



The power of one.

How will manufacturers achieve procurement risk excellence?



Objective

Becoming strategic, scalable and sustainable in a market that's constantly changing is challenging, especially when 40 to 60% of manufacturing costs depend on volatile raw material costs.

In this white paper, we share research from interviews with over 100 large and medium manufacturing companies, including:

- How companies are managing commodity risk
- What their goals are for procurement risk excellence
- What they need to do to get started
- Our experience helping companies better manage risk

Introduction

As clichéd as it sounds, change is the only constant in the commodities world. There is speculation that US tariffs will impact steel and aluminum prices. Sugar taxes in Europe have manufacturers looking to reformulate with substitutes while the removal of sugar quotas force manufacturers to adjust to a more competitive market and increased price volatility. Natural gas prices remain volatile as new sources of supply and demand evolve, while geopolitics drives massive swings in oil prices. Increased demand for healthier food forces manufacturers to constantly develop new products with new exposure to commodities. Extreme weather situations impact grain yields all over the world while disrupting logistics and supply. The list is endless.

Manufacturers face more challenges securing commodities than ever before. Increased pricing complexity and volatility impacting both direct and indirect exposure drive risk and uncertainty. Shifting markets – including increased global demand, acquisitions, and expanding networks of global suppliers and plants – drive more FX exposure, complicated hedging strategies, and more stringent regulatory and risk policies. Manufacturers must find a more efficient and effective way to manage their portfolios, market risk and margins.

How companies manage risk today

We spoke to risk and category managers of over 100 large and medium manufacturing companies across the globe, and the insights were startling. Despite having large ERPs and broker systems in place, the overwhelming majority of companies still rely on antiquated systems for analysis and reporting. Our research shows:

- 95% of companies do not have access to a consolidated exposure and coverage report
 - › These companies spend at least two days creating these reports, some relying on their suppliers for the information
 - › Decisions are delayed while reports are created, impacting buying and hedging outcomes
- 92% use complex pricing structures and 100% of the companies manage complex pricing structures fully or partially in spreadsheets because existing ERPs are inadequate
 - › Without standards and trends, it's difficult to analyze components and use information for better negotiations with suppliers
- 98% take more than two weeks to create month-end reconciliation and spend attribution reports
 - › Time lost to creating reports results in less time devoted to value-add strategic analysis
- 88% believe the frequency of updates to their raw material forecasts is not sufficient
 - › Infrequent reporting yields delayed responses to demand changes, impacting over and under coverage and excess inventory
- 90% have not implemented risk measurement metrics and regulatory reports
 - › A vast majority of those who have risk measurement metrics create their value at risk/cashflow at risk and regulatory reports manually by pulling in data from multiple systems on a weekly or monthly basis

Other research shows CFOs rank commodity hedging as their top financial issue. Raw material costs represent 40 to 60% of total costs, but these decisions are still managed in spreadsheets or created post facto using BI tools.

Are spreadsheets and bi tools effective for managing risk and compliance

Companies have been managing risk with a chaotic exchange of spreadsheets and teams scrambling to create reports and graphs on spreadsheets, PPTs or visual BI tools before monthly executive risk meetings. When market signals change, teams panic, devoting more time and people to creating more spreadsheets. They create more reports and static charts to manage existing spreadsheets and more reconciliation spreadsheets to manage errors in existing EUC (end user controls). It's a loop that costs time and money, resulting in lost opportunities from delayed responses to shifting market conditions and valuable time not spent managing decisions that could improve margins and better manage operational risk.

In a 2013 survey by BCG, almost 90% of executives viewed commodity risk management as a source of competitive advantage, yet less than a third believed that their companies had implemented best-in-class hedging practices. Lack of a timely process to reach informed business decisions, and confidence in accurate situational data insights, causes firms to lose sight of the goal.

