



LOCAL BUSINESS LEADERS EMBRACE THE UNEXPECTED

While owning a business has never been heralded as “easy,” 2022 brought with it a unique array of challenges that had many business leaders wondering what new hurdle could possibly surface next. From the “Great Resignation” to supply chain issues, post-COVID work-from-home culture, and escalating interest rates, many business leaders agree that in the current market, only the unexpected is expected.

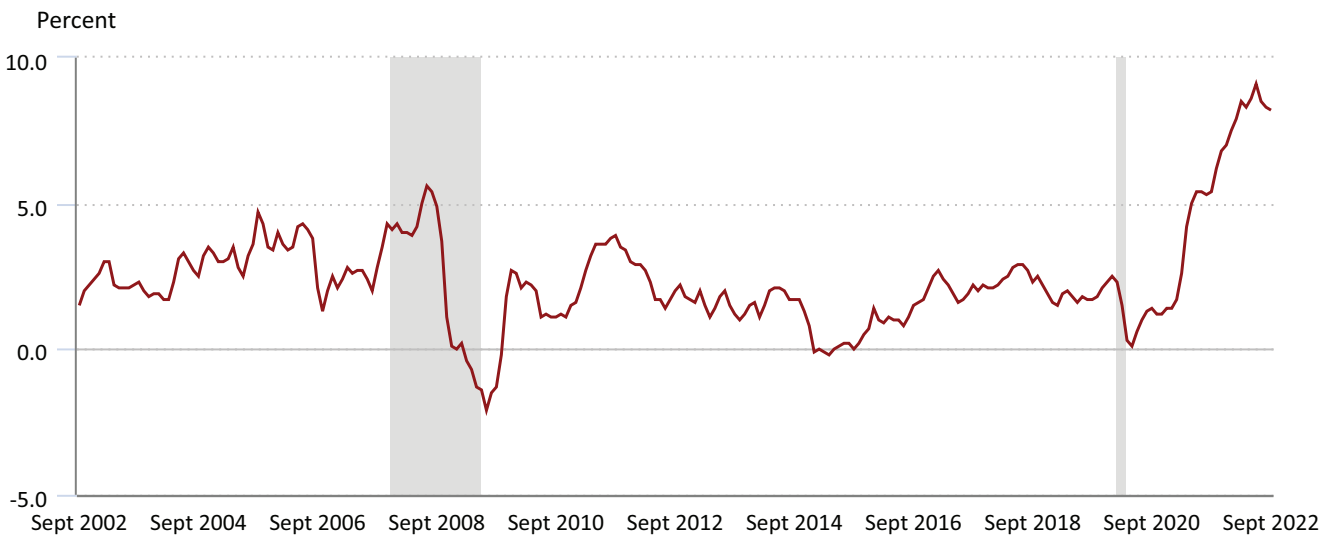
Hillcrest Bank, together with the Titan 100, brought together a group of CEOs and C-level executives to discuss the unique challenges—and opportunities—of 2022.

INFLATION: MANAGING BURGEONING COSTS

One of the most pressing topics of conversation was inflation. It’s no secret that prices are rising. 2022 saw a year-over-year inflation rate of 8.3%, over 2X the 61-year average of 3.8%. For most business owners, this means Cost of Goods Sold (COGS) is being directly impacted, with labor and travel costs rising as well as vendor surcharges and more.

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted

- All items
- Food at home
- Energy
- Electricity
- All items less food and energy
- Apparel
- Medical care commodities
- Shelter
- Education and communication
- Food
- Food away from home
- Gasoline (all types)
- Natural gas (piped)
- Commodities less food and energy com...
- New vehicles
- Services less energy services
- Medical care services



Source: [U.S. Bureau of Labor Statistics](https://www.bls.gov)

¹Source: <https://www.worlddata.info/america/usa/inflation-rates.php>

Executives described how inflation affected their current business structure as well as their planning for 2023 and highlighted the following impacts:

Overall Business Impact. 71% agreed that their business is already affected by the current inflationary cycle.

Cost of Goods Sold. 67% described Cost of Goods (COGS) as being directly affected by rising costs.

Vendor Escalator Clauses. A large contributor to increased COGS has been the increase of supplier/vendor rates due to escalator clauses or surcharges used to cover their increased costs.

Decreased Spending by Customers. In addition to COGS-related challenges, inflation is also impacting sales.

Despite these effects, only 38% said that they have been able to immediately increase their own pricing in response to inflationary pressures.

Dollars & Sense: Facing the Challenge

While there is no magic bullet to resolve inflation in general, some strategies for mitigating inflation impact may include:

Using escalators in contracts. If you don't currently have an escalator clause in your longer term contracts, you may want to consider adding one. Escalator clauses, or "escalators," allow for an increase in prices when certain conditions are met. These clauses can be particularly helpful in situations like rising inflation as it allows the contract to be better conducive to a changing market.

Increasing volume. If you've already done your due diligence regarding reducing COGS or improving margins, you may be in a position where the only viable solution is to increase volume. After all, even with smaller margins, increased sales can help make up for missed funds.

Improving forecasting. Reliable revenue and income forecasting are virtually impossible in a tumultuous market. However, that doesn't mean financial modeling and planning should be ignored. Business owners should continue forecasting but do so using multiple forecasting scenarios. Consider building a best-case, worst-case, and expected-case scenario.

STAFFING SHORTAGES: ADAPT OR PERISH—OR WAIT IT OUT?

A repeating refrain with many business leaders was the challenge of having—and keeping—talent. While many executives agreed that current staffing-related challenges were not as sweeping as they were in 2021, it seems that recovering from these challenges takes a significant amount of reframing.

