LS ADVISORY

PRICING

Your costs reprice monthly. Your prices reprice once a year.

An annual price list is a forecast that costs will sit still for twelve months. In 2025, US steel prices moved by more than 1% in every single month. What the lag between cost and price is costing manufacturers, and how to close it without repricing every week.

THE LAG

Costs move monthly. Prices move yearly.

Manufacturers buy at one speed and sell at another. Raw materials are repriced almost continuously. Finished goods are repriced on a cycle set by the price list, the annual review and the contract. The gap between those two clocks is where margin goes, before any customer has negotiated anything.

98.9%

Crude materials whose producer price changed in a typical month. Nakamura & Steinsson

8.7 months

Median time between price changes for finished producer goods. Same study

12 of 12

Months in 2025 when US steel mill product prices moved by more than 1%. BLS

13%

Firms making no price change at all in a year, down from 27% before the pandemic. Richmond Fed survey, Sept 2026

The classic evidence comes from the US Bureau of Labor Statistics' own price records. Economists Emi Nakamura and Jón Steinsson studied the producer price data for 1998–2005. In a typical month, 98.9% of crude material prices changed. For finished producer goods, the figure was 10.8%: a median of 8.7 months between price changes. Materials repriced every few weeks. The things made from them repriced roughly once a year.

That study describes a calmer decade. Firms have since sped up, but not to the speed of their costs. In the Richmond Fed's September 2026 survey of firms in its region, the share making no price change in a year has halved since before the pandemic, to 13%. Only 20% now adjust prices at least monthly. In the UK, the Bank of England's Decision Maker Panel finds 46% of firms still set prices at fixed intervals rather than in response to costs.

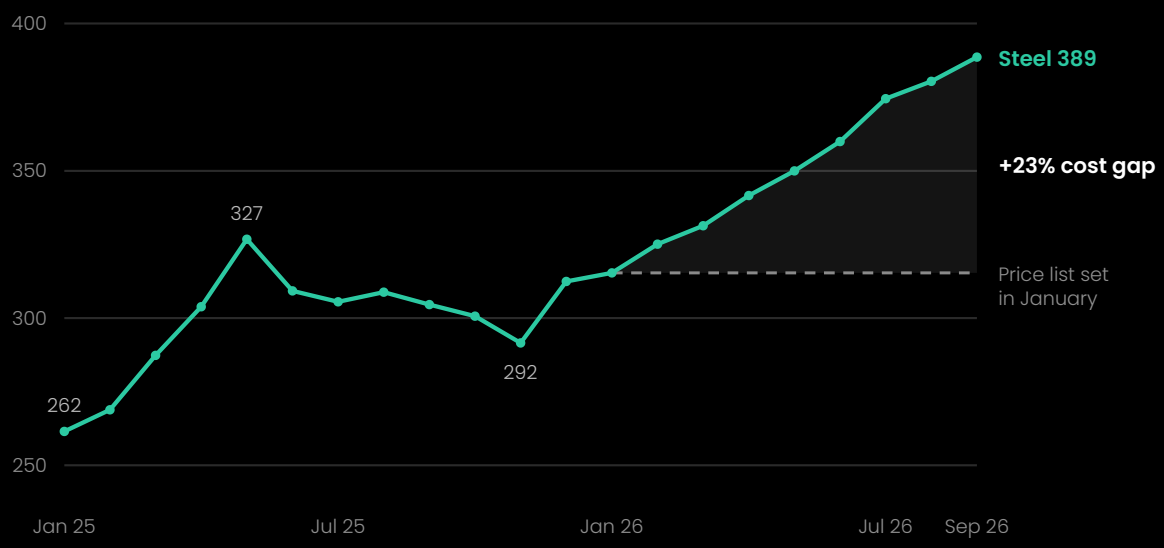
Annual repricing is no longer universal, but it remains common, especially where prices sit in price lists and long-term contracts. It made sense when input costs drifted. It is a different decision when they swing.

THE SWING

A price list set in January is a bet on the rest of the year.

