Commodity Strategy: raw material and commodity group strategy in professional procurement

The commodity strategy is the long-term procurement strategy for a commodity group or material category, frequently referred to in procurement as a commodity or commodity group. It describes how a company intends to procure a specific material or service group over several years – from supplier selection through pricing to risk mitigation. For technical buyers, it is the central steering instrument for managing cost, security of supply and quality systematically rather than reactively.

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Key facts at a glance

01 A commodity strategy defines long-term procurement objectives for a clearly delineated commodity group such as steel, electronics or bought-in parts.

02 The strategy is typically based on an ABC analysis, supplier evaluation, market analysis and a Kraljic portfolio analysis.

03 In practice, three to five qualified suppliers are frequently maintained per commodity in order to reduce dependencies.

04 The core objectives are cost reduction, security of supply, quality assurance and the reduction of raw material and currency risks.

05 The strategy is reviewed regularly, often annually or semi-annually, and adjusted to market changes.

06 It forms the basis for operational decisions such as price negotiations, dual sourcing or long-term contracts.

Definition: Commodity Strategy

A commodity strategy is a documented category or commodity group strategy that defines how a company will procure a particular material group in future. It covers procurement objectives, supplier

structure, contract and pricing models, risk mitigation and responsibilities within the procurement organisation.

Distinction from operational procurement

The commodity strategy is not concerned with individual orders but with the strategic direction of an entire commodity group. It answers questions such as: which suppliers do we buy from, in what regional distribution, on what terms and with which contract models? Operational tasks such as demand notification, order processing or call-offs are framed by the strategy, but not replaced by it. In short: the strategy sets the framework on which day-to-day purchasing is built.

Typical commodities in industry

In the manufacturing industry, commodities frequently include blank parts, semi-finished products, standard components, fasteners, electronic components, packaging and increasingly also services such as 3PL or 4PL logistics. Typical characteristics are a high material share of the product value and a relatively strong price dependence on raw material markets. For metal parts, for example, the alloy surcharge plays a role as a pricing mechanism that should be explicitly regulated in the strategy. Raw materials traded on the market, such as steel, copper or synthetic resins, also fall under the term.

Strategic positioning

The commodity strategy is a component of the company's overarching purchasing and procurement strategy. It must be aligned with objectives from budgeting, product strategy and sustainability goals. For regulated or critical material groups such as conflict minerals, additional compliance requirements come into play, which must be taken into account in the strategy.

Methods and approach for developing a commodity strategy

In practice, development follows a proven sequence: analysis of the past, assessment of the market, definition of the target direction and derivation of concrete measures. The process is usually organised as a project and led by the responsible category manager or lead buyer.

Baseline analysis: data and starting position

The starting point is a thorough stocktake. The order history of recent years, spend data, supplier ratings, price developments and quality KPIs are evaluated. The deviation analysis shows where planned costs were achieved and where they were not. In parallel, it is clarified how internal demand is structured: which volumes, which specifications and which plants are affected? Without a sound data basis, every strategy remains theoretical.

Market and portfolio analysis

Next, the procurement market is analysed: how many suitable suppliers are there, what is their capacity situation, what dependencies exist? It is also examined whether a monopoly or oligopoly structure exists, as this significantly changes negotiating power. Classically, the material is then positioned in the

Kraljic portfolio: high or low supplier power combined with high or low procurement volume. This results in four basic strategies: partnership, diversification, efficiency or securing supply.

Derivation of measures and implementation

Based on the analysis, specific levers are defined: supplier selection and dual strategies, contract models with index clauses, volume bundling, alternative materials or an outsourcing potential analysis for manufacturing services. The measures are prioritised, assigned owners and deadlines and integrated into the regular planning cycle. It is important that the strategy is signed off by management, for example via a defined procurement approval workflow.

Building blocks of an effective commodity strategy

A practical strategy consists of several consistent elements. If one of them is missing, a gap quickly emerges that becomes costly in day-to-day business.

