Commodity Prices – an increasing challenge

Increasingly volatility of raw material costs

FMCG manufacturers currently have to contend with soaring raw material costs. The consequences are far reaching, and are felt along the entire value chain. Not only is there a threat of raw material shortages, but also a danger of a substantial decline in operating margins. In most cases, a company has no alternative than to pass these costs on to retailers.

Highest priority for input prices

Hence the issue of input prices must now receive top priority. This is one of the key findings of the "2011 Commodity Survey" recently carried out by Inverto AG and Deutsche Lebensmittelzeitung.
100 per cent of consumer goods companies regard rising raw material costs as their top priority issue. Other key factors such as increased competition (52 per cent) and national economy (48 per cent) were ranked second with significantly lower priority.

74% of manufacturers obliged to increase selling prices

Three quarters of the food managers interviewed said they would have to increase the selling prices of their products due to significantly higher input prices.
There is no improvement of this situation in sight: 83 per cent of respondents said they anticipated further increases in raw material costs during the next 1½ years.
The situation is rather like being in a casino: it is impossible to predict whether prices on the commodity markets will rise or fall. The stakes are high: those who buy at the wrong time may lose their annual earnings within a few weeks. In years purchasing raw materials has therefore become a top priority for many companies.

Manufacturer to specialize in futures and options

Food and beverage companies are using more and more financial instruments to hedge against price fluctuations, and contracts are now being concluded with longer terms. The commodity business has also become more sophisticated. It is of strategic importance when a commodity is bought, at what price, and for how long. Currencies and their fluctuations during the term of a contract are yet another crucial factor.

Price adjustments to be key issue

The market situation has changed completely since about 2007. In 2012 the prices of key agricultural commodities have remained at a high level. Due to poor harvests and unstable political conditions, manufacturers are now experiencing local and regional supply problems for some products.

Situation complicated by increasing volatility

The increasing volatility of commodity prices is even more challenging than the level of prices themselves. Commodity prices are continuing to rise in both the medium and the long term.
Not only have purchasing and risk management became factors critical to the success of any business strategy, as has the ability to pass on increased input prices by adjusting prices.

Raw material prices have proven to be extremely unstable in recent years.

Source: Food and Agriculture Organization of the United Nations

Professional implementation of price increases

SCHOENTHALER CONSULTING EU has developed special workshops on the issue of purchasing, risk management and price adjustments.

Walter Schönthaler; Schoenthaler Consulting e.U.

Independent Business Consultants, Vienna

office@walter-schoenthaler.at

www.yourfoodexpert.at

Phone: +43 1 615 06 73