

# Survey finds 3/4 of mid-market businesses have not taken action to deal with threat of inflation

## International Business Report

**New research by [Grant Thornton](#) has revealed the majority of mid-market businesses have failed to take adequate steps to protect their operations against the threat of inflation.**

Research from Grant Thornton's International Business Report shows concerns about key cost categories running at or very near record highs around the world. Approximately 5,000 mid-market businesses across 28 countries monitored, including the UAE, were surveyed to gain insights into their price increases and the action being taken to mitigate the risks associated with inflation.

**According to the International Monetary Fund, inflation in the UAE is expected to be at 3.7 per cent in 2022, falling to 2.8 per cent in 2023.**

While these are among the lowest levels globally, businesses operating in the UAE are feeling the pressure of increasing costs. The surveyed businesses in the UAE reported cost increases of 18 per cent for energy and utilities, 17 per cent for raw materials and 14 per cent for wages and staff compensation. 16 per cent increases were reported for equipment, bank and interest costs and taxes. Businesses in Turkey, Argentina and India reported the highest increases in prices overall, while Sweden, China and Japan have experienced the lowest increases.

These dramatic price hikes are upending established business rules and look set to continue for the short to medium term. The World Bank has likened the current situation to that experienced in the 1970s, when persistent supply-side disturbances fueled inflation and low economic growth prevailed.

**The majority of UAE businesses surveyed have increased their prices in response to rising costs, with 87 per cent raising prices at the same level or above cost increases.**

Responses from UAE businesses were in-line with the global average, with 32 per cent increasing prices over cost increases to improve margins and 53 per cent increasing prices to exactly match cost increases to protect margins. per cent have opted to absorb cost increases rather than passing the costs onto customers to grow their market share, but this is unlikely to be a sustainable approach in the longer term.



**Samer Hijazi**, Abu Dhabi Office Managing Partner at Grant Thornton UAE, said:

*“The price increases we are witnessing from businesses around the world, including those in the UAE, are an extraordinary display of pricing power. These recent price increases have been supported by a perfect storm of strong demand and supply shortages, but this situation won’t last forever. Mid-market businesses need to take a range of different, proactive steps to deal with inflation in the longer term. They can’t simply continue to price their way out of this problem.”*



Despite most businesses increasing prices, only one-quarter of the respondents are taking action beyond price increases to plan for managing inflation. The most active countries in terms of businesses taking strategic preventative measures are Nigeria, India and Singapore. The UAE, on the other hand, falls into the lower half of the table.

**While 37 per cent of UAE businesses are changing their pricing strategy in line with cost increases and 31 per cent are focusing on product or service differentiation, only 14 per cent are taking action to reduce levels of debt or interest.**

To provide guidance to mid-market businesses, Grant Thornton has released the [“Essential action plan for managing in inflationary times.”](#) The seven-step plan can be used to assess the current priorities and progress of companies and provides practical guidance on how businesses can adapt to mitigate inflationary risks.

Hijazi explained: “The first step for any UAE-based organisation, whether trading locally or internationally, must be to identify and mitigate the risks of inflation to the business. Inflation touches all parts of a business, so the best plans will have the most points of view. Once a plan is in place, businesses need to take action to limit external cost increases. This could include locking in prices, bulk buying, renegotiating terms with suppliers or even changing suppliers. In a high inflation environment, these basic countermeasures can make a significant difference in limiting costs and protecting margins.”

Other actions in the plan include outsourcing more activities to lower costs and ameliorate labour shortages, gaining a better understanding of the true cost of serving clients, changing price strategies so they are more in line with cost increases, taking action to improve capital structure, and taking steps to improve internal efficiency and costs and reducing waste.

Of these recommended actions, taking steps to improve internal efficiency and costs and reducing waste proved to be the most popular globally. Only 4 per cent of the surveyed businesses were taking no action at all.