

Industry Report

Entering into a Contract to Procure Plastic Ware and Glassware? Have a Price Clause.

Hareesh Reddy Kalavakunta, Beroe Inc, hareesh.kalavakunta@beroe-inc.com

Raw material prices of the plastic ware and glass ware are subjected to increase substantially in the coming years due to suspected supply disruption and regulated mining respectively. This will have a major impact on the procurement budgets in the following years. Hence, it is advisable to have a price clause if entering into the long-term contract with supplier newly. This article provides an overview of the price fluctuation of raw materials and its impact on lab supplies.

Introduction

In the wake of volatile economic conditions, fluctuating raw material prices is the only stable thing both in frequency and in value. With net margins typically less than 10 % and cost of goods sold absorbing up to 70-80% of revenues, manufacturers do not have much capacity to absorb raw material commodity price swings irrespective of the product category.

It is therefore necessary for the buyer to study the raw material price trend to make an informed decision on the procurement of the final product from the supplier. This will also serve better during price negotiation with the supplier.

Lab Supplies and Consumables

Glassware and Plasticware contributes to the significant portion of lab supplies and consumables. PolyetheretherKetone (PEEK), Purified Terephthalic Acid (PTA) and Polyethylene Terephthalate (PET) are the major raw materials for the manufacturing of plastic ware used in labs while glass sand and quartz are the major raw materials for the manufacturing of glass ware which is predominantly used for the liquid/chemical handling purpose in the labs.

These raw materials contribute to almost 1/3rd of the total cost of the final product. The price of the raw materials will have direct impact on the price of the finished product. Therefore, a slight increase in the price of the raw material will have a major impact on the margins of the product for the suppliers.

Suppliers are under tremendous pressure to maintain the stable price of the final product by sacrificing their margins but it is inevitable that the price increase is necessary to sustain in the market.

Unlike other costs, the cost of raw materials fluctuates very often, sometimes daily due to supply fluctuations from the downstream industry. In spite of the risk mitigation strategies, such as, financial hedges, operation hedges, buffer stock and the price increase management teams, the price change can only be minimised but cannot be stabilised.

Any changes in the downstream industry will have a significant impact on the price of the product on the midstream and upstream industries.

Cost Structure of Lab Consumables

1) Direct Expenses:

- Direct material - 30-35%
- Direct labour and utilities - 20-25%
- Surface treatment (Technology) - 10-15%

2) Indirect Expenses:

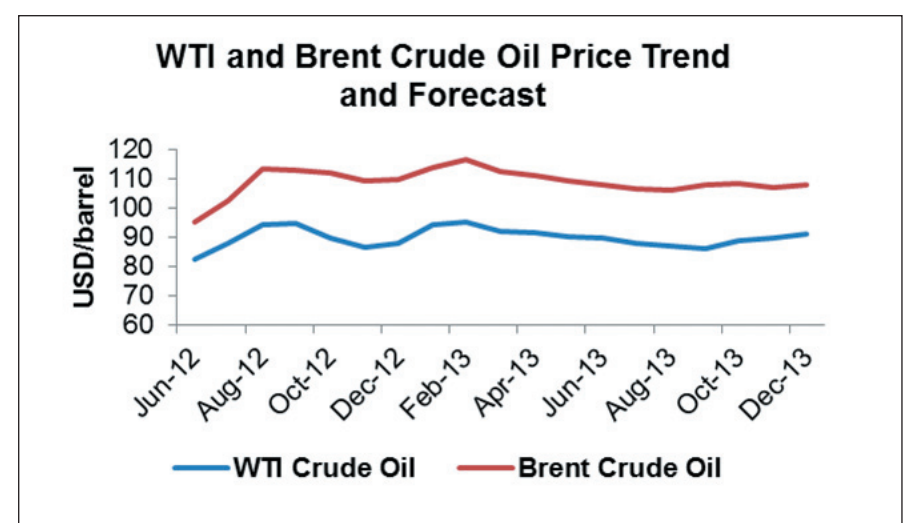
- Packaging + Distribution + Warehousing + Sales force+ Others - 20%

