

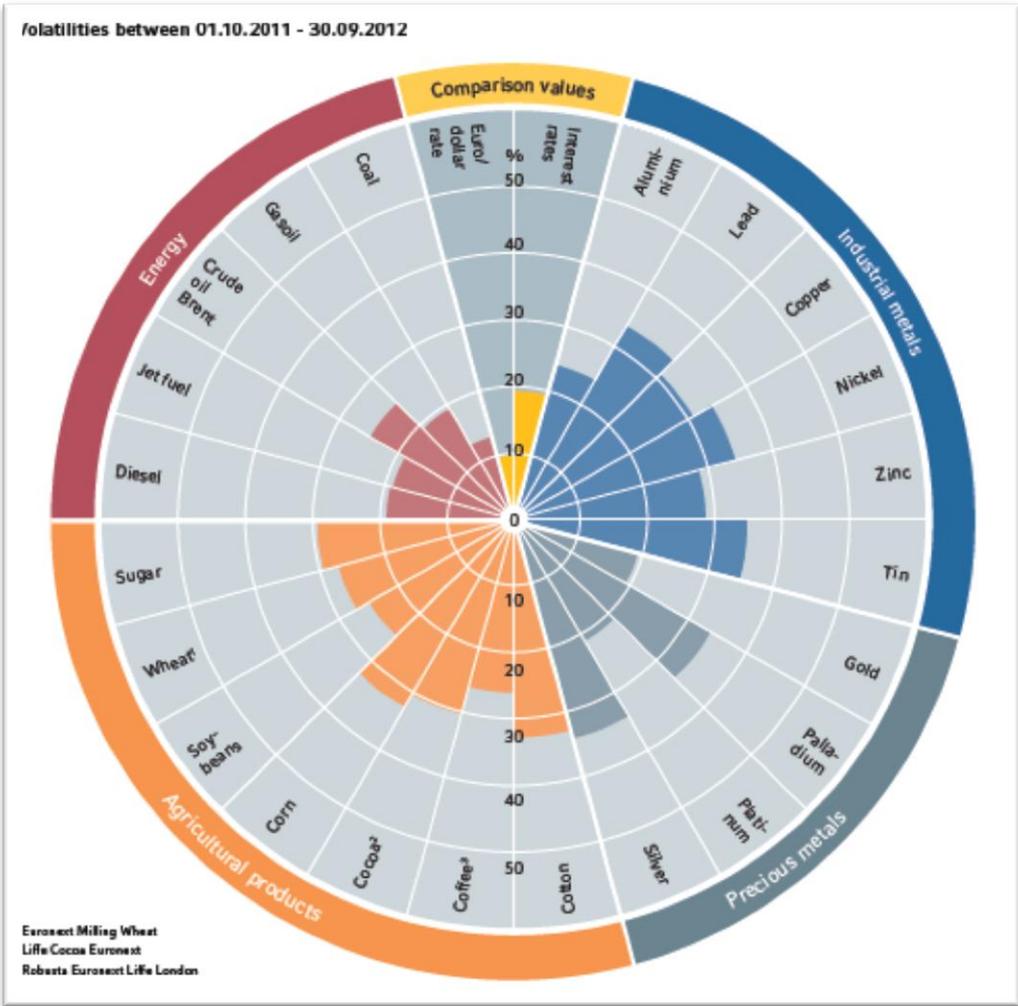
Managing commodity prices at manufacturing companies

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1 Introduction

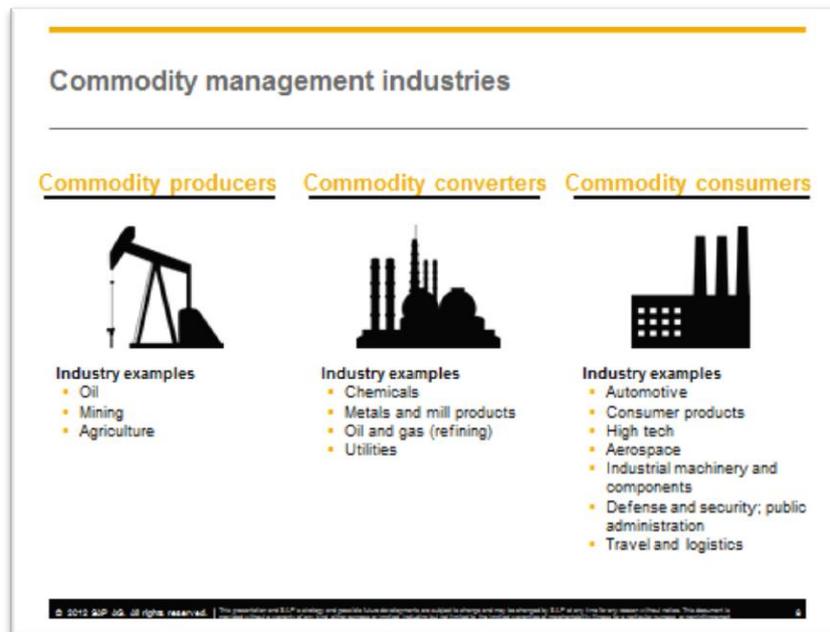
You are dealing with industry metals (like copper, nickel, and aluminum), alloys, steel or precious metals. You recognize the increasing price fluctuations of the commodities in the raw or semi-finished material markets. You have seen the impact either on your sales or on your margins in your books?

