



CHECKLIST: MANAGING COST INCREASES

COUNTRY: ALL

PURPOSE

Working with the current price and supply chain issues can mean your materials pricing changes monthly, even weekly.

This can become a profit killer if you do not have some controls set up to manage price volatility.

This checklist is designed to help you identify some controls you can implement in your trades business to pass through price increases and reduce your exposure to cover the price increases from your margins.

Note: This checklist is not designed for subcontracting to builders or construction firms where you will need to agree a cost fluctuation arrangement in advance inside your construction contract.

HOW PRICE INCREASES AFFECT YOUR BUSINESS

Your clients may still be working to an assumption that it is a 'buyer's market'. They may think you can compete on price to 'win their work'. However, those days are limited as you have little to no control over materials prices.

You lose your margin if:

- You charge the same amount as last year (or quarter) and you haven't increased your margin
- You hold preferential rates for repeat client work which includes materials
- You meet the cost of the price increase and have no other way to recoup this amount

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PRICE INCREASE CONTROL CHECKLIST

Use the checklist below to select some or all of these controls to protect your profits and improve your chances of getting paid in full for your materials costs.

PRICE INCREASE ISSUE	CONTROL	
Prices change frequently	Update the footer on your quote/estimate template to reduce the validity period of your pricing. E.g. from 30 days to 14 days Sample wording Materials prices supplied are subject to change. These remain valid for [14] days (Validity Period). Quotes or estimates accepted after the Validity Period will be subject to update for materials.	<input type="checkbox"/>
Your quoting software has a validity date pre-set.	Unset it so you can manually insert the validity period for each quote or estimate. Or update the default period from 30 days to 7 or 14 days.	<input type="checkbox"/>
Your price list is out of date	Get an updated price list from your supplier each fortnight OR subscribe to update alerts.	<input type="checkbox"/>
Your quoting software has prices pre-set inside it	Ask your bookkeeper or administrator to update your price book / chart of accounts / standard costs & mark-up inside your software with updated prices.	<input type="checkbox"/>
Cash flow is tight	Take payment for the materials at the time of ordering instead of when the services/job starts or finishes. Collect the cash in ready for when your supplier trade account is due to be paid.	<input type="checkbox"/>
You feel awkward talking about price increases with your customers	Update your cover email that you send with your pricing (and if you haven't customised it yet, do this now). Make your email and your quote/estimate wording do some of the hard work.	<input type="checkbox"/>

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	<p>Include some wording to explain:</p> <ul style="list-style-type: none"> - When you will request payment (at time of ordering) - How prices are subject to change at the moment - That you will invoice your customer for the price as at date of ordering - That the price may have changed since date of quote 	
Your customer needs a firm quote as they're applying for finance	<p>Take a look at the last 3 months of prices for a routine item or material you order. Work out the price change in % (your trusty bookkeeper can help with this).</p> <p>Load this plus an extra 5% for more movement into your materials pricing on your quote. Price up to manage the risk.</p>	<input type="checkbox"/>
Customer comes back after a long period since last quote issued.	<p>Quotes are not binding. You can respond by explaining the quote requires an update.</p>	<input type="checkbox"/>
You're on an agreed service rate for a preferred customer (e.g. strata, property management company)	<p>Check your T&Cs with this customer.</p> <p>Chances are your labour rates are fixed but you can charge for materials at cost + margin.</p> <p>If you've agreed a materials price list, check if you have a review date to update.</p> <p>Or ask. Everyone is squeezed now, all their tradespeople are in the same position.</p>	<input type="checkbox"/>
You risk turning away work because you can't source materials.	<p>Buy in bulk when supply is available. Store in your own yard, home, rent space or share space with another tradie to warehouse.</p> <p>Works well if you know you'll get work to meet the upfront cost to pay you back.</p>	<input type="checkbox"/>

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Remember to check who will insure and chat with your insurance broker.



Sian Wingate is the director of **Tradie Terms**. A service that offers **terms of trade for tradies across Australia and New Zealand**.

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