 1981 to increase technical jobs in America and encourage businesses to invest in innovation. This income tax credit, which has become more expansive in the recent past and a permanent part of our tax code, rewards companies for developing new products, improving manufacturing methods, software development, and quality improvements. It is available to companies of any size and industry. Too many companies self-censor themselves and make the mistake of not looking into this. Let us direct you to a professional to see what is possible.

8. **Employee Retention Tax Credit –** this is a new tax credit originally put in place in March of 2020 as part of the Cares Act. It was then modified in 2021 in the Consolidated Appropriations Act so that more businesses could benefit from the program. It is meant to reward businesses for keeping people on the payroll during the pandemic. This is a fully refundable payroll tax credit. There are two paths to qualification, either through revenue declines or the fact that your business was impacted by a government order. Given there are different ways to qualify, and the rules of the program have evolved over time, it can be challenging to assess your eligibility. Allow us to introduce you to a professional who can discuss your specific circumstances, as the credit can be worth up to $26,000 per employee.

9. **California Competes** –this is a state income tax credit available to businesses that want to locate in or stay and grow in California. Businesses of any size and industry are able to apply for more than $180 million of tax credits. Applications are evaluated on the number of new full-time positions added and new planned capital investment plus approximately ten other qualitative factors. The next round of applications open on July 25, 2022 and go through August 15, 2022.

10. **Property Tax Analysis –** property taxes are normally a large cash outlay. Still, do you really understand upon what your annual assessment is based? Some counties ask for annual reporting, so they are aware of your property holdings and uses. Other counties may only ask once every three years. If your business has changes in your property usage, you may not be assessed correctly. If you take acres out of production and they are not being used to grow crops or support livestock, you may be paying too much in property tax. Doing a review of your property, use of it, and how that information is shared with the assessor's office can correct assessments perhaps based on outdated information.

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Summary

Anxious about inflation? Then now is the time to act! Let us provide you with insight as to how other companies are navigating through these challenges and bring awareness to your options. Give Mike Mathews a call at (203) 856-2438 or reach him by e-mail at mailto:mmathews@cfos2go.com.

Mike Mathews is a partner in the Ag Division of the 2Go Advisory Group. He has worked extensively with beverage alcohol, food manufactures, and other CPG companies to find and unlock value in their organizations.

The 2GO Advisory Group is the umbrella entity for CFOs2GO, CHROs2GO, CIOs2GO, COOs2GO, CROs2GO and CCOs2GO. We serve companies of all sizes and industries in a number of practice areas with recognized domain expertise and over 300 cumulative years of financial expertise. We are pioneers in meshing the dynamic financial management demands of small, emerging and established Fortune 500 companies with the work and lifestyle choices of today's top executives.

The 2GO Group was founded in 1986 to provide talent on an "as needed" basis, providing a complete continuum of services from consulting and interim engagements to direct hire placements. Companies need to be nimble to respond to corporate and market conditions with ease and agility. Our model of providing the optimal mix of talent and expertise in a well-designed and quickly deployed team — be it on a part or full-time basis, interim or direct hire — extends across a wide range of technical disciplines including accounting, finance, human resources, IT, Operations, and Revenue management. We offer traditional direct hire search and placement services at both the staff and executive levels rounding out the full spectrum of services

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