

# **Profitability in the face of inflation**

**How data analytics can help navigate a  
climate of soaring costs and uncertainty**

This whitepaper from Fortude considers the impact of a new inflationary environment on businesses, and looks at how company leaders can mitigate risk and secure competitive advantage by deploying analytics-led strategies.





# A high inflationary landscape

The economic picture we currently face exists as a result of multiple challenges, all of which have converged to create somewhat of a perfect storm. While disruption caused by the pandemic has dissipated, the aftershocks remain very real. Numerous lockdowns and global geopolitical shifts have resulted in substantial supply chain disruption, which in turn has led to price increases across the board, diminished supplier reliability, and poor predictability. The Russia-Ukraine war has exacerbated this scenario, negatively impacting oil and food supply chains, the net result of which is the high inflationary economy we're facing today.

Against this backdrop, running a business is hugely challenging. Whereas once upon a time, business outcomes could be broadly predicted based on various fixed assumptions, this kind of model is no longer viable.

Rising inflation often means changes in prices occur more frequently and more rapidly, and that's without additional pressure from the energy crisis and repayment of government loans issued during the pandemic. This complex, dynamic and unpredictable macro-economic environment means, that in order to keep pace and establish a competitive edge, businesses must instill a level of visibility and agility to ensure fast responses to external threats and opportunities.

Add to this the fact that during a period of high inflation, business gets significantly more competitive, so it's imperative to be able to make confident and informed procurement decisions, faster than ever before.

# An analytics-centric digital framework

Data analytics, a discipline designed to track information with a view to measure business performance and identify trends, has long been adopted to harness insights from which to make faster, better business decisions. In light of the current inflationary environment, the power of this capability has come under the spotlight.

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**Crucially, data analytics can help companies estimate their exposure to inflation, and the insights it generates can be used to create strategies that help mitigate the impact of soaring costs.**

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## A lever for cost cutting

While efficiency has been the goal of digital for decades, data analytics can be leveraged to take cost cutting to new levels, from expediting product design, identifying bottlenecks on the factory floor and minimizing machine downtime, to expediting warehouse processes and delivering greater accuracy across fulfillment. Although increasing sustainability and reducing waste have become part of the DNA of businesses, in a high inflationary environment minimizing the cost associated with waste moves up the agenda somewhat. Having a means of informing sustainability strategies to minimize unnecessary consumption of resources, whether it pertains to energy or fuel, is paramount.

## Dynamic pricing

Improved management of pricing shifts and models to stay one step ahead of competitors, is another area which is prime for data analytics to play a role. Many suppliers have adjusted their terms in light of the supply chain volatility experienced in recent years, and in order to keep pace with this, it's important to understand the market in detail. If payment models are adjusted from annually to monthly, for example, insights can determine the subsequent impact on cashflow to mitigate risk and create accurate and real-time estimates and predictions.

Data analytics can create expectations on appropriate pricing levels based on current inflation rates, to ascertain the value of a particular product or supplier and inform management decisions on whether negotiations are required. Similarly, if a new product is being sold by multiple companies in different geographies, for example, all with different prices and promotional activity attached, data analytics can help organizations understand price volatility and seek out the biggest opportunities for sales.

# Inventory

Inevitably, as things cost more, the value of inventory increases, both of raw materials and finished products. Data analytics can help manage the risk associated with excess inventory, versus the benefit of having critical stocks available.

# Supplier risk

Because suppliers face the same issues as every other company right now, the risk of doing business is on the rise. The days of putting all eggs into just one or two baskets via a single, or co-sourcing model has become increasingly risky. However, multi-sourcing, particularly globally, is comparably risky in light of supply chain volatility which has now become the norm.

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Data analytics can help to understand supplier risk and inform decisions on the risk profile of supplier portfolios, and the extent to which this should be spread.

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# Cashflow is king

While cashflow is perpetually in the spotlight as a lever for profitability, inflation puts additional pressure on finance departments to minimize the gap between payables and receivables. When the value of cash diminishes, the cost of outstanding invoices increases, reducing in lower working capital.

