

Uphill Climb: The Impact of Rising Costs (July 2022)

As we learn from the business community, we want to share that information with our community of educators and business professionals. One trend highlighted during a May 2022 business focus panel is the impact of rising costs and supply chain shortages on businesses across the country. The following Action Brief is a synthesis of panel participants' insights and findings from additional research.

How are businesses impacted by rising costs?

Inflation—an increase in the cost of goods and services—is currently one of the biggest obstacles facing consumers and businesses in the United States. While inflation is an anticipated and often even welcome phenomenon (low inflation weakens the economy), it often falls on the shoulders of consumers and businesses when inflation is too high. Right now, according to [data from the Consumer Price Index](#), the U.S. is experiencing the highest month-over-month inflation rates in three decades.

As a result, small businesses are in a challenging position. [Data from Business.org](#) reveals that most small business owners report experiencing a substantial increase in costs necessary for running a business; over 70% reported a cost increase of at least 20% for supplies and services this year. Restaurants, in particular, are juggling high gas prices, an increase in overall food costs, and a desire to support local producers—a combination that panel participants told us results in a decrease in available menu items. According to a [Special Report on Inflation and Supply Chain Shocks on Small Businesses](#), a third (33%) of small business owners rank inflation as their primary concern.

How can businesses respond to rising costs?

The options available for small businesses to combat rising costs are limited. To try and recoup costs, many have raised prices; [data from MetLife and the U.S. Chamber of Commerce](#) shows that two-thirds (67%) of business owners have increased prices on products and services. However, this strategy is not without its challenges. Business owners told us they are wary of unpredictable demand, worrying that customers might be spooked by higher prices and leave companies stuck with inventory they are unable to move. This possibility is exacerbated by the fact that, because of inflation, consumers are now focusing on what's necessary and pulling back on their spending.

As another cost-saving measure, a majority of businesses are choosing to limit **overhead expenses**, money that a business spends on things like payroll, rent, and utilities. Given the aforementioned wariness of unpredictable demand, many businesses are reducing the size of their inventory. [According to Business.org](#), others are reducing costs by limiting marketing efforts, moving to a cheaper workspace, and/or reducing costs on employees.

However, these efforts are also not without challenges. Business owners told us that with 10-15% increases in costs and no corresponding price hikes to the customer, cuts tend to fall on staff who are already working 45- to 50-hour weeks to compensate for worker shortages, leading to worker fatigue (another documented trend.)

Despite the varied challenges of responding to rising costs, inaction doesn't seem to be an option: [according to Business.org](#), "only 17% of small business owners report not changing anything to reduce costs."

How are rising costs complicated by supply chain shortages?

Price aside, acquiring needed supplies has been a challenge for businesses since the COVID-19 pandemic disrupted supply chains starting in early 2020. [According to MetLife and the U.S. Chamber of Commerce](#), “the vast majority (76%) of small businesses are concerned about the impact supply chain disruptions are having on their business.” Supply chain shortages and rising costs are creating cascading issues:

- Supply shortages that drive up costs while in a **price-sensitive environment** (one in which pricing changes affect demand) make it hard to maintain the bottom line
- Negotiating on supply prices is limited because everyone is in the same position—vendors also have rising costs, supply chain shortages, driver shortages, etc.
- Many businesses are simply unable to meet consumer demand, whether because they can’t access products, perform services, and/or maintain property and equipment

What does the future hold?

At some point, what comes up must come down—inflation will eventually “normalize,” although it won’t ever go away. Given the challenges businesses are facing right now with rising costs and supply shortages, small business owners are surprisingly hopeful. [According to Business.org](#), “85% report they feel a stronger sense of support to shop local since the pandemic’s beginning,” and the majority are optimistic for increased spending during the 2022 holiday season. While the future may be uncertain, many businesses are taking steps to weather the storm and emerge even stronger on the other side.

Links for further reading:

- [10 Common Effects of Inflation](#)
- [Inflation This Year and Next](#)
- [What You Should Know About Inflation](#)
- [As Inflation Grips Small Businesses, Here’s How They Are Responding](#)
- [Small Businesses Are Still Grappling with Supply Chain Disruptions](#)
- [How Small Businesses Can Manage the Impact of Supply-Chain Crises and Workforce Shortages](#)

Discussion Questions

- Have you struggled to find and purchase certain items from stores or restaurants? What were they? What types of items might be most impacted by rising costs and supply chain shortages?
- If you are a licensed driver, has the high price of gasoline affected your driving habits or your choices about where to work? Are you carpooling more with friends? In what area(s) are you cutting back on spending so you can afford to buy gas?
- How transparent should businesses be about the effect of rising costs and supply chain shortages? What are the advantages and disadvantages of being honest about their financial situations?
- What are the ethical implications of “passing on” costs to customers who might already be in precarious financial situations? Should businesses be expected to absorb costs even while in similar positions? Are “price hikes” ever ethical—and, if so, under what circumstances?
- What products/services do you try to acquire from local small businesses in your community? Do you understand how this supports your local economy?

Sources:

- [The Effects of Inflation on US Small Businesses](#)
- [Special Report on Inflation and Supply Chain Shocks on Small Business](#)
- [The Impact of Inflation on Small Businesses and How to Manage It](#)
- [Effects of Inflation on Business: The Good and The Bad](#)