

## THE GOAL FOR 2022 – STRIVE FOR RESILIENCE

Some of the issues that will carry on from 2021 to 2022 are critical for small and medium size firms (SMEs):

Covid – Opens and closes the economy. Reduced support or lack of support from Government (still in process).

Inflation – Prices of input costs are rising, which is reflected in higher priced consumer goods.

Shortages of many products – Caused by both excess demand and supply chain bottlenecks.

Labour shortages – Wage costs are up, as are available jobs. This has sometimes impeded the ability to increase production, leading to further shortages and price increases. It's a vicious circle, with supply and demand battling it out.

SMEs have been challenged on all counts. A survey by CFIB (Canadian Federation of Independent Business) suggests that skilled labour shortages are limiting the growth of small and medium enterprises. The same goes for shortages of unskilled labour. An expected wage hike of 2.5% was planned to combat shortages. Another survey found that SMEs planned price increases averaging 3.9%, some as high as 6% or more, in order to keep sales level, suggesting that inflation is seen as systemic and will continue. Economists fear that behaviour based on the assumption of continuing high inflation isn't good for business and produces further challenges, especially for the small and medium size firm.

The key objective for any SME for 2022 should be to develop resilience – the balance sheet, product range, and CAPEX. For example, a discussion of the firm's pricing power is appropriate, which means understanding the customer's sensitivity to price increases, along with a margin analysis. One company, for example, dropped its gross margin from 60% to 30% in order to keep sales level. This calls for an analysis of impact on the future. A product by product margin analysis may be appropriate, as well as strategic decisions, such as – Do you absorb costs? Do you pass them on?

Resilience also applies to the workforce. Will your employees stay with you, and why? Is your financial compensation competitive? Some companies are now offering hiring bonuses to attract employees. Employee strategy is more important now than ever and is often overlooked by the SME. There is even a new term in the business vocabulary, "mass exodus." Financial resilience has always been an objective, raise more money than you need and allocate capital to growth. Always have financial back-up. Review the impact of 3-4 interest rate hikes in 2022. Have your loan commitments nailed down and check free cash flow. Now, it's not only about getting the \$500,000 order, but also about – Can you finance it? Do you have the capacity? Will you get appropriate margins?

On a broader topic, what changes can we expect to remain and how has the Covid experience changed the world of business? An Accenture Research survey of 25,000 people in 22 countries (2021) found that 50% of people surveyed agreed strongly with the following statement: "The pandemic made me totally revise my personal purpose and what is important for me in life."

This could signal that consumers are changing their buying habits and may be returning to essentials. If you are a retailer, you should ask: What does my customer base consider essential and am I providing this in what I have available? Essentials that will dominate include home nesting, and purchases in this category; for example, we have already seen shortages in above ground pools and children's play equipment for the backyard. This change was exacerbated by work from home and stay at home. We know that the future of work in Canada will be a hybrid of going to the office and working from home. The details will depend on the type of work, and many companies are showing flexibility, but the hybrid model is certain. Business has little experience with this format, and since there is little data to provide guidance, it's an experiment, at best. Health and wellbeing has moved to a higher concern for the consumer, and the delivery system, such as virtual health care, is slowly making inroads. There are many opportunities in this area. Digital adaption of just about everything from shopping to banking is a continuing growth trend. One bank survey forecasts that 85% of consumers will use digital banking to complete banking transactions. The banking area (Fintech) has been the focus of many new, disruptive companies and there are still numerous opportunities in the area. This will eventually lead to the closure or change in role of the traditional bank branch.

Ecommerce has been with us for a while and has spiked in the last year and a half. This will increase even further as consumers focus less on the value of the personal shopping experience. Selling via ecommerce is essential for the small and medium size firm, and platforms such as Shopify will make it easier. For example, ecommerce wine sales have increased dramatically, and many wineries have established a presence in the ecommerce market.

It has been said that the only constant is change. Developing a resilient company is essential for doing well in the future. Resilience is part of the strategic action of future proofing your business.

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