Having the visibility to understand the current cashflow position, and have insights from which to manage it, is a pivotal area from which to leverage intelligence to maximize control.

## KPIs

What is abundantly clear from the level of change experienced in recent years, is that as market dynamics change, so must KPIs. Having the flexibility, therefore, to adjust KPIs in line with new dynamics can help to track issues which arise as a direct result of inflationary pressure. Businesses might need to focus on competitor pricing; social media forums to better understand customer sentiment and experiences; energy costs; the overall profitability of a particular product or service,

or even the number of customers switching brand allegiance. This ability to identify insights and inform decisions is fast becoming a prerequisite of success. And even in favorable market conditions these insights can track trends and identify opportunities, to expedite performance and carve out a niche in saturated marketplaces.



## A confident future

Of course, downturns and recessions are cyclical, and economic storms come and go. The most successful organizations are those which embrace the shifts brought about as a result of new market dynamics, and embrace digital as a means to innovate and ensure the best position once more buoyant times beckon. In light of the current inflationary environment we are all navigating, it's imperative that organizations evaluate their digital infrastructure in order to ascertain its relevance and potential.

As part of a digital backbone, data analytics will increasingly become a standard aspect of business operations in a world where change is the only constant. Through understanding the now, how and what's next, and having the strategies and tools necessary to prepare for some of the most common inflation-related business consequences, organizations are in the strongest position to mitigate these and embrace opportunities.



# Working in partnership

Companies will inevitably be subject to different levels of analytics sophistication, with some early adopters established in the necessary processes, and others using only basic tools.

In the face of inflation, there are two ways to harness the power of analytics to gain support.

## Approach 1:

Start small.

- Identify one single use case or a pressing business issue that can bring value quickly.
- Evaluate the potential value of applying analytics to the problem and use the outcome to improve the process.
- Repeat this approach for similar problems to accelerate the usage of analytics and solve business problems faster.

Once you have identified the value of multiple analytics initiatives, it's time to look at the entire data landscape and draft a comprehensive analytics strategy.

## Approach 2:

Establishing an analytics framework is crucial to ensure a structured approach to data analysis. However, the framework might not be ideal for the current inflationary pressures which organizations are facing. Therefore, it's essential to evaluate the current strategy, technology framework, and most importantly, the business needs to make informed decisions quickly.

By tweaking and realigning the existing framework and strategy, organizations can improve their ability to extract value from data and accelerate business outcomes.

Working with a dedicated, experienced partner who has expertise in this field can save substantial costs and deliver enhanced value by ensuring efforts are focused in the right direction. There is a danger that big data can result in overwhelmed teams and very limited tangible value. A partner can help focus on harvesting the right data to fulfill a particular demand, and using this insight to enhance a particular area, costs and risks can be mitigated, while opportunities to expand profit margins can be exploited.

Ultimately, whether it's inflation, recession as part of an adverse economic landscape, or more buoyant times, there is absolutely no doubt that data analytics will form part of the fabric of successful businesses in the years ahead.

Those who recognize this and embrace strategies which put intelligence at the core, will not only be best placed to weather the current storm, but become the market leaders of tomorrow.

Investing in a robust, comprehensive analytics platform in order to integrate, consolidate and contextualize the complex data sets necessary to deliver the right analytics is crucial, while business intelligence tools can demonstrate insights in a simple, visual way. Capitalizing on the experience and expertise of the right partner can supercharge the extent to which data analytics can support board presentations when building business cases for investment, or to understand customer segments which might simply have become unprofitable to service in light of rising costs.

## About Intellint and Fortude

Intellint (A Fortude brand) is a Microsoft Gold Partner (Data Platform, Data Analytics, Cloud Platform), providing technology solutions in business applications, data & AI. Fortude is a leading global enterprise and digital services company, connecting technology solutions to businesses.

The Fortude and Intellint teams are based out of offices in the US, Canada, UK, Australia, Sri Lanka and India, and have multi-industry experience in implementing projects across multiple locations and continents.

