

Tactics to Combat Spiraling Commodity and Raw Material Inflation

No Company Can Escape Overall Trends, but Mitigating the Impact Can Improve Profits, Offer Competitive Advantage

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In this period of rapidly rising commodity prices, there is only so much procurement managers can do to minimize the impact on company costs and profitability.

But every percent helps, and savvy procurement managers use a variety of strategies to mitigate the tide of rising commodity and related raw materials and component pricing.

Herb Shields, president of [HCS Consulting](#) and Purchasing Management instructor at the Illinois Institute of Technology, recently offered these ideas to combat rising purchasing costs:

- Do not accept increases based on “dear customer” form letters or e-mails. You should require a face to face discussion regarding any proposed increase, **before it takes effect**.
- For commodities that are significant to your product cost, involve everyone who can help in preparing for a negotiation. Can engineering offer a substitute? Are requirements going to be up or down for the balance of the year? What can we ask the supplier for in return for accepting an increase?
- Delay is a good tactic. Can the supplier hold off until all materials that are in the pipeline are used up? Can we wait until our new standards are in place? Can we have 60 days to notify customers? Any queries that need to be answered work in your favor, so be creative.
- Ask for a fixed period of time for any new pricing, even if it is as little as 30 days, that’s better than no guarantee.
- Reconsider those suppliers who had been trying to get some business in the past. They are more willing to negotiate than the incumbents.
- Management must get involved for two reasons –

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first, your purchasing people are feeling pretty lonely on the front line. Second, it’s harder for the salesperson to face the company president or owner than his or her usual contact.

- Can you purchase any material at the old price? Will the supplier honor the current price on open purchase orders?
- Retroactive increases should be refused, your customers would be offended, and you should be also.
- If the proposed increase is based on a raw material or energy price change that is part of the supplier’s cost of goods, make them work through the usage content calculation for your specific item.
- If there is a raw material escalation clause, make sure there is also a clear de-escalation clause for raw material decreases as well (something vendors – surprise – have a tendency to overlook).

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