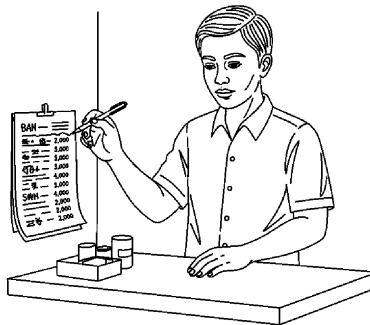


SPECIFIC-CASE

WORKSHEET 9 OF 9

Raw Material Cost Jumps 22 Percent

Scenario: A key raw material — accounting for 40 to 60 percent of your direct variable cost — has increased by 22 percent due to a supply chain disruption, currency movement, or a supplier price revision. The increase has been in effect for one full billing cycle. Existing customer contracts run for another six to nine months. No price escalation clause is in any current contract.



Pricing Strategy Fundamentals

by Ibrahim Anwar

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What This Is For

A 22 percent jump in a material that accounts for half of direct variable cost does not leave time for a calm quarterly review. The margin compression is immediate and measurable from the first affected invoice. What the operator needs in the next five working days is not a long-term strategy meeting — it is three specific numbers: the new HPP per unit, the price increase required to restore the original margin, and the distance between that required price and the EVC ceiling. Those three numbers determine what is possible and in what sequence to act.

The second part of this worksheet deals with the contract constraint: most existing contracts have no price escalation clause, and some will not expire for six to nine months. The worksheet calculates how much margin the business absorbs per month at the old price until each contract's earliest renegotiation point, and builds the communication and negotiation plan around that timeline.

Benefits

What you get when you actually run this worksheet on a real situation:

- Produces the three numbers needed within 48 hours: new HPP, required new price at target margin, and EVC headroom remaining.
- Calculates the monthly margin absorption cost for locked-in contracts, making the financial cost of waiting visible rather than assumed.
- Separates customers by contract status so the communication plan is differentiated: no-contract customers get standard notification, contract customers get a renegotiation timeline.
- Forces the EVC check: if the required new price exceeds EVC on any product, that product needs a different response than a price increase.
- Creates the documented cost event record — invoice date, material, percentage increase, HPP impact — that will be referenced in every customer communication and every future audit.

Framework To Use

— Four-Zone Response Map

The operator's response to a cost jump is determined by the intersection of contract status and EVC headroom for each product-customer combination.

Zone	Contract Status	EVC Headroom	Response
Zone 1	No contract	Positive headroom	Standard notification. 14–30 days lead time.
Zone 2	No contract	Headroom thin or negative	Immediate investigation: cost reduction or differentiation before price change.
Zone 3	Active contract	Positive headroom	Calculate monthly absorption cost. Initiate contract renegotiation conversation at next natural touchpoint.
Zone 4	Active contract	Headroom thin or negative	Most urgent. Absorbing this cost at negative margin. Seek force majeure clause or negotiate emergency amendment.

How To Use

Follow these steps in order. Each one builds on the previous.

- 1 Document the cost event at the top: material name, old cost per unit, new cost per unit, percentage increase, invoice date, supplier name.
- 2 Calculate the new full HPP for each affected product: old HPP minus old material cost per unit, plus new material cost per unit.
- 3 Calculate the old net margin per unit and the new net margin per unit at the old selling price. The difference is the margin absorbed per unit at the old price.
- 4 Calculate the price increase required to restore the original net margin amount: $\text{new HPP} \div (1 - \text{original margin \%})$.
- 5 Enter the EVC ceiling for each product. Calculate the distance between the required new price and EVC ceiling. Negative distance means the required price exceeds EVC — structural problem.
- 6 For each active customer or contract: classify into one of the four zones. For Zone 3 and Zone 4 customers, calculate monthly margin absorption: $(\text{old selling price} - \text{new HPP}) \times \text{average monthly volume}$. This is the dollar cost of waiting.
- 7 For customers on no contract (Zone 1 and 2): draft the three-part communication using Chapter 7's formula. Set the effective date 14 to 30 days out.
- 8 For Zone 3 customers: identify the earliest renegotiation point. Calculate cumulative absorption by that date. Prepare the renegotiation opening: the dollar amount absorbed plus the specific cost data.
- 9 For Zone 4 customers: prioritise a direct conversation this week. Absorbing losses on a contract with no exit clause is a cash problem, not just a margin problem.

Example Use

A catering operator's primary protein supplier has revised pricing upward by 22%. Protein accounts for 48% of direct variable cost. Current HPP per portion: \$3.80. Five corporate clients are on six-month contracts with no escalation clause. Three accounts are informal with no written contract.