The Commodity Radar of Commerzbank shows the price volatility of industry metals:



Source: Commerzbank Germany

Whether your company manufactures or produces commodities for sale to the market, purchases and consumes commodities to make products, or both, the discipline of commodity management is extremely important to your business success.



SAP Commodity Management provides you a solution to manage the end to end process of commodities. The solutions will provide you a platform to develop and utilize best practices on how to handle these challenges by protecting your enterprise by effective and efficient hedging of the price risks using financial products regardless of where your risk lays - the sales side or on the purchasing side (or both). This allows you to accurately determine and manage the cost of your commodities based on your requirements for the underlying business transactions.

In order to support this integrated and holistically in your daily business, SAP's Commodity Management solutions are built for commodity producers such as mining, oil and agriculture, commodity converters such as metal refiners or fabricators of metal based components, and commodity consumers such as consumer products, automotive, and high-tech companies.

2 Commodity Management Solutions from SAP

You need to manage short and long-term pricing, profitability, and risks related to your commodity purchases and/or sales, as well as utilizing the financial market to mitigate these risks.

You have the ability to manage your commodity risk on a real-time basis based on your unique risk approach and review real time your commodity positions regardless of where it generated: Procurement, Sales or Risk Management.

The solutions are part of the SAP ERP.

2.1 Commodity Procurement

Eliminate “out of system” calculations and post clear, concise invoice receipts for each purchase with SAP Commodity Procurement.

With the SAP Commodity Procurement application, you can improve the efficiency in how you procure commodities. SAP ERP functionality was extended for advanced commodity pricing on contracts, purchase order and support for provisional, differential, and final invoices. SAP Commodity Procurement enables a streamlined way in managing complex metal pricing rules and will automate your process. The integration to Treasury provides a transfer of company specific and accurate commodity positions for real time management.

The simplified process is less error prone due to one central application used to view and process all deals that need to be invoiced and which can pull data from multiple sources. Invoices can be sent as soon as a provisional price is known, and incoming invoices can be verified on your timetable. Because the commodity pricing engine fully integrates with sales and distribution, and procurement (materials management) functions in the SAP ERP application, the SAP Global Trade Management application, and the SAP ERP Financials solution, events-based pricing is possible.

2.2 Commodity Sales

Get a firm handle on complex commodity pricing, like average pricing over multiple periods based on market indexes with the SAP Commodity Sales application.

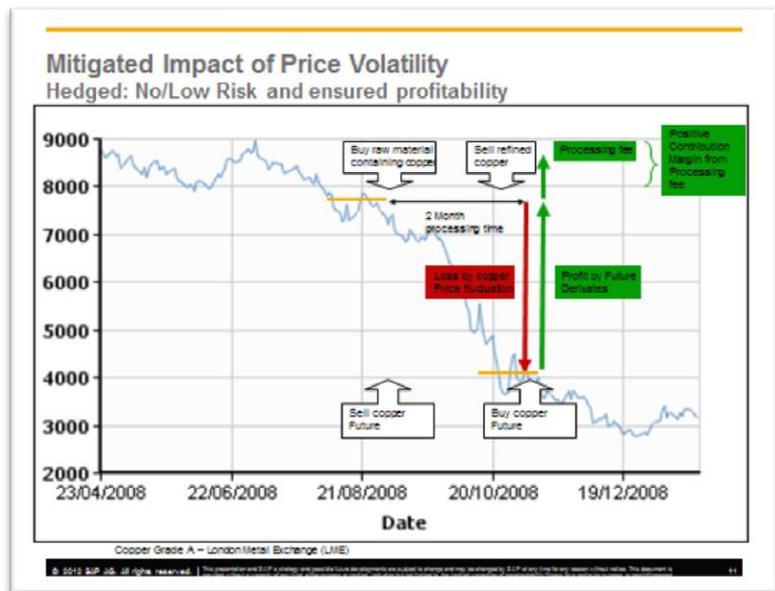
With the SAP Commodity Sales application, you can create the foundation for the complete logistical and settlement processes that enable you to sell your commodity and commodity-related products. The solution gives you extended ERP functionalities to handle commodity-based contractual pricing; provisional, differential, and final invoicing; and integration with treasury to transfer commodity raw exposure positions for risk management.

2.3 Commodity Risk Management

Gain confidence in commodity risk hedging and reporting with SAP Commodity Risk Management.

By implementing the SAP Commodity Risk Management application, you can assess the price risk of commodity positions and handle the financial transactions used to hedge this risk. The view of the company's position is based on the risk profile of the company using a set of pre-defined rules that each company creates during the implementation process. These rules include the risk relevant commodity definitions allowing the company to make the correct decision as to the next set of hedging transactions to execute in the financial markets.

After execution, the deal is captured containing all necessary information to value and settle the transaction for a wide range of financial instruments including futures, swaps forwards and options. The market price and curve information is maintained in this module utilizing standard well respected SAP security procedures. All commodity based financial transactions are settled and posted using standard historical and tested SAP processes.



You can then focus on the economic management of your company and understand the related impact on accounting and regulatory reporting.

3 Further Reading

SAP Solution brief: [Optimize Commodity Pricing and Manage Commodity Risk](#)

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