



Highlights

- Improve corporate margins and procurement costs
 - Dynamically adjust pricing, procurement and operational strategies with market conditions
 - Facilitate a coordinated, optimized and institutionalized pricing process
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Commodity price optimization for consumer products

Mitigate commodity price volatility

When it comes to commodity price fluctuations, margin compression is a challenge for today's consumer products companies. To remain competitive, businesses have to find long-term solutions to address the market dynamics. The commodity price optimization solution for consumer products from IBM can help you manage commodity price volatility, and produce optimal strategies to reduce costs and maximize margins.

Advanced optimization technology for price, mix and supply decisions

How does your business respond to changes in commodity prices? Is your pricing strategy optimized for financial returns and corporate or market constraints? Whether you're producing grains, meat or produce, many factors can affect commodity pricing in a hyperconnected market—escalating feed or fertilizer costs, weather, oil prices, natural disasters and even geopolitics. In the past, processes assumed stable commodity prices, but this is no longer suited to today's environment. Consumer products companies may find it more difficult than ever to determine optimal price, mix and supply plans. The commodity price optimization solution from IBM allows organizations to turn commodity market volatility into opportunity. It is designed for clients who want to maximize margins, improve account- or channel-level visibility, and proactively manage price fluctuations.



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This solution answers questions such as what to make when and for whom, and what prices to set. It uses predictive analytics and price optimization software to align price, product mix and plant capacity with changing supply, costs and demand. Using patented, mathematical models, the solution can deliver real-time recommendations to help you make complex price, supply and purchasing decisions across products, customers, channels and suppliers. It can recommend alternative courses of action for the highest financial returns, determine when to buy or sell and what to make or buy, and provide optimal price and quantity recommendations.

An analytics-based pricing engine

The commodity price optimization solution can enable consumer products companies to transform from a supply chain model to a market-driven model capable of quickly responding to changing market conditions in the most profitable manner. The solution offers:

- Daily price and demand forecasts at stock keeping unit-(SKU) and channel-level with an integrated forecasting process.
- A system in which price acts as the lever to shape demand toward the most profitable product, customer and channel mix, on a daily basis.
- Modeled price-volume relationship per product and segment to help enable supply clearing.

- Relevant and appropriate decisions modeled with constraints and added in the latest possible time window to maximize flexibility.
- Real-time integration and insight across the business to help you react at the speed of the market.
- Support for an integrated end-to-end pricing process through a single platform.
- The ability to identify commodity price trends over time and understand how seasons impact prices, using historical as well as projected prices for each commodity.

Negotiate the optimal deal

The commodity price optimization solution can help you make decisions across the buy, make and sell functions within your organization by managing your supply, and determining the optimal product mix, how to make it and what price to charge—by country, channel and customer. We can help you determine everything from how much raw material you should buy, to the optimal timing, quantity or contract structure for that purchase, and how that might change as market conditions change.

For example, a vertically integrated processor, such as a pork processor raising their own hogs, might not have a lot of flexibility around their supply, so the focus is on the product mix and price. IBM can help this type of organization determine

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the product mix that best balances supply and demand while also maximizing overall enterprise margins. Inventory can be used as a strategic lever: It can be built up when costs are relatively low or drawn down when the price that can be charged for the finished goods is at a relative premium. We also can help a consumer products company determine the price they should be charging—and the demand that will be driven at that recommended price—based on whether they're selling into a rising or falling market, or into a customer segment with a high or a low willingness to pay.

Drive smarter selling decisions with IBM

Complexity is an everyday fact of life in the consumer products industry as are the risks embedded in business decisions. The commodity price optimization solution can provide market insights to help your business make better decisions, quickly identify the commodity price trend over time, understand the pricing relationship between multiple commodities and compare the forecast with the current futures market, and ultimately decide whether an opportunity exists.

IBM can provide deep experience with enterprise resource planning, supply chain management, project management and commodity price insight. We make the most of our state-of-the-art mathematical algorithms and technology to help optimize broader financial performance for your organization.

For more information

To learn more about commodity price optimization for consumer products, please contact your IBM representative or IBM Business Partner, or visit: ibm.com/consumerproducts

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