

## Weathering Unexpected Price Fluctuations in Energy and Raw Material Costs

The current global recession has widespread implications for manufacturing companies. From rising energy costs to unexpected fluctuations in raw material price levels, unforeseen obstacles are destabilizing supply chains and making it difficult for manufacturers to remain in the black.

As the prices of raw materials fluctuate it is up manufacturers to either absorb additional costs, find new ways to mitigate the expenses, or pass price increases along to consumers who are already reluctant to spend. Price fluctuations leave no room for error when planning a project budget and have many manufacturers walking a thin line between success and operating at a loss.

If your manufacturing company is struggling with the rising costs of raw materials, consider these proven strategies for weathering the difficult economic climate:

1. **Find new suppliers.** When the price of raw materials suddenly increases, some manufacturers search for new suppliers that allow them to maintain revenue targets. Often this means sourcing materials from lower-cost economies. This sounds like an easy workaround for manufacturers faced with rising material costs, but working with a new source means working with new risks as well.

Making the switch to a different source of raw materials carries a high risk of disrupting the supply chain. It is especially difficult for manufacturers to know whether a new source will be able to remain a reliable and consistent partner. Forging relationships also means extra management costs to ensure the transition goes smoothly. While avoiding price fluctuations by finding new suppliers may offer significant initial savings, it's still important to do your research to find a reputable supplier you can trust.

2. **Build strong relationships.** Another way to weather raw material and fuel price fluctuations is to concentrate on building close, collaborative relationships with all of your suppliers. The stronger the relationship, the more likely it is that you'll be able to compromise with your sources to reach fair price balances that benefit everyone. Even in difficult times it's possible to find a balance, though it's much easier when you've been working with a trusted supplier for a lengthy period of time. Don't expect preferential treatment from new sources that you haven't forged close ties with.

In the past, mid-size manufacturers only concerned themselves with locking in raw material prices for their own needs. Nowadays it makes sense to implement aggregated buying techniques that not only protect your company from price fluctuations, but also protect the suppliers you depend on. Developing these types of relationships to leverage aggregate buying power helps to insulate the entire supply chain from volatility and skyrocketing costs.

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## Weathering Unexpected Price Fluctuations in Energy and Raw Material Costs (cont'd)

3. **Bulk-Buying.** In the world of manufacturing those who can afford to purchase bulk are the ones least likely to be affected by sudden price increases. Bulk buying means extra leverage when working with suppliers, and companies with a large manufacturing base often have the luxury of controlling the relative prices of the materials they purchase. Unfortunately, bulk purchasing is a bit of a Catch-22 in poor economic conditions when manufacturers are cutting costs and avoiding new spending. Nevertheless, if your company can find a way to use bulk-buying to its advantage it can lessen the impact of fuel and raw material price fluctuations.
4. **Thinking outside of the box.** Runaway material costs have many manufacturers re-thinking their products and searching for innovative new ways to accomplish their goals. Companies that can no longer afford to absorb the costs of high-priced plastics and metals are instead putting money into developing and finding new lower-cost materials for the job. Thinking about new methods of product development can certainly pay off in the long run, as Goodyear Tire & Rubber Co. recently demonstrated by focusing on increasing its usage of synthetic rubber to mitigate the rising cost of natural rubber.
5. **Cutting costs in other areas.** When all else fails, go back to the basics to protect your manufacturing operation from price fluctuations. If you can't absorb additional costs or pass them along to consumers, it's time to search for other ways to expand your profit margin by cutting costs elsewhere. Cutting expenses is never easy and always depends on the unique circumstances of your business and the industry it operates in. However, remaining lean certainly offsets some of the pressure you'll feel from suppliers who constantly ratchet up prices.

*When the price of energy and certain raw materials begins to climb, one thing is for sure: it's time to get proactive to protect your business. Companies that resort to a policy of waiting for prices to normalize are setting themselves up for inevitable failure, while those that adapt and adjust to new market conditions grow stronger and more profitable. All it takes is some business sense and creativity to find new ways to mitigate rising costs: mix these proven strategies to help your manufacturing business weather any economic recession!*

### SOURCES:

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