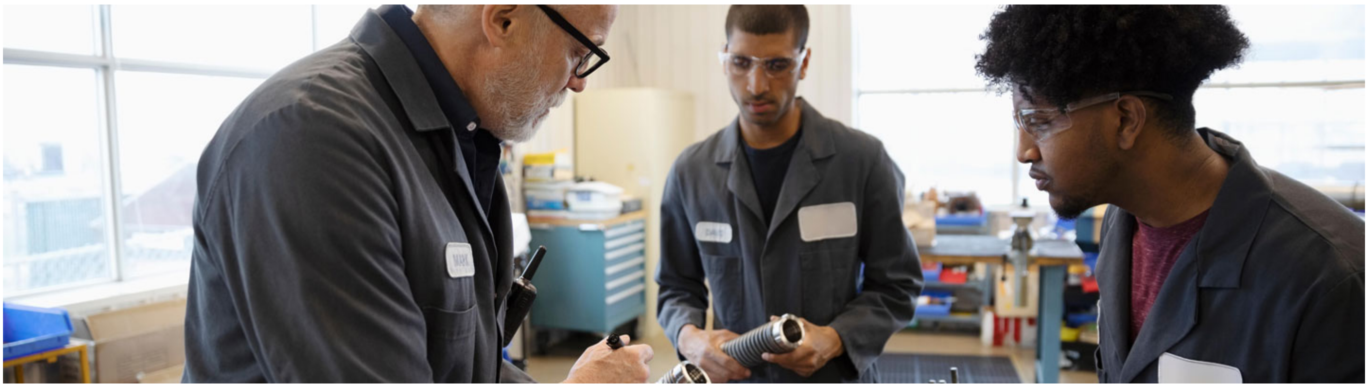

Technology

Managing the Inflation Crisis: 5 Strategies for Manufacturers

Better MRO Editors | Feb 08, 2022

News of inflation abounds these days, along with reports of supply shortages and swooning stock prices. In this uncertain climate, what are manufacturers to do? Here are five inflation strategies.

No matter how you view it, inflation is here and all around us. It's time for companies to build strategies to deal with it.

Recent data released by the U.S. Department of Labor shows U.S. consumer prices posted the biggest increase in nearly 40 years in 2021. Rising prices are the result, in part, of hampered supply chains because of the COVID-19 pandemic. Wages are creeping higher, too. And although there have been signs that supply chain bottlenecks are starting to ease, persistently high COVID-19 cases could slow that progress.

> **The types of jobs that a facility focuses on can make or break it. Although a good mix can increase profitability and make customers happy, the wrong mix can demoralize workers and customers, ultimately leading to higher stress and lower profit.**

Consequently, many believe the too-high inflation scenario will be with us for the long haul. So it's worth asking what manufacturing businesses can do to proactively manage inflation in their operations in the coming months. Here are five strategies to deal with an inflationary environment.

No. 1: Improve Your Shop's Pricing Power

Your business may be experiencing raw material shortages, or your workers may be demanding higher pay. Either way, inflation will translate to higher costs for your business and cut into profit margins, so finding ways to pass on those costs is important to remain competitive.

Boosting your pricing power can improve your competitive position in the marketplace. To do this, look to understand what differentiates your company from the competition and place an emphasis on those products or services, perhaps through an amplified marketing message.

If you determine that you need to enhance your existing offerings to stand out, you may consider bundling products to create new value, rebranding products to justify higher prices, or including free services with high value to customers but low cost to you, such as subscriptions or warranties for products.

If you do raise prices, be careful how you go about it: Include the reasons for the increase (such as higher costs of material and labor), give customers plenty of warning, and deliver the news with customers one on one, if possible.

No. 2: Find and Retain Scarce Talent

As the tight labor market continues, it’s leading to higher wages, especially for hard-to-fill technical positions such as software engineers and specialized metalworking roles.

And as you fill open positions with contract workers, who have leverage to demand higher wages for their labor, expect to do more to retain them, too.

To ***attract and retain talent***, you should develop a human resources strategy that includes enticements such as market-rate pay raises and nonmonetary compensation such as career development programs and employee benefits.

If your employees see your company as a great place to work, where ***they are valued and can learn new skills***, they are less likely to leave simply for a larger paycheck. This is why it’s valuable to focus on creating a sense of community and purpose for your workers.

Read more: Skills Gap Analysis How-To: 5 Steps for Examining Your Training and Hiring Requirements

No. 3: Plan for Higher Prices

For businesses that have the money or can secure bank loans, it might be worth buying essential materials now before costs rise further, according to ***a recent article in The Philadelphia Inquirer***.

Besides materials, forward-thinking businesses are “also investing in property and equipment, which are assets that historically keep pace with rising costs in inflationary times,” the author writes.

Another smart move is to invest in technology to get more work done with the same or fewer people while also keeping overhead under control.

These investments typically are made in automation: robots, ***collaborative robots (cobots)*** and other applications that help manufacturing facilities maximize efficiency and create more products faster. Automation also extends to safety products that monitor workers on the facility floor to ***better avoid injuries***.

Read more: 5 Ways Manufacturers Can Use Data Analytics to Improve Efficiency

No. 4: Take Action to Mitigate Supply Chain Risk

With inflation at its highest level in nearly 40 years and supply chains strained, companies are seeing their inventories shrink and finding it difficult to acquire key raw materials for production.

Sidestep supply chain difficulties by avoiding scenarios such as these, which can add to your list of cost challenges: having single-supplier dependencies, using far-away suppliers (especially those overseas), or depending on raw materials that are perishable or hard to store.

To mitigate the effects of supply chain risk, you may also consider these steps for making your supply chain more resilient:

- Establish alternate supply chains
- Build and strengthen relationships with existing suppliers
- ***Set up a domestic alternative to a foreign supplier***
- Use a supply chain risk management team
- Adopt digital technologies that can help improve supply chain operations
- Review safety stock supply levels

Read more: Strengthening Supply Chains Post-COVID: How to Be Resilient in the Face of Change

No. 5: Consider Your Company's Product Mix

Instead of simply aiming to make more money, manufacturers should also consider whether they are focusing on the best mix of profitable work.

The types of jobs that a facility focuses on can make or break it. Although a good mix can increase profitability and make customers happy, the wrong mix can demoralize workers and customers, ultimately leading to higher stress and lower profit.

You may decide, for example, to reduce the risk of potentially costly downtime by focusing on a greater share of simpler work in your job mix and having more complex manufacturing make up a smaller share of overall output.

Less-complicated jobs can be completed easily and quickly, and by less-skilled workers, while more challenging work generally involves more setups and time on a machine or complex CNC programming.

Ask yourself: Do you need to raise your prices to make up for the production risk?

Actively managing your production mix to suit the economic environment and your company's strengths and weaknesses can make your business more resilient, especially in challenging times.

