No Time to Buy: 12 Steps for Avoiding Price Increases in Unstable Times

The perfect storm of Brexit, Covid, fuel and labour shortages have set the stage for inevitable price increase requests from suppliers. And while proactive cost-containment is ideal, it's not always possible. Here, SUPC Head of Procurement Services ***Rob Johnson*** *outlines effective steps to help university procurement professionals avoid price increases – and if they can't, limit the damage.*

The media and newsfeeds are awash with stories about price rises and supply shortages – it can feel a bit like we're on the precipice of economic collapse. And given the escapism that films like the most recent James Bond thriller *No Time to Die* provide, it can be tempting to head to the cinema, turn off our devices and ignore the problem. I think we all know that won't really work, unfortunately.

The news headlines describe a perfect storm driving price increases and price volatility with Brexit, Covid, fuel price increases and commodity shortages all contributing to huge uncertainty. Just this week, **Rishi Sunak publicly said he could make no promises about 'saving Christmas'** in the face of global supply chain issues (and I wonder if we can contract 007 in to lend a hand).

Given the lack of a magic bullet that can instantaneously resolve supply chain issues, the likelihood of a supplier price increase request is high. However, how you choose to engage with the supplier to avoid an increase or to secure a settlement will have longer-term implications beyond the immediate surge in pricing. You can use your response now to demonstrate your insight and expertise to suppliers that will serve to stand you in good stead for the future.

Avoid the Problem, If you Can

First, it is vital to understand the importance of **pro-active** cost containment that anticipates potential risks and exposures and campaigns to limit increase requests. Core to such a campaign, procurement teams need to monitor commodity and price movements and to condition suppliers early – hopefully, before increases are requested – that price increases are likely to be refused by your university.

Supplier price increases should be considered as “requests” and not as “demands”; be prepared to discuss and push back. It is important to maintain reasonable and objective behaviours when interacting with suppliers; they and their staff have long memories and, as is human nature, they may prioritise support to favoured customers. University procurement professionals will not want to do or say anything that will compromise the continuity of supply or jeopardise future pricing once conditions return to being more buyer-friendly.

You’ve Received the Price Increase Request – Now What?

Once you receive the price increase request your first step should be to re-consider portfolio analysis (**Kraljic Matrix**). How might this commodity’s position have changed on the matrix? Has *market difficulty* changed and therefore have the required objectives and appropriate behaviours changed? The recent issues with petrol supplies are a good example to explore. In “normal” circumstances people may choose to fill up based on the lowest price they can find or at another time or location which fits in with their plans (minimise effort). Because of the perceived issues with scarce availability (increased market difficulty) behaviour shifted to queuing to secure supply (minimising risk). Petrol moved (temporarily) from the *acquisition* quadrant to the *critical* quadrant.)

So, given there are very real challenges for suppliers in today’s context, how can we prudently respond to a supplier price increase request?

1. **Understand cost drivers**
    - Labour: Wage rates have remained largely unchanged. What is the justification for increasing pay?
    - Materials: Not all materials are increasing in cost. Seek evidence.
    - Overheads (indirect costs): Given the rise in container costs and fuel prices, transport costs have increased but such increases are only applicable to *part* of the total product cost.
    - Profit: This should not be applied as a percentage value. It goes without saying that any “cost plus percentage” pricing mechanism benefits from increased costs. At the very least, agree a fixed-profit element and isolate from variable costs.

2. **Ensure internal alignment**. Ensure a consistent understanding and approach across all stakeholders. Keep your contacts informed and manage communication channels/points to eliminate the risk of a supplier (intentionally or otherwise) exploiting a weak link.

3. **Reduce exposure or usage**. Eliminate or reduce consumption and investigate alternatives. No usage equates to zero increase.

4. **Refuse**. How easy will it be to resource or switch supplier? Emphasise the value of business that the supplier is putting at risk through submitting such a request.

5. **Challenge**. How credible or defensible is the proposed increase? Which cost elements are increasing and by how much? Demand evidence and justifications. Capture information from suppliers justifying the increase to improve your own understanding.

6. **Validate.** Tie increases to agreed benchmarks and indices. Insights gained through discussions with suppliers at this point may yield value and inform future pricing negotiations.

7. **Defer**. Push back the date when the increase might be applied. Time-restrict or limit the period in which increases will be in place. Extend payment terms to delay impact or offer to accelerate payment if that would help you avoid the price increases.

8. **Review.** It is important to establish the real impact of the proposed increase(s). Suppliers may typically announce a blanket percentage figure encompassing a wide range of items or part numbers to hide differentials applied to items within the range. If the items you use are subject to a higher increase than the zero-increase applied to items you do not use, then the real impact for you will be greater than the average impact referenced by the supplier.

9. **Compare**. How is the supplier applying the increase across the range of goods and services that you buy? If they are imposing a blanket increase you should challenge it to see whether the impact across cost drivers is common across all products. If there are different levels of labour or material involved, that may suggest a variable level of increase is more appropriate. You should also seek to compare notes with other users to determine whether they are also faced with the increase proposed. The Higher Education procurement community are excellent at sharing information and insights. SUPC has several very active mail groups with members that use each other as sounding boards. Have you been singled out for the increase? Even if others have been approached, what justification or supporting evidence have they been given? How consistent is the supplier being?

10. **Offset**. Are there other value-adds which you can secure from the supplier which would cushion the impact?

11. **Record and report**. It is important to record the value of the increase incurred and of the containment achieved in limiting the impact. You should share these values with stakeholders and finance teams so that they can determine budget impacts can and make appropriate adjustments to future budgets.

12. **Revisit.** Make a note to review and re-visit the increase in the future. Have circumstances or cost pressures changed meaning that the increase is no longer appropriate?

We are fortunate that recent years have offered periods of stability and limited exposure to cost increases. We are currently experiencing a period of minor instability, but it is important to recognise that such periods do present procurement teams with a good opportunity to demonstrate their value to the organisations they serve, which should yield in turn scope to extend reach and credibility with stakeholders.

If you need support with your procurement, please contact your local consortium:

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