Day 1 — Document the event: protein cost per portion, old \$1.82, new \$2.22 (22% increase). Invoice dated this week. Full HPP recalculation: old HPP \$3.80, old protein \$1.82, new protein \$2.22. New HPP: $\$3.80 - \$1.82 + \$2.22 = \$4.20/\text{portion}$.

Old selling price: \$5.50/portion. Old net margin: \$1.70 ($\$1.70/\$5.50 = 30.9\%$).

New net margin at old price: $\$5.50 - \$4.20 = \$1.30$ (23.6%).

Margin absorbed per portion at old price: \$0.40.

Required new price at 30.9% margin: $\$4.20 / (1 - 0.309) = \$4.20 / 0.691 = \$6.08/\text{portion}$.

EVC ceiling (last mapped): \$6.50. Headroom: $\$6.50 - \$6.08 = \$0.42$. Positive on all corporate accounts.

Three informal accounts — Zone 1 (no contract, positive headroom): three-part notification sent within 3 days. New price \$6.08, effective 21 days from today. Reason: protein cost increase 22%, invoice attached as supporting document. Value maintained: portions, recipes, delivery schedule unchanged.

Five corporate contracts — Zone 3 (active contract, positive headroom, 4–7 months remaining):

Monthly absorption per account at average 1,200 portions/month: $\$0.40 \times 1,200 = \$480/\text{month}$ per account. Five accounts total: \$2,400/month absorbed.

At 4 months average remaining on contracts: cumulative absorption if waiting = $\$2,400 \times 4 = \$9,600$. This number goes into the renegotiation opening.

She contacts the procurement manager at each corporate client this week: "Our protein cost has increased 22% effective [date]. I am sharing the supplier invoice with you. We have absorbed this cost for the first billing cycle to avoid disrupting your planning, but we will need to discuss pricing adjustment for the remaining contract period. I will send a formal proposal by [date + 5 days] covering the new rate and a suggested effective date."

Two of five clients accept a 10% increase with 30 days notice. Two accept a 7% increase applied to the next renewal. One requests a 60-day negotiation timeline. Total: \$9,600 in cumulative absorption becomes \$3,200 after two early agreements.

The Worksheet

Tear this out, copy it onto a fresh sheet, or fill it in directly.

Raw Material Cost Jumps 22 Percent

Scenario: A key raw material — accounting for 40 to 60 percent of your direct variable cost — has increased by 22 percent due to a supply chain disruption, currency movement, or a supplier price revision. The increase has been in effect for one full billing cycle. Existing customer contracts run for another six to nine months. No price escalation clause is in any current contract.

ITEM

YOUR NUMBERS

Key raw material cost per unit — old (\$)

Key raw material cost per unit — new (\$)

Old full HPP per unit (\$)

New full HPP per unit after material increase (\$)

Old selling price (\$)

Old net margin per unit (\$/%)

New net margin per unit at old price (\$/%)

Price increase required to restore old net margin amount (\$/%)

EVC ceiling (\$)

Distance between required new price and EVC ceiling (\$)

Estimated customer elasticity in this segment

Months before the earliest contract renewal or renegotiation

Reflection Prompts

After filling in the worksheet on the previous page, work through these.

1. Map every active customer or contract by revenue share and by which column of this table applies to them. Customers on no formal contract can receive notification of the price increase within the standard lead time (two to four weeks). Customers on written contracts without an escalation clause: identify the next renewal or natural renegotiation point. Calculate how much margin the business absorbs per month at the old price until that point arrives.

2. Draft the price increase communication using the three-part formula from Chapter 7 before the next customer interaction: Part 1 — the new price and effective date; Part 2 — the specific cost increase with percentage (and a supplier or index citation if available); Part 3 — confirmation that product quality and delivery standards are unchanged. Have one version ready for each customer tier: WhatsApp for smaller accounts, formal email for contract customers, scheduled call for the top three by revenue.

Tips and Traps

TIPS

- Attach the supplier's cost revision notice or invoice as supporting documentation to every customer communication. A stated percentage increase with a source document is four times more credible than the same percentage without one.
- Sequence the customer communications by zone and by contract renewal proximity. Zone 1 (no contract) goes first — they have the least friction and they establish that the business is moving on the change. Zone 3 conversations benefit from 'we have already communicated this to several accounts' as implicit confirmation that the increase is real.
- Calculate the cumulative absorption per contract before the renegotiation conversation. 'We have absorbed \$480 per month for the past six weeks while waiting for your renewal window' is a concrete opening position, not a complaint.
- If a key supplier offers a multi-month price lock in exchange for a volume commitment, evaluate it against the absorption cost. A 90-day lock at 15% premium over old price may be better than 90 days at 22% over old price with no certainty.