A January price list is 23% behind steel by September

US producer price index, steel mill products (1982 = 100), monthly, Jan 2025 to Sep 2026



Source: US Bureau of Labor Statistics, series WPU1017, via FRED. Gap is LS Advisory calculation.

Steel is the clearest example. US prices for steel mill products rose 25% between January and May 2025, fell 11% by November, then climbed 33% to September 2026. In every month of 2025, the index moved by more than 1%. A price list set in January 2026 and left alone is now 23% behind the steel in it.

Policy has moved even faster than materials. The US effective tariff rate went from 2.4% at the start of 2025 to an estimated 22.4% on 2 April, its highest since 1909. It then shifted with every pause, exemption and new measure, and in February 2026 the Supreme Court struck down the tariffs imposed under emergency powers. No annual price review was designed for that.

THE COST

Nine months of a January price list.

Take an illustrative US manufacturer with $65m of revenue, a 30% gross margin, and steel at 30% of its cost of goods. It sets its prices in January 2026 and holds them, as most annual price lists do. Its steel costs track the US producer price index for steel mill products.

Steel spend at January prices	**$1.14m a month**
Steel price index, September vs January 2026	**+23%**
Extra steel cost absorbed, January to September	**$1.18m**
Share of the period's gross profit	about 8%
Monthly overrun by September, and still rising	**$0.26m a month**
Price increase needed just to cover steel at September prices	**4.9%**

Nobody discounted anything, and no customer pushed back. The margin went in the gap between the date the price was set and the dates the costs moved. When the next annual increase arrives, it starts by recovering money that has already gone.

The gap compounds with everything else on the board's agenda. US manufacturers expect input costs to rise 5.81% over the next year and their own prices only 4.17% (NAM, Q2 2026). Across industries, companies realise on average only 43% of the price increases they plan (Simon-Kucher, 2025). An increase that arrives late, and only partly, cannot close a gap that opens every month.

Illustrative arithmetic. It assumes steel costs move with the published index and volume holds. Actual exposure depends on contracts, stock and hedging, which is the point of the next section.

THE PATCHWORK

Most firms have changed something. Few have changed the system.

Businesses have not stood still, manufacturers among them. They have reached for every tool to hand, often all at once and account by account.

83%

Firms that have adopted an alternative pricing approach, such as customer-specific, index-linked or dynamic pricing. Richmond Fed survey, Sept 2026

Almost 1 in 3

Firms using inflation-linked or index-based pricing. Richmond Fed survey, Sept 2026

37%

Firms finding it harder to adjust prices than a year ago. Richmond Fed survey, Sept 2026

The tools work, when they're used. Simon-Kucher's 2025 Global Pricing Study found 53% of companies across industries use contract indexation, but only about half of them apply it consistently. A clause that exists and isn't triggered is the same as no clause. Surcharges are added in a rush, explained badly and quietly waived to keep an order. Customer-specific pricing becomes a different arrangement with every account, which nobody can see in one place.

The result is a patchwork. Some customers are on indexed contracts, some on surcharges, some on last year's list, and some on whatever the account manager agreed in the spring. Each decision made sense at the time. Together, they mean the business cannot say how much of its cost increase it has actually recovered, from whom, or how quickly.

For a manufacturer selling into several markets, there are more patches still. A tariff changes the landed cost in one market and leaves the others alone. Research by Gita Gopinath and Brent Neiman estimates that 94% of the 2025 US tariffs passed through to the tariff-inclusive price of imports. The importer paid almost all of it, not the overseas exporter. The tariffs themselves moved repeatedly: Yale's Budget Lab published more than twenty editions of its estimate of the US effective tariff rate in 2025. Every revision changed somebody's landed cost. Very few changed anybody's price list.

THE FIX

Separate what moves from what doesn't.

The answer isn't to reprice the whole range every week. Customers don't want it, sales teams can't explain it, and most of what you sell isn't volatile anyway. The answer is to stop asking one annual price to carry two very different kinds of cost.

