

Business strategies for CIOs in high-inflation periods



Part 1: Rising inflation and its consequences

The economic landscape of 2022 is marked by growth in the consumer price index, an indicator with no certain end date that spells trouble for businesses of all kinds.

Due to the confluence of various factors, the annual rate of inflation worldwide more than doubled between March 2021 and March 2022. In the US, it has almost quadrupled,¹ reaching levels not seen since 1981. While the fastest increases in inflation have taken place in Israel, Greece and Italy, in absolute terms most countries show a similar pattern: relatively low levels before the pandemic followed by rising rates since mid- to late 2021.²

The rising prices and the decline of purchasing power caused by inflation are negatively affecting many companies around the world, adding to the troubles brought by the pandemic and to shortages due to problems in the supply chain. With the cost of both goods and wages increasing, many businesses trying to weather the inflationary storm are faced with tough choices, and IT budgets need to adapt to the changing circumstances.

1 - Inflation more than doubled between March 2021 and March 2022 - ILOSTAT

2 - Inflation around the world, over the past two years | Pew Research Center



Inflation more than doubled between March 2021 and March 2022 - ILOSTAT

The annual rate of inflation worldwide more than doubled between March 2021 and March 2022

Part 2:

Strategies to weather inflation →

1. Absorbing the higher costs

A company may decide to take a hit on its bottom line rather than risk their market share or otherwise disrupt the normal flow of business through other measures.

As a standalone measure, of course, this possibility can only be considered by companies with reserves or profit margins ample enough to 'hold their breath' until inflation goes down. For many, accepting a decrease in profits is only feasible in combination with other measures.

2. Passing the extra cost to the customers

While this is a common practice in the business to consumer space, where yearly price increases are the norm, in the competitive B2B environment this measure comes with a higher risk of losing ground to the competition.

3. Reducing fixed costs

While this option looks like the most pain-less one, many companies can't see a way to implement it after having already taken every cost-conscious measure they could think of in recent times, often spurred by the global shock to the economy of the pandemic and the supply chain issues that have bedeviled so many industries. Some of the most common ways to cut fixed costs, and which many companies have explored in recent times, include moving to less expensive premises, reducing staff numbers, cutting down on utility costs and changing suppliers.⁴

4. Reining in spending

This might mean focusing on your core strengths and putting off the development of nascent products or services until more favorable market conditions make it more viable to experiment and engage in efforts to expand your offerings.

5. Ensuring sufficient cash reserves

As inflation rises, the value of money decreases, so a company's cash position might need to be larger than in more buoyant times. Increased inflation also makes debt a bigger danger, as formerly reliable partners have a harder time paying on time or at all.

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Part 3:

IT trends and ideas to counter the effects of inflation

1. Implementing automation and AI

As one of the trends that's expected to deliver the great-est productivity increases in the next few years, the adoption of automation in more and more processes helps free valuable time that knowledge workers can channel into other endeavors, and can help reduce the cost of wages as a smaller number of people can increasingly take on an amount of work that used to require a larger staff.⁵

Similarly, the growing importance of AI in IT environments promises to enhance productivity through the augmentation of current workers, helping them carry out tasks faster and more easily. The maturing ecosystem of AI solutions is steadily making the applications of artificial intelligence more and more accessible, providing companies with the ability to leverage its benefits.

Artificial intelligence has been described by Google CEO Sundar Pichai as “Probably the most important thing humanity has ever worked on

2. Reassessing current expenses

In tough economic times, it's always worth taking a fresh look at suppliers and vendors to ensure your company is getting the best deal possible. This can mean renegotiating terms, seeking a competitive bid from another vendor, or getting rid of expenses which are not deemed critical at this juncture.⁵

For IT managers, this means considering the possibility of switching to third-party support. As a rule, this results in con-siderable savings compared with what original vendors charge for annual maintenance and support, and also opens the door to further savings through the use of refurbished parts, as we'll see next.



3. Extending the life of IT hardware

Finally, many CIOs overlook a way to unlock savings that can play a crucial role in navigating the current economic landscape. The fact is that manufacturing is one of the areas most affected by inflation. Supply chain issues, higher prices for materials and higher shipping costs due to fuel price increases have both increased costs and caused delays on deliveries.

In many cases, however, The IT industry has an ace to play that lets it bypass the need for new equipment: making use of refurbished hardware.

At a time when the costs and delivery dates of equipment range from high to prohibitive, unlocking the value of already-existing machines can be a business masterstroke. Instead of paying high prices for new equipment, companies can acquire refurbished machines at a lower cost, saving money and letting competitors wait in line to disburse inflated prices for new equipment.

Unlocking the value of already-existing machines can be a business masterstroke

4. Sustainable tech

While not an instant source of profits, environmentally sustainable IT operations are becoming more and more crucial and non-negotiable. As customers and investors increasingly look for green credentials, companies that neglect this aspect of their operations can find themselves having to play catch-up and losing valuable time and business opportunities. Meanwhile, forward-looking CIOs understand the value of investing in this area as a means of future-proofing their their companies and remaining a viable option in the eyes of other stakeholders. The growing importance of green IT provides a strategic opportunity that will find some companies better prepared for a scenario in which regulation, market pressure and public opinion render old practices unsustainable.





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