

2022

How You Can Save on Material Costs and Improve Your Bottom Line



Economic issues are increasing

If construction bidding was tough pre-pandemic, it's even more challenging now. Prices on almost everything have gone up, from fuel to labor and beyond, yet bidding on jobs is as competitive as ever. In this climate, contractors must do all they can to be efficient with their costs to remain viable businesses.

Construction material prices have been among the highest cost hikes contractors have had to endure. Material costs experienced extreme jumps when the pandemic first rocked North America in the spring of 2020. While some prices rebounded over that year, most are still significantly pricier than 2019.

Flat steel prices rose by over 130% last year, while copper prices saw a nearly 9.5% jump. On average, material costs increased by 17.5% during 2021, and analysts indicate high prices and volatility will continue over much of this year. As a case in point, after reaching record highs in 2021 and a nearly 50% drop, lumber prices remain higher than their pre-pandemic levels.

17.5%

**Avg. material
increase in 2021**

90%

**of contractors had to
wait for supplies in
2021**

Economic issues are increasing

Materials can be tough to source, too. Aluminum and steel are among the list of backlogged supplies, and builders who are trying to acquire them face long wait times. According to the National Association of Home Builders, over 90% of contractors reported having to wait for supplies last year. This is expected to persist through 2022.

Despite these detractors, the US construction industry expects growth in 2022, thanks partly to the federal infrastructure package released last November that will spur increased construction activity across the country. Contractors striving to stay competitive in this atmosphere must manage costs strategically.

Challenging market conditions may disproportionately affect small trades and self-perform general contractor businesses. Operating on smaller budgets with less bandwidth for storage, these smaller contractors are more likely to purchase materials immediately before installation. They are less likely to absorb those costs and have to pass them along to customers. Contractors with larger businesses may be able to buy materials in bulk and store them for future jobs in their own warehouses, a tactic that helps alleviate material wait times; however, it adds another layer of complexity to managing and tracking materials.

Facing these challenges, contractors must make the most of their material purchasing and management processes to save where they can. This is a guide to saving as much money as possible on material procurement and use.

“Whether it's pricing or it's stock availability, you have to reach out to your partners and see who's got the best price, who's got availability, and who can get it there when you need it.”

John Mraz

Owner, Einheit Electric Construction

Improve Preconstruction Material Planning



The preconstruction phase can have a massive impact on the efficiency of a project. Planning that encourages input from roles with diverse expertise, from estimators to project managers to field supervisors, can offer opportunities to identify inefficiencies in the project plan and get everything right the first time.

Similarly, improving your process for putting together a bill of materials (BOM) can help you realize cost savings on your materials.

A bill of materials (BOM) is a list of all materials needed to complete a project and the estimated costs associated. Ensuring your BOM is accurate and complete before you break ground may improve efficiency in the planning and material sourcing processes.

Creating a BOM requires information from blueprints and designs and consultation with the architect, engineer, and estimator. It includes material types, amounts, and estimated prices. Like other aspects of the preconstruction phase, a complete BOM can benefit from input from the entire project team.

Estimating material costs this early on in a project can be time-consuming and requires project planners to employ a lot of knowledge about the project itself and material markets. However, taking the time to do it right can serve the rest of the project well.

When complete, a BOM will serve as a single source of truth for project material costs and will educate project estimates, ultimately improving your odds of making a profit on the project in a few ways.

Detailed preconstruction gives lots of lead time for material ordering. The extra time allows the procurement team to leverage lower market prices. By contrast, short-notice or next-day material orders leave no room for comparison or pricing negotiation, so the contractors are stuck paying current material prices to keep the project moving.

Accurate preplanning means you may be able to buy some of your materials in bulk and realize a supplier discount for doing so. Storing your materials may not seem very convenient, but doing so may help avoid project delays following material backlogs.

Arizona company K2 Electric provides an excellent example of how comprehensive project planning can improve outcomes. K2 Electric strives for 90% takeoffs on each project, meaning that almost all common materials are in their possession before work starts. The method helps keep projects on time and on budget, which is a win for everybody involved.

Amp Up Your Requests for Quotes

With prices fluctuating the way they are, the cost of materials may change quite a lot depending on when your supplier ordered the materials from the manufacturers. John Mraz, President of Einheit Electric Construction, says he's found that prices vary as much as 50% between suppliers, significantly impacting the bottom line. That's why it's so important to shop around to get the best possible prices on materials for your projects by increasing your requests for quotes (RFQs).