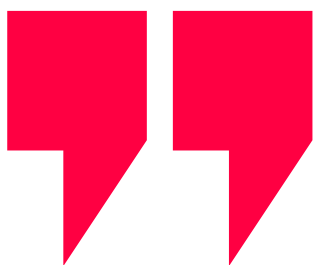
According to a 2017 ComTech Advisory survey, market risk is the most important risk facing their organizations, including price risks and essential analytical analysis such as calculating Value at Risk (VaR), performing stress tests, and mark-to-market monitoring and reporting.

"The continuing use of spreadsheets as a risk tool causes concern for a number of reasons. Aside from well-publicized issues related to errors and omissions, spreadsheets are not easily scalable and the data and information on which risk decisions are made can become cloistered within an organization."

– ComTech Advisory

What is the goal of key stakeholders?

Procurement risk excellence



"I am at the airport when I get an SMS alert that rising commodity prices have driven my uncovered value to exceed corporate governance limits. Called the hedge desk, and the risk was averted in minutes!"

– Risk Manager

"Its month-end and my numbers are available. My dashboards for the exec meeting are up to date. I know where the variances are and why. My compliance reports are ready to be submitted"

– Finance Manager

"I want to ensure I am buying at the right time, from the right supplier at the right cost and under budget while meeting all the raw material demands at each plant"

– Category Manager



Head of Commodities / Category Manager / Buyer

- Gain more visibility into cost components to negotiate better with suppliers
- Track markets based on pricing and deliveries, make informed decisions on spot vs. carry vs. alternate supplier
- Track the impact of the market and prices to arrive at more favorable contract terms
- Track performance along budget, internal benchmarks and markets



Head of Risk / Head of Commodities

- Determine when and how much to hedge
- Compare all hedging strategies
- Measure risk by portfolio, asset, department, region
- Track performance by broker
- Get instant mark to market and VaR analysis by trade, portfolio, region
- Track breaches in compliance policies instantly



Finance Manager

- Track spend across commodities and business units instantly
- Track where the variances are and compare with last year, last quarter, last month
- Track spend attribution and the factors causing the most and least impact
- Reclassify items and ensure flexible reporting based on changing business needs
- Create accurate, timely hedge accounting and regulatory reports

How can you achieve procurement risk excellence?

Implement a platform that combines technology, commodities know-how and risk expertise to enable you to:



Automate

- Connect your physicals contracts and inventory, hedges from brokers, and market data together to reduce operational and repetitive tasks and spend more time on strategic analysis
- Simplify cumbersome processes like month-end reconciliation, broker reconciliation, and looking for historical trends from multiple archived sources



Collaborate

- Create a single version of the truth for all stakeholders, making standard reports and insights available to everyone instantly
- Deliver executive dashboards for monthly risk meetings without spending time consolidating reports from all departments
- Share comments and feedback directly and view the communication trail



Eliminate

- Eliminate spreadsheets and manual processes for managing global risk for raw material portfolios
- Be better prepared for auditors with more accurate and timely reports



Substantiate

- Make more timely data-driven decisions by gaining insights on real-time exposure to market
- Analyze global market signals by tracking price, volatility, weather, supply, demand and other external factors on one single dashboard and view possible impacts on your portfolio
- Track and measure forecasted and year-to-date spend, P&L, value at risk, breaches to compliance policies, performance of portfolios and hedge strategies over time
- Monitor changes to the market and the company portfolio and receive real-time notifications



Simulate

- Be more prepared for what would happen if prices moved, raw material volumes changed, you bought on spot, refining charges changed, or a supplier defaulted

Our experience

While all risk and category managers, CFOs and CPOs agree that they need to implement a procurement risk excellence suite, many are unaware that there are solutions available which can make this a reality in 6–8 weeks. Cloud-hosted procurement solutions can be implemented with minimal disruption to the existing landscape and business.