TRAPS

- Communicating the cost increase without attaching the supplier document. Customers who do not receive supporting documentation are likely to negotiate the percentage down, not accept it at face value.
- Sending the same communication to all customers regardless of contract status. A contract customer who receives a standard 'prices are changing' notification — identical to what the no-contract customers received — will correctly perceive that their contract was not taken seriously.
- Waiting for the next scheduled quarterly review to address a cost jump that is already in the books. Every month at the old price is a quantifiable cost; the quarterly schedule is a floor, not a ceiling.
- Failing to add an escalation clause to the next contract written after a cost event. The escalation clause is the mechanism that prevents the same worksheet from being needed again in twelve months.

Appendixes

Appendix A – Three-Part Price Increase Communication Templates

TEMPLATE A – No-contract customers (WhatsApp / short email)

Subject: Pricing update for [product/service] from [date]

Hi [Name],

From [effective date], our price for [product/service] will be [new price]. The previous price was [old price].

Our key raw material cost increased [percentage] effective [date], driven by [one-sentence cause: supply disruption / currency movement / supplier revision]. I'm attaching the supplier notice for reference.

The [portion standard / quality / delivery schedule] remains unchanged.

Please let me know if you have any questions.

TEMPLATE B – Contract customers (formal email, 30+ days notice)

Subject: Pricing discussion – [product/service] contract renewal / amendment

Dear [Name],

I am writing regarding the pricing structure for our contract covering [product/service], currently running through [expiry date].

As you may be aware, [raw material] prices have increased [percentage] effective [date]. I have attached the supplier's price revision notice. We have absorbed this cost for the current billing cycle.

Given the magnitude of the increase, I would like to schedule a 30-minute call this week to discuss how we handle this for the remaining contract period. I will send a formal proposal before the call with three options for your consideration.

Please suggest a time that works for you.

Best regards,
[Your name]

Appendix B – Contract Classification Quick Table

Before sending any communication, classify each customer:

Customer / Account | Contract? | Expiry | Monthly volume | Zone | Monthly absorption (\$)

[blank rows – fill in for each active account]

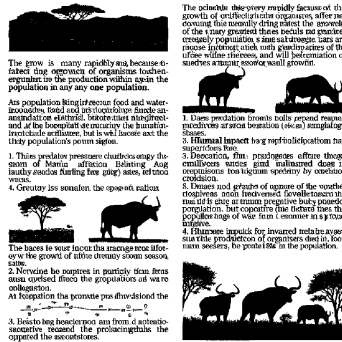
Zone definitions:

- Zone 1 – No contract, EVC headroom positive → standard notification, 14-30 days
- Zone 2 – No contract, EVC headroom thin/neg → investigate cost/differentiation first
- Zone 3 – Active contract, headroom positive → renegotiation at next natural touchpoint
- Zone 4 – Active contract, headroom thin/neg → direct conversation this week

Monthly absorption formula:

$(\text{Old selling price} - \text{New HPP}) \times \text{average monthly units} = \text{monthly absorption } (\$)$

If result is negative: you are selling below HPP. This is Zone 4 urgency.



WHERE THIS WORKSHEET COMES FROM

Pricing Strategy Fundamentals

The Right Price Is Neither the Lowest Nor the Highest

by Ibrahim Anwar

This worksheet is one of nine in the *Pricing Strategy Fundamentals* companion worksheet pack. The full pack is grouped into three categories: high-volume worksheets you can run weekly, niche-search worksheets for rare but high-value situations, and specific-case worksheets that walk you through a single concrete scenario.

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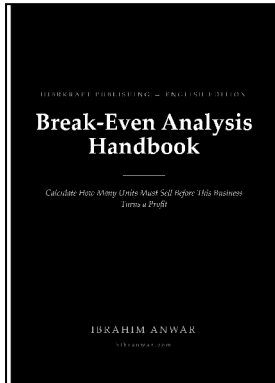
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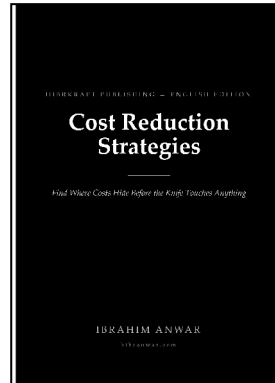
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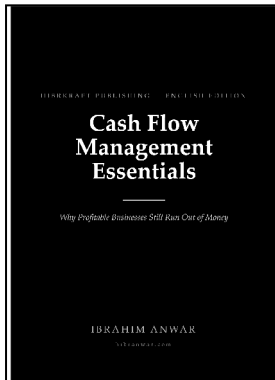
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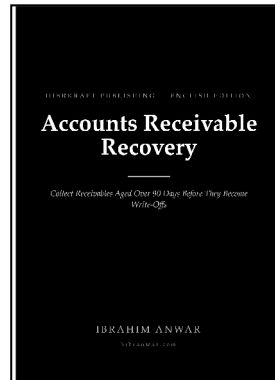
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