"If you're not out there shopping for your materials, you're losing money," Mraz says. "I would say just sending RFQs, you're saving 10% to 20% off what you'd pay off the street."

RFQs take time, no question. Contractors send out requests by phone or email, catalog the responses from the various suppliers, and ultimately choose what and who they'll buy from. That's why many contractors skip the process altogether and buy materials wherever and whenever they can.

Comparing prices to get a deal saves you money on your current job and can help you bid more competitively to win future jobs. The benefits of submitting more RFQs will outweigh the costs for your business to skip them.

To make the process easier, leverage the power of digital solutions that can simplify the process. Procurement software allows you to send out RFQs to multiple vendors and track the price and availability of your materials, all in one central location.



10%

**Savings on material costs
by using RFQs**

Did you know?

Given the current economic climate,
prices can vary as much as **50%**

John Mraz, President of Einheit Electric Construction

Work With Your Supplier to Save More



The concept of bulk pricing is not new – just visit your local Costco for examples of buyers looking to realize savings by procuring goods in large volumes.

Similarly, when contractors purchase large amounts of materials, they can use bulk pricing to lower the price per unit of their project materials.


In fact, the savings might not come directly from the supplier but from even further up the supply chain. When ordering materials in bulk, the supplier may be able to negotiate a lower price themselves, and pass those savings on to their customers, says Lisa Arnold, Accounts Payable and Receivable at Maryland Pipe and Supply.

To take advantage of bulk pricing, a contractor must have solid project planning in place to know precisely what materials the project requires. Ordering too much will negate much of the price savings, while ordering too little will result in a last-minute scramble for more.

You may save even more on material pricing just by getting your finances in order. Arnold says customers who pay promptly may receive a 2% discount, further lowering material costs for the project.

Did you know?

Ordering in bulk can help realize savings by allowing your supplier to negotiate further up the supply chain.





Reconcile Invoices Before You Pay Them



Contracting jobs are complex. Expenses are nearly constant during the life of a job, as equipment rental, labor, permits, and material costs are processed along the way. Each week there may be dozens or even hundreds of invoices coming in.

Odds are, some of those invoices will have errors. Take the time to reconcile your invoices with your purchase orders and delivery slips before sending out a payment.

Billing errors can add up fast. They come from:

- Duplicate invoices for a single order
- Invoices for materials that were never delivered or were delivered damaged
- Inconsistent pricing between invoices and purchase orders
- Errors in addition or typing that change the amount owing

Double-checking all your payables before checks go out can seem arduous for your AP department, but the savings may be worth the effort. Bruce Benes, CFO of JBI Electric, says his company catches invoice errors resulting from duplicate invoices or typos throughout the year. "We know that because we reconcile the invoices to the original PO," he says. Benes estimates the mistakes his company catches add up to a difference of \$60,000-\$100,000 annually.



Track Your Inventory



Materials on a construction job aren't generally stockpiled all in one place. You may have a stock of materials in your own warehouse, other materials may be held by a supplier, and some stuff sitting in a corner at the jobsite. You're asking for extra expenses if you don't know where all your materials are.

When materials are floating around unaccounted for, field teams may request materials that have already been ordered. Purchasing teams that aren't aware of current inventory may order new materials that aren't needed.

That's why 90% of field teams say it's important, very important, or imperative to have information about materials that have already been ordered and/or released. Stockpiling unneeded materials can quickly eat into the profits of a job.

To avoid costly errors, contracting businesses need a central location to track materials, including:

- Which materials the purchasing teams have ordered
- Which materials field teams have already used
- What materials are sitting in the warehouse
- How much materials are being held by suppliers

Proper material management can go a long way to trimming down materials costs.

It's all in the Details



For a contractor who's busy managing daily activities on a job site, the minutia of material cost savings can feel overwhelming. These efforts get into the nitty-gritty of a project, including precise preplanning, shopping around, consistent accounting practices, and inventory management.

The key to avoiding overwhelm with all these details is twofold. First, materials procurement information must be available to every department within your company. Field teams, accounting, purchasing, and management all need to see what the others are doing. Second, take steps to systematize and automate processes wherever you can.

Still overwhelmed?

Help is available. [Contact Kojo's procurement experts](#) to find out how we can help you get better at materials management so your teams can focus on building.



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