3) Taxes + Duties: 5-10 %

Raw Material Outlook

Value chain of Plasticware: Crude oil ⇒ Petrochemical ⇒ Polymers (PEEK, PTA & PET) ⇒ Plasticware

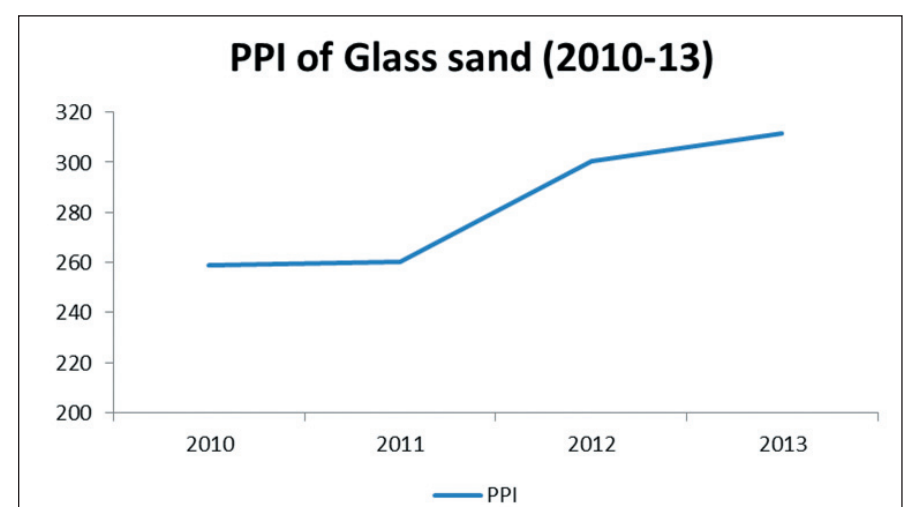
Crude Oil (base raw material for plasticware)



- Since 2010 crude oil prices are showing the upward trend despite the global slowdown, due to the speculation that there will be supply disruption from Middle East due to existing geopolitical situations and this trend will continue until 2016.
- Increased shale gas exploration had a check on fixed cost involved in the production of crude oil. Hence the price of crude oil didn't increase much during 2011-12 and it is expected to remain the same in 2013.

Value Chain of Glassware: Glass sand ⇒ Quartz ⇒ SiO₂ ⇒ Glassware

Glass sand (base raw material for glassware)



The PPI (producer's price index) of glass sand is increasing rapidly because of the decreasing sources of glass sand as more regulations are protecting the metamorphic terrains across the globe through regulated mining. Chemical, construction and glass manufacturing industry are fiercely fighting for the limited availability of the glass sand. In consequence the producers are keeping high margins on the raw material. PPI of glass sand is showing an upward trend and is expected to grow at the same rate for the next few years and this will have significant impact on the prices of products manufactured from it, such as, glassware.

Conclusion

Among the raw materials of lab supplies, the prices of glassware is expected grow in the coming years due to the high demand for glass sand from other end user industries. On the other hand, the price of the crude oil is also increasing after having a more or less stable run until this year end. Therefore, it is better to engage with the suppliers now, on a long-term contract with specific clauses to negotiate prices in order to have a stable price on glassware and plasticware in the coming years

About Author

Hareesh Reddy Kalavakunta is a research analyst with the Lab Equipment and Maintenance domain. His professional role comprises of efficient project execution, along with authoring white papers and articles. He has 15 months of experience in market research in the field of lab equipment, supplies and PPE.



References

Crude Oil prices: Beroe forecast team

Glass sand: <http://www.bls.gov/ppi/ppidr201202.pdf>

Read, Print, Share or Comment on this Article at: Labmate-Online.com/Articles