KEEP STABLE, REVIEW ON A TIMETABLE	LET MOVE, BY A RULE AGREED IN ADVANCE
The value-based price What the product is worth to the customer, set from evidence.	**The volatile inputs** Steel, aluminium, energy and freight, separated from the base price.
The bundle What's included, and at what level.	**The link to a published index** Which index, and how often it's applied.
Discount rules and channel margins One set of rules that protects every account's reference price.	**Tariff and duty pass-through** Applied market by market, as landed cost changes.
The structure of the price list One story the sales team and partners can explain.	**The trigger** A threshold that starts a review automatically, not a calendar date.

This is the same principle that applies to pricing across countries: standardise the logic, not the number. One mechanism, applied consistently, with the numbers inside it allowed to move.

> **An annual price list is a forecast.**
> **Most manufacturers just don't call it one.**

DONE WELL

Three things change.

01 **The price customers argue about stops moving.** The value conversation happens once, on the stable part. The volatile part follows a rule both sides agreed, so it isn't renegotiated each time it moves.

02 **Reviews are set off by events, not dates.** A 5% move in a named index triggers a review in days, not at next January's price round. The Bank of England's research shows this is how most goods producers already behave informally. The fix is to make it explicit, consistent and visible.

03 **Recovery becomes measurable.** If every account sits on the same mechanism, the business can see what it has recovered, from whom, and how fast. That is a number a board can manage. A patchwork isn't.

WHAT THIS MEANS

Five questions before the next price review.

01 **How long is our lag?**
Between a cost moving and our price following, how many weeks pass, by product line and by market?

02 **What did the lag cost us this year?**
Compare cost movement month by month with price movement month by month, not one annual average against another.

03 **Which of our costs are volatile, and are they priced separately?**
Or are they buried inside a list price we review once a year?

04 **Where do we have index or surcharge clauses, and did we apply them?**
Check every time the trigger was reached, not just whether the clause exists.

05 **Can we see recovery by customer?**
If the answer is a patchwork of arrangements nobody can total, that is where the margin is going.

None of these needs new data. The answers are in the order-level sales records and the purchase ledger most manufacturers already hold. Pull them raw, not summarised: a summary averages away exactly the timing that matters.

THE QUESTION

How fast do your costs reach your prices?

The evidence points to one management question underneath all five:

> **Can the business measure how quickly changes in input costs flow through to realised selling prices, by product, customer and market?**

Most manufacturers can say what their costs did this year and what their list price is. Far fewer can say how long the gap between the two stayed open, or which customers and markets it stayed open longest in. That is not a reporting nicety. When costs move every month, the speed of recovery decides the margin as much as the size of the increase.

A business that can see that speed can manage it. One that can't will keep finding out at the year-end what the lag cost.

ABOUT THE DATA

Price-change frequency. Nakamura and Steinsson's figures use the BLS producer price microdata for 1998–2005, a lower-inflation period. Firms change prices more often now, which is why this paper pairs them with recent survey evidence. The Richmond Fed survey covers firms in the Fifth Federal Reserve District (the mid-Atlantic and Carolinas), not the whole US, and does not publish its sample size. The Bank of England's Decision Maker Panel covers around 2,500 UK firms a month; its fixed-interval share is the 2023–2025 average.

Steel prices. The US Producer Price Index for steel mill products (BLS series WPU1017, 1982 = 100), monthly, January 2025 to September 2026, retrieved from FRED. Monthly movements are our calculation from the published index.

Tariffs. Gopinath and Neiman's pass-through estimate is for import prices at the border, not retail prices. Yale Budget Lab's effective tariff rate figures are modelled estimates, revised as policy changed.

Cross-industry figures. Simon-Kucher's study covers more than 2,200 leaders in 28 countries and 39 industries. It is not manufacturing-specific, and it ran in early 2025, before most tariff measures.

The illustrative calculation assumes steel costs move with the index and volume holds. It shows the arithmetic, not any company's results.

SOURCES

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NEXT

Talk it through.

If next year's pricing round is on the agenda, it would be good to talk, whether or not it leads anywhere commercial. Half an hour is usually enough to tell whether the lag is costing you more than the increase will recover.

LS Advisory is a commercial strategy consultancy working with technology, engineering and manufacturing businesses on pricing and market entry. This paper draws on published research and our own analysis. Client examples are anonymised.

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