Adapting to the “New Normal”

Those executives who have proactively adapted to changes to the current staffing landscape have overwhelmingly fewer staffing challenges than those resisting the “new normal.” Some strategies that have been successful include:

Increasing payroll. Many CEOs chose to hear the calls for higher wages, increasing payroll to be more in line with expectations and competition. Several CEOs also noted that they believe this change has been key to maintaining staff.

Improving culture. There’s a keener eye in the labor market by employees seeking the elusive work-life balance. There’s also increased focus on company culture, with more employees than ever searching for the “right fit.” This means making changes that can’t be replicated by giant corporations, such as creating a more family-oriented environment, offering health and wellness programs, and elevating recognition and awards.

Developing employees. Executives are also seeing a benefit in helping develop employees through greater internal training programs. Many leaders recognize that it is getting more difficult to find—and keep—employees with the right skills and experience for certain roles. Finding the right employee and teaching them the right skills provides advancement opportunities that many employees see as a job benefit.

Awaiting the Pendulum

Few leaders expect the staffing landscape will ever fully return to a traditional 9-5 on-site work environment without at least some changes in amenities. In the meantime, however, those executives who have been willing to adjust to a new “normal” are experiencing fewer staffing issues than those resisting change.

SUPPLY CHAINS: EXPECTING THE UNEXPECTED

It’s become an axiom in today’s market that those with inventory are winning market share. The lament, “I would have had a killer year if I could only get product in” is a common sentiment.

In addition to the availability of goods drastically varying in 2022, so, too, have the prices of these goods, though many executives agreed that prices seem to be stabilizing—or at least not fluctuating as dramatically as they were over the past several years.

Managing the Challenge

Supply chains are so varied and complex that there is no single solution. However, there was one common strategy to manage limited resources: communication. Communicating regularly and clearly with clients has become more important than ever, with the general conversation often revolving around “be patient or accept a substitution.”

- Prices are being raised not only to pass along increased costs to the end user, but also to discourage less profitable deployment of limited resources.
- Eliminating the “sequential build” and not starting processes until all supplies are in place to avoid having half-done projects over long periods.
- Investing in inventory to meet demand and remain relevant for clients.

The previously mentioned staffing shortages also play a role in managing supply chain issues. A few of the mentioned suggestions are:

- Training employees into positions instead of trying to find the right employee with the right skills.
- Opening jobs to larger applicant pools, such as removing geographic restrictions.
- Redeploy excess equipment or staff as possible.

INTEREST RATES: INCONVENIENCE OR OPPORTUNITY

Despite rising interest rates, many executives plan to continue to spend and grow. The perspective of these leaders is that rising interest rates are an opportunity to flush out weaker companies, creating increased opportunities for stronger companies.

Resolutions to address these rising rates include:

Harnessing private equity (PE). Private equity firms continue to have funds to deploy, which creates a capital resource for many organizations. Executives did note, however, that valuations seem to be decreasing.

Employment positioning. As weaker organizations are flushed out, some executives are anticipating the opportunity to better position their staffing by maintaining high-quality employees, releasing those misaligned with company values, and attracting new talent.

Raising prices. As with many other challenges in 2022, a common solution is raising prices to the end user to cover costs.

CYBERSECURITY: THE ENIGMATIC FRONTIER

All business leaders we talked to admitted that cybersecurity was something they were concerned about—and needed to learn more about. This is one of the most difficult challenges facing business owners not only because it is enigmatic and changing, but also because it isn’t a problem until it’s a problem, and when it’s a problem it’s usually a big, expensive problem. Leaders shared horror stories they’d heard about a firm being held for ransom.

Many companies choose to outsource their data management and cybersecurity to maximize resources and expertise without the challenges that come with trying to build an internal cybersecurity team. Some companies choose to seek certifications to better understand and mitigate threats while some industries require special certifications and requirements.

MARKETING: THE POWER OF RELATIONSHIPS

Marketing has always been an ever-changing landscape, but in 2022, the dynamic market and challenges related to supply chain issues and staffing has made finding the right marketing mix more tenuous than ever.

Most CEOs at the event agreed that the most important marketing initiative in the current landscape is client relationships. Focusing on client relationships helps to increase customer lifetime value by growing repeat business, strengthening word-of-mouth, and increasing referrals. Overwhelmingly, business leaders agreed that the best way to improve customer relationships was by providing quality work and problem-solving. One CEO even spends 5% of his time writing handwritten letters to his top customers and employees.

Marketing strategies that many of these business leaders are focusing on include:

Quality of work. Focusing on what you do best and doing it well is exceptionally important in the 2022 and 2023 markets. Repeat customers drive top-line revenue and future growth. Ensuring every customer has a great experience helps to increase customer lifetime value.

Problem-solving. Especially in today's dynamic market- problem solving has been an exceptional tool in driving positive customer relationships. Bringing new and fresh ideas to existing customers is not only a great way to drive revenue, but also helps to strengthen relationships through supply chain and staffing issues.

Brand strategy. Many business leaders agreed that now, more than ever, the strength of their brand is important. Multiple CEOs referenced [Story Brand](#) by Donald Miller as a resource to build their brand strategy.

In addition to strengthening client relationships and branding, many CEOs discussed improving website experience and utilizing outsourced resources to access marketing expertise and efficiencies that they cannot replicate in-house.

CHALLENGES & OPPORTUNITIES

There's no doubt that today's market is exceptionally dynamic, with business leaders facing a multitude of challenges in nearly every aspect of their business. While each business leader manages these challenges differently, the Titan 100 event overwhelmingly reinforced that approaching challenges as opportunities and using ingenuity to maximize resources and quality performance helps to sustain—and grow.