



This article appeared in the Oct • Nov • Dec 2013 issue of *SAPinsider* ([www.SAPinsiderOnline.com](http://www.SAPinsiderOnline.com)) and appears here with permission from the publisher, WIS Publishing.



# From Field to Fork: Unravel Your Agricultural Contract Management Complexities and Reap Profits

by Gabriele Weigel, SAP

Today, agricultural trading and food processing companies handle much of the buying and selling of soft commodities. These corporate entities negotiate with individual farmers and business partners on the purchase and resale of harvested products. Yet the “field to fork” agricultural business model remains surprisingly similar to the one used when farmers transported crops with a horse and buggy to a market where consumers haggled over prices. While the days of a handshake over a basket of ripe tomatoes are virtually gone, the basis of negotiations still starts with the harvest. However, companies in the agriculture industry must now deal with extreme fluctuations in pricing and changing regulations so they must rely on increasingly complex contracts for visibility into profit margins.

For example, at harvest, a large trading company can take delivery of hundreds of truckloads daily, and each truckload might be allocated to satisfy all or parts of a seemingly countless number of contracts. Each contract, in turn, stipulates factors such as product quality, discounts, premiums, and optionalities.<sup>1</sup> Other variables that make the agriculture and food processing industry increasingly volatile include fuel prices, the fluctuating cost of ingredients, the cost of food to sustain the necessary livestock, and packaging prices. Factoring in the strict regulations for the agriculture and food processing industry, having end-to-end transparency into contracts becomes vital to a company’s bottom line. Even more

complexity is added to industry contracts through the unique twist of futures pricing, which generally means that companies can’t determine full pricing until contract settlement.

To make dealing with these pressing industry issues easier, SAP started exploring options with a large US-based agricultural company about four years ago. The goal was for the two companies to innovate together to develop a centralized solution to automate contract management and provide the desired end-to-end transparency. After extensive collaboration and development, SAP released SAP Agricultural Contract Management in December 2012 as a solution to handle industry-shared processes in the heavily sub-segmented agriculture and food processing industry.

## End-to-End Contract Management

SAP Agricultural Contract Management integrates seamlessly with SAP ERP to tie in with an agricultural company’s financial and inventory applications to manage the entire end-to-end life cycle of a contract. Using this solution, an agricultural company can monitor a contract’s overall performance with automated reconciliation of everything that touches a contract, such as related expenses, material prices, premiums, discounts, or movement postings. These are just some of the many factors evaluated in the assignment of and delivery against a particular contract, with the goal of supporting flexible contract assignment for a company’s specific profit margin optimization goals.

With SAP Agricultural Contract Management, assignments and reassignments are not calculated based solely on a single contract basis, but on



Gabriele Weigel ([g.weigel@sap.com](mailto:g.weigel@sap.com)) is the Product Owner of SAP Agricultural Contract Management. In her 17 years with SAP, she has held various roles in consulting and development. Four years ago, she discovered her passion for the agriculture industry.

<sup>1</sup> Optionalities are essentially attributes or alternative contract terms that may be declared by either the buyer or seller.

## Rounding Up the Benefits

SAP Agricultural Contract Management integrates with SAP ERP to consistently manage all agricultural core processes. The solution enables companies to:

- Manage agricultural commodity contracts over their entire life cycle, including pricing, terms, and conditions
- Create and monitor contracts for many types of commodities, and increase transparency of contract performance
- Automate high-volume processing and contract application decisions with configurable business rules
- Execute and settle contracts more effectively by consolidating pricing, premiums, discounts, and expense recovery
- Amend or cancel contracts
- Grow profitability and sustainability, and increase food safety by supporting visibility of ingredients from field to fork

how that contract can be optimized against a company's entire contract portfolio. By integrating all contractual considerations in a single solution, agricultural companies no longer encounter delays in having to view and reconcile a contract in a piecemeal, fractured environment. Consider the example of a trading company accepting delivery of a truckload of crops every 15 minutes. Without an integrated end-to-end solution, there are quite simply too many contractual obligations to satisfy or assign manually in such a short time, especially considering that multiple contracts can exist with the same partner for the same commodity. For instance, a truckload of grain from a single farmer could be allocated to a dozen or more different contracts. Each of these contracts could stipulate different optionalities, spot purchase rules, and numerous other preset business rules. Each contract could also differ according to the pricing that was agreed upon at the time of the deal.

As a truck is weighed and its load data enters the system, SAP Agricultural Contract Management runs through preset business rules to determine how to maximize the applicable contracts against the delivery. Often, though, load data is incomplete at weigh-in; for example, a sample might need more analysis. Taking variables like this into account, the solution can automatically reassign a load if it's later determined that assigning it to a different contract will yield a higher profit margin. The solution also allows for semi-automated or manual reassignment workarounds.

## One Robust Solution for Simplicity and Visibility

In providing a one-stop shop for contract management under one solution, SAP Agricultural Contract Management also offers companies an opportunity to drastically simplify their IT landscape. While the agriculture and food processing industry shares many common processes regardless of commodity, significant differences in contracting can exist depending on the crop. Because of this variable, it is not uncommon for agricultural companies dealing with multiple commodities to designate a different software solution for each commodity. With these companies tracking each commodity through a different platform, it can be increasingly difficult for them to consistently measure profitability.

The agriculture industry's penchant for mergers and acquisitions creates a similar scenario, where a newly formed company might even run multiple software solutions for a single crop. This level of complexity would make it difficult for the business to know if key performance indicators (KPIs) were being measured uniformly, or even if the crop was profitable overall. Until recently, disparate systems with no real integration was often viewed as the necessary cost of doing business in such a complex industry.

SAP Agricultural Contract Management changes this dynamic by offering agricultural trading companies one robust contract management solution that considers every imaginable circumstance that could affect an agreement between parties, and offers the ability to trace every stage of the contract, from initial capture to settlement. With the demand for arable land increasing, more research into using soft commodities as fuel, and a greater emphasis on food safety, detailed visibility into agricultural contracts is now more necessary than ever.

### Learn More

A lot goes into bringing crops from the field to your fork, and contracts that help define a crop's journey can be quite complex. SAP Agricultural Contract Management unravels those complexities to help companies keep a close eye on profit margins. For more information, please visit [www.54.sap.com/services-support/svc/custom-app-development/cnsltg/prebuilt/agricultural-contract/index.html](http://www.54.sap.com/services-support/svc/custom-app-development/cnsltg/prebuilt/agricultural-contract/index.html). ■