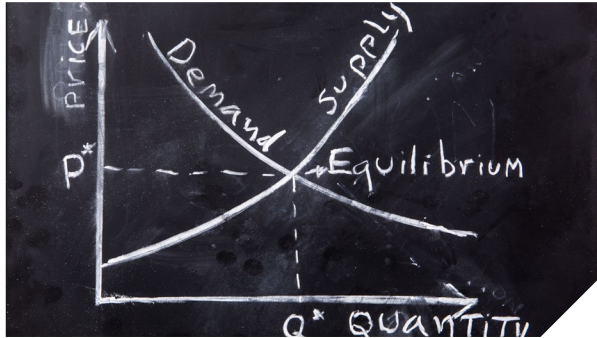


# Understanding the Factors that Influence the Cost of Fasteners



The past two years have been characterised by unprecedented cost increases and price fluctuations. There is no one stand-alone reason for these increases and knowledge of what to look out for is the best way to be prepared and not be taken by surprise. Therefore, we thought that it would be good to share with you some of the factors that influence the cost of fasteners.



## The Law of Supply and Demand

It is a fundamental economic principle that when supply exceeds demand for goods or services, prices fall. When demand exceeds supply, prices tend to rise.

Recently, there have been a few world events that have disrupted supply and increased demand:

- Governmental decisions made to slow the spread of Covid and absenteeism due to illness and isolation requirements have resulted in reduced capacity to produce and distribute goods.
- Geopolitical instability has broken the supply chain, creating what is known as the bullwhip effect (excessive inventory investment, lost revenues, misguided capacity plans, ineffective transportation, and missed production schedules) and bottlenecks.
- The injection of money all around the world to stabilise the economy during the last 2 years is also another factor why demand has increased, and why inflation is at higher levels all around the world.

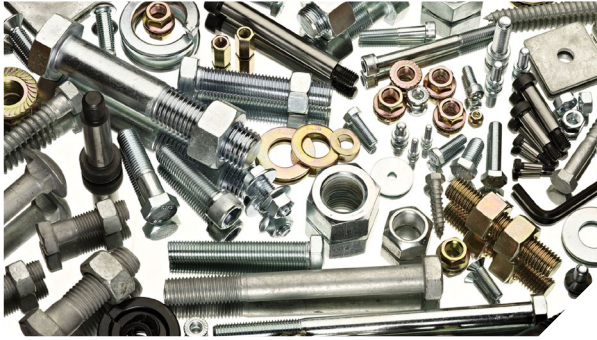
## Raw Material Extraction Costs

Modern stainless steel, in addition to iron, carbon, and chromium, may also contain other elements, such as nickel, niobium, molybdenum, and titanium.

Factors affecting the cost of extracting these materials include:

- Heavy capital investment in mining infrastructure like rail lines and heavy machinery.
- Heavy capital investment in production facilities, furnaces, machinery, equipment, and technology.
- Operating costs also vary, depending primarily on the scale of operations, the distance to market, government regulations, labour, health and safety, and the cost of fuel.

# Understanding the Factors that Influence the Cost of Fasteners



## Production Costs

The manufacturing costs of fasteners are affected by:

- The cost of the raw materials – affected by supply and demand, as discussed above.
- Innovation, and research and development costs are amortised over the cost of products.
- Operating cost – similar to what has been discussed above.
- Energy cost and environmental concerns affecting energy availability are becoming an increasing concern. China is facing, like many other countries worldwide, an energy crisis. Since September 2021, carbon emission concerns as well as high coal costs and inflexible electricity prices have caused shortages that forced local governments to implement rolling blackouts for energy-intensive industries. Further causes are a combination of post-pandemic recovery, extreme weather events and fractious geopolitics, which have increased demand and compromised supply.

## International and Local Freight

Transport costs play a role along the whole supply chain: from the extraction site to the manufacturer, from the manufacturer to the supplier, from the supplier to the wholesaler/distributor (Milsons in this case), and from the wholesaler to the reseller/stores.

Factors affecting transportation costs include:

- Fuel prices (affected by supply and demand)
- Container availability, again affected by supply and demand as well as lengthy delays at ports.
- Heavy capital investment costs in infrastructures (ports, airports, road, and rail), transport vessels (ships, airplanes, trains, trucks, etc.), and equipment.
- Customs charges.
- Labour availability.
- Fluctuations in demand for freight.
- Changing consumer behaviour (accelerated by Covid) - increased demand for online shopping and courier deliveries.

# Understanding the Factors that Influence the Cost of Fasteners



## Operational Costs

Suppliers and wholesalers have various operational costs that need to be recovered. Some of these are devanning, warehouse costs (storage space), handling equipment, administrative costs, and wages.

An increasing cost to business is the cost of digitisation. Organisations across the value/supply chain are increasingly required to spend more on IT infrastructures, enterprise-wide systems, APPs and integrations, websites, and cyber security.



## Foreign Exchange Rates vs. USD/EUR

The landed cost of imported goods is affected by fluctuating foreign exchange rates – a weaker NZ Dollar is good news for exporters, but unwelcome news for importers. Post Covid recovery and the current geopolitical uncertainty has resulted in increased global inflation and talks of possible recessions. This has resulted in market losses over the past months and a weakening of the NZD against the USD and EUR. A weaker NZD means increased import product costs and international freight costs.

ⓘ The data provided in this document is for general guidance only and should not be solely relied upon when working to stringent specifications. We recommend consulting with qualified experts regarding any technical queries. This information may change without written notice.