How it works

- Eka's cloud solution is implemented with no disruptions to business or IT
- Pre-built connectors for internal and external data sources save time and money on lengthy integrations
- We configure the risk algorithms, roles, monitors and limits
- You schedule processes based on user-defined frequency, near real time or on-demand
- You create and view the dashboards you need

Recent success



A large US dairy company implemented Eka in just 8 weeks, gaining real-time analysis of position and risk, instant alerts for breaches of risk limits, and executive dashboards in seconds



A large biofuels producer turned a 4-day manual task of position consolidation into a 30-second task



ROI is achieved in 3–4 months, delivering a quick win for both business and IT

60+

Countries

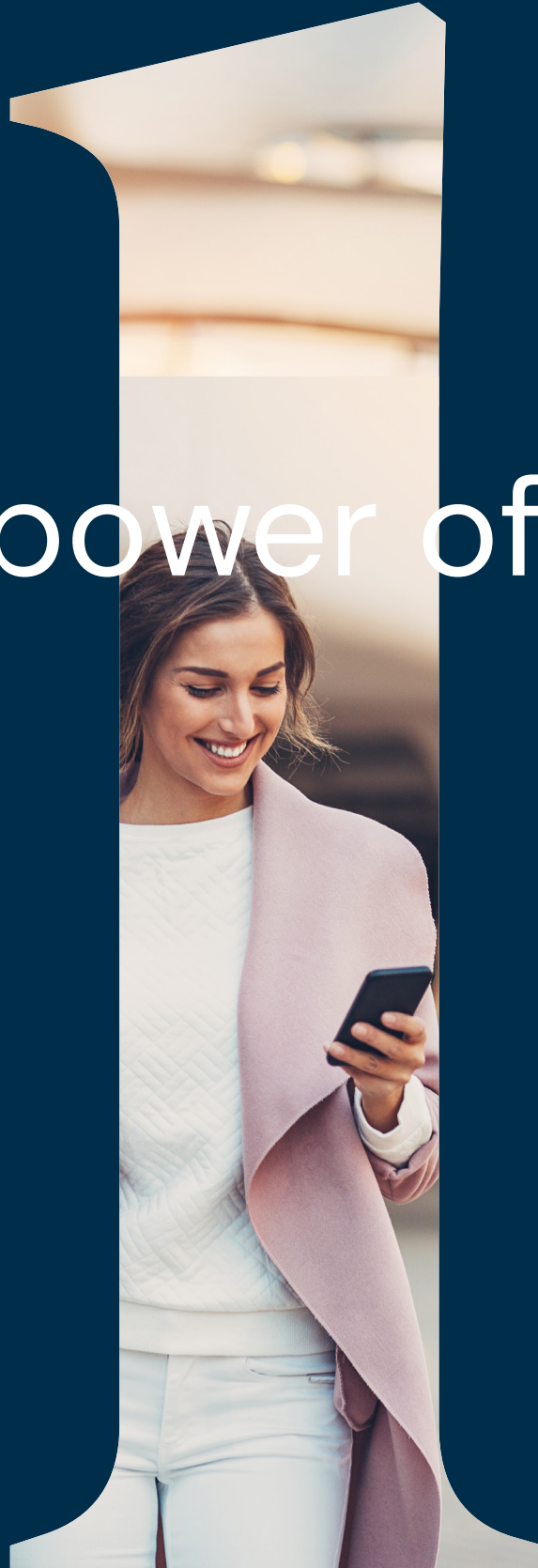
100+

Customers

50+

Apps

The power of one.





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To learn about how Eka can add value to your operations.

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About Eka Software Solutions

Eka Software Solutions is a global leader in providing digital solutions for Trading & Risk, Supply Chain Management and Financial Services driven by Cloud, Blockchain, Machine Learning and Analytics. The company's best-of-breed solutions serve the entire trading value chain across agriculture, energy, metals and mining and manufacturing markets.

Eka's Cloud Platform provides advanced analytics, one source of data and an automation engine, providing maximum flexibility and investment protection as business needs and market requirements change. Eka is committed to ensuring its 100+ clients can work from anywhere and collaborate across ecosystems within a secure and trusted environment.

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