TOUCH

How can construction companies protect themselves against rising building material costs?

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Who we are

Touch Financial is an award-winning invoice finance brokerage which is part of the SFP Group. Over the years we've helped thousands of construction companies improve their cash flow position with our expert advice and introductions.

In the current inflationary environment, we're supporting more and more construction companies who are finding that their cash flow is becoming strained by rising building material costs.

This guide will give you some handy steps you can take to protect your business from this.

“

Jacob got in touch with us after the Initial enquiry... He has provided a quick & excellent advice with the available options based on our situation.
We found him truly connected in the market & was always helpful in providing the relevant information.

”

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Introduction

The recent economic climate has created something of a perfect storm for rising costs within the building industry.

Factory shutdowns and labour shortages during the coronavirus pandemic led to a scarcity of common building materials, which has been exacerbated by an increase in demand for both new housing and home renovations.

- Post-Brexit checks and delays at the UK border are making it harder for firms to get hold of goods that have been imported from overseas.
- Inflation has been at its highest rate in decades, resulting in higher fees from material vendors.
- High fuel prices have been pushing up the value of energy-intensive manufacturing and shipping materials.
- The conflict between Russia and Ukraine – and, specifically, bans on conflict timber from Russia and Belarus – has caused fresh shortages of vital materials globally.
- A series of meteorological events – including wildfires on the west coast of the USA – have also impacted the supply chain.

Experts cannot predict when these prices will decrease, if at all, which is of little comfort to businesses.

Construction material prices rose 20% between January 2021 and January 2022, and spiked again significantly in Q3/Q4 of last year. The price of fabricated steel is one of the biggest contributors, having increased by more than 120% in just 7 years from 2015 to 2022 – but almost every material or fixture is more expensive now than it would have been at the start of 2021, by some margin.

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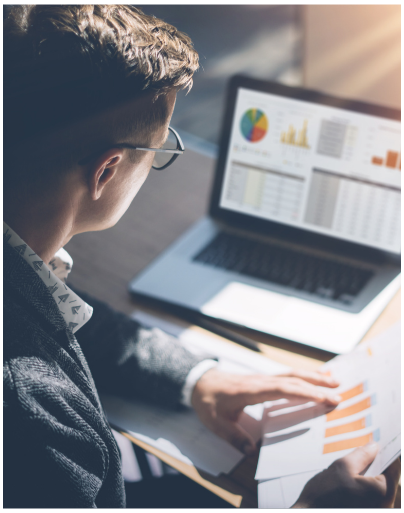

1.Monitor the market

To predict changing costs before they happen – and stay one step ahead of your competitors – make sure you keep up to date with current market trends, including supply and demand dynamics, currency fluctuations, and geopolitical events that may impact your sector.

2. Plan and budget carefully

It's not always easy when you're balancing the needs of your client with those of your contractors. But to stay on top of unexpected overheads, you need to develop comprehensive project plans that include detailed budgets and contingency strategies for price increases or supply chain disruptions.

> *Effective cost control often comes down to constant evaluation of the market*

3. Keep your expenses under control

Tracking costs closely is a must, as is implementing measures to prevent overruns. Effective cost control often comes down to constant evaluation of the market, not to mention always having a Plan B (or C!).

> *To account for project delays that could push back your invoicing dates, consider adding more milestones to your schedule*

4. Ask for milestone payments

Many construction firms already bill for projects in milestones instead of charging monthly payments based on the value of the works. To account for project delays that could push back your invoicing dates, consider adding more milestones to your schedule, or increasing payments in the earlier stages to increase cash flow.

5. Optimise your material inventory management practices

Better management of your resources will minimise waste, theft, and spoilage. It will also prevent overstocking at times when material costs are fluctuating.

6. Use alternative materials

Some materials are less affected by price increases, such as sustainable or recycled materials. Now is a good time to consider incorporating these into your projects. In the longer term, you may also benefit from exploring modular or prefabricated construction methods that require fewer materials.

“Some materials are less affected by price increases, such as sustainable or recycled materials. Now is a good time to consider incorporating these into your projects.”

7. Engineer more value from your projects

Where possible, reassess your building designs and specifications to identify cost-saving alternatives or substitutions (without compromising the quality of the build or the safety of those involved in the project, of course).

"Where possible, reassess your building designs and specifications to identify cost-saving alternatives or substitutions"

8. Maintain your insurance coverage

Having the right policy in place could save your business from financial ruin. Make sure you review your insurance coverage to ensure you are suitably protected against material price fluctuations as well as business interruptions or supply chain disruptions.

9. Keep communicating

Always talk to your clients transparently regarding potential material cost increases, and discuss options for managing cost impacts, such as adjusting project budgets or timelines. Consider negotiating longer-term contracts to lock in more attractive prices and be sure to develop relationships with multiple suppliers; this will give you more flexibility when it comes to sourcing materials.

10. Explore invoice finance options

There are plenty of finance options available – including invoice financing, which can usually be accessed by companies with proof of accounts and a turnover of over £50,000 per year.

By setting an invoice finance facility in place, you can increase your cash flow to protect yourself against rising building material costs. Your projects will be more likely to run to schedule, and you'll be able to take on the larger projects you need to grow and scale your business faster.

You won't need to put up your existing plant and materials as collateral to enter into an invoice finance agreement.

What's the difference between invoice discounting and invoice factoring?

Both services can be used to release the funds tied up in your unpaid invoices.

In factoring, your invoice finance company will chase customer payments on your behalf. In discounting, you retain control of your own credit control processes. You can learn more about how each solution works here.

The right invoice finance facility will free up the cash you need to:

- Meet your existing financial obligations
- Develop the skills of your existing team members to enhance the quality of your workforce and improve staff retention
- Ensure all staff and contractors are paid on time, every time
- Invest in bigger assets, such as plant and equipment

You won't need to worry about:

Late payers: If you enter into an invoice discounting agreement, your factoring company will manage the credit control process on your behalf, working behind the scenes to get the cash into your bank with minimal disruption to your operations and minimal impact on your client relationships.

Long payment terms wreaking havoc with your cash flow: Many invoice finance plans enable you to be paid the outstanding monies within as little as 24 hours, so you can confidently issue longer payment terms to your customers without suffering the financial fallout.

Unexpected fees: All costs will be outlined at the start of your contract.

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Transform your invoicing processes to tackle rising costs and all-too-common cash flow issues. Speak to Touch Financial today.

Our team can introduce you to a range of invoice finance services and help you settle on a solution that works for you and your business.

If you already have a facility in place, we can carry out a no obligation review of your agreement to make sure you’re getting the most favourable rates.

- **FCSA accredited**
- **Award-winning service provider**
- **Free advice from expert brokers**
- **Free, no-obligation quotes**

Interested in learning more?

Get in touch:

https://www.touchfinancial.co.uk

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