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Soaring inflation is putting small businesses in a bind. Here's how they are coping.

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Every six weeks or so, AM Glass Repair owner Aaron Mulherin sees prices on materials go up 12% to 15%, with the price of aluminum doors nearly doubling over the last year.

The constantly rising prices have the Marion, Iowa-based business, which replaces window glass, installs shower walls and more, jumping through hoops to keep up in an industry where a sudden spike in material good prices can wipe out the profit margin on a project overnight but bidding too high means you might not get the project at all.

Mulherin is not alone in feeling the squeeze from record inflation. Inflation has become the biggest concern of small-business owners and accountants alike in recent months, and the problem is only getting worse. The Consumer Price Index rose 8.5% during the 12 months that ended in March, according to the Bureau of Labor Statistics, the largest such increase since 1981.

Mulherin has tried a variety of approaches to control costs, including buying materials in advance to lock in the price. But that poses its own challenges.

"[We're] having to shell out \$50,000 for materials for six to eight months in advance, but we won't get paid until the project is done," Mulherin said. "We could be out that money for a year. It's a tremendous cash flow issue, but it's really the only way we can lock in our pricing."

To complicate matters, Mulherin is seeing the market shift too. He has already begun stockpiling materials for repairs as he expects



BETHANY BICKLEY / ACBJ; GETTY IMAGES

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new construction projects to fade as commercial cost overruns for large projects become more common and clients become more cost conscious.

Small-business owners like Mulherin are also struggling with rising labor costs. The \$17 an hour he offers starting workers can't compete with similar wages Target Corp. and other retail giants are offering for new workers, he stressed, which makes it harder to bid and win projects.

"I don't think people understand the cost of everything is going up and labor is one of those things," Mulherin said. "Just finding people to even show up to apply for a job is a struggle as well."

Inflation has become one of the biggest concerns of small-business owners, as the consumer price index rose 8.5% during the 12 months that ended in March, according to the Bureau of Labor Statistics, the largest such increase since 1981.

A new report by SCORE, a national network of volunteer, expert business mentors funded in part by the U.S. Small Business Administration, found inflation is the third-biggest challenge facing small-business owners now, with 33.9% of 1,000 small-business owners surveyed ranking it among their top three concerns after getting customers and cash flow.

Overall, about 30.5% of business owners are "extremely worried" while 28.7% are "worried but not a top concerned" and 33.8% are "concerned and keeping an eye on things" according to the survey.

Additionally, 65.7% of small-business owners say vendors and suppliers are charging more than they were six months ago, while 62.7% of business owners say profits have declined over the last six months. Meanwhile, 54.8% have passed on at least some of those higher costs to customers, with an average price increase of 11%.

Small-business owners have had to grapple with an ever-shifting set of issues over the last two years, including the pandemic, supply chain disruptions and the labor shortage, said SCORE Vice President of External Relations Betsy Dougert.

"Personally I think small businesses have been through the most challenging period in recent history within these last couple years," Dougert said. "Small businesses are really in survival mode. They are doing what needs to be done to keep their doors open and keep people employed. "

She stressed that small-business owners are resilient and are able to adapt to the ever-shifting business landscape, whether its by changing their product mix, going after more high-end clients or upgrading technology so they can sell more online.

Another survey of small-business owners by digital insurance technology company NEXT Insurance found 91% of small businesses are reporting an increase in prices. About 39% of business owners surveyed said the cost of materials has significantly impacted them over the last six months.

"This substantial inflation is rapidly becoming a crisis for U.S. small businesses, which operate on low-profit margins and have less flexibility than larger companies," said Suzanne DuFore, Director of Research at NEXT Insurance, in a press release announcing the findings. "Small businesses are often the canary in the coal mine for our economy — if they're feeling the intense stress and pressure from these major societal trends that show no signs of slowing down, it's critical for us as consumers and leaders in financial services to be ready to help them out in any way we can."

Meanwhile, companies are pulling out the stops, including raising wages, offering more remote positions and increasingly competing at a global level to attract software engineers of all stripes, according to the 2022 State of Software Engineers by AI-driven talent marketplace Hired. Companies were paying, on average, about \$156,000 for software engineers, while the global average was about \$157,000.

Small-business owners have had to increasingly pony up for workers. About 50% of small-business owners said they raised pay over the last three months, according to a separate survey by the National Federation of Independent Business, a 48-year high.

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