Supplier structure and sourcing model

The central question is the number and regional distribution of suppliers. In practice, one to three suppliers in single, dual or multi-sourcing have become established, depending on the material group. With single sourcing, savings potential is usually higher, but supplier location risk increases significantly, for example in the event of natural disasters, geopolitical conflicts or logistical bottlenecks. The strategy also defines whether procurement is global, regional or local and which criteria determine supplier selection – typically quality, on-time delivery, development capability and sustainability alongside price.

Pricing and contract models

For raw material-driven commodities, index-based price escalation clauses are frequently used in practice, distributing material fluctuations fairly between both parties. Alternatively, fixed-price contracts over defined periods are common in order to create planning certainty. Payment terms such as 2/10 net can additionally combine liquidity benefits and discounts. Penalty clause arrangements to safeguard on-time delivery and quality also belong in this component. For long-running parts, second specifications or second-qualified suppliers should also be documented as a fallback.

Risk management and continuity

The risk component identifies critical dependencies: individual plants, single transport routes, few qualification sources or critical raw materials. For critical commodities, contingency plans are defined, such as safety stocks, alternative suppliers or substitute materials with verified material approval. Contractual aspects such as a prohibition on assignment or the securing of pre-emption rights may also become relevant here. The aim is to remain capable of acting within hours or days in the event of failures.

Key KPIs for steering a commodity strategy

A strategy is only as good as its measurability. In practice, a handful of KPIs are tracked regularly to make progress and risks visible.

Cost and price KPIs

The core KPI is cost deviation, measured as price deviation from the order or as the material cost index compared with the previous year. Adherence to the budget from budgeting is equally relevant. For index-based prices, it is monitored whether the escalation clause was applied correctly; supplier price audits help with this. In the event of supplier changes, time-to-qualify is also typically measured, i.e. how long the qualification of a new supplier takes.

Delivery and quality KPIs

In addition to cost, security of supply and quality count. Classic measures here are on-time delivery (OTD), incoming quality inspection with scrap rate and lead time in material approval. Those working with quality gates can additionally measure how many suppliers have successfully completed all defined stages. These KPIs reveal whether the supplier structure chosen in the strategy actually works.

Strategy and compliance KPIs

At strategic level, the share of volume handled with contractually secured suppliers and the degree of supplier consolidation are of interest, for example. Compliance KPIs are gaining in importance: for materials with a conflict minerals connection or suppliers in risk countries, the share of audited suppliers is measured regularly, also with regard to the Corporate Sustainability Due Diligence (CSDDD). These KPIs are usually summarised in a category scorecard.

Risks and controls in dealing with commodity strategies

Typical errors arise not from a lack of knowledge but from inadequate implementation and outdated data. Clear control mechanisms minimise these risks.

Common sources of error

A common problem is so-called shelf-ware: the strategy is produced, filed away and no longer used. Other typical weaknesses are a commodity group segmentation that is too coarse, a lack of alignment with production planning or unclear responsibilities between central and plant-level procurement. Poor data quality in supplier master data maintenance also leads to false underlying assumptions. Finally, there is a risk that price advantages are eroded again via compensation mechanisms such as additional alloy surcharges or logistics costs.

Control mechanisms in day-to-day operations

A regular strategy review, in which objectives are compared with actual KPIs, has proven its worth. For the strategy to take effect in day-to-day business, relevant requirements should be anchored in the

systems, for example as mandatory fields in the ordering system or in automated approval processes. Deviations from the strategy, such as purchases outside the qualified supplier base, should be visible and require justification. Data control around material master data and pricing models also belongs to this component.

Organisation and responsibility

Every commodity needs a clearly named owner, typically a category manager or lead buyer who is responsible for the strategy, its implementation and reviews. In globally operating companies, a clear division of roles between central strategy and local implementation is decisive, otherwise parallel procurement channels emerge. It is also important that changes to the strategy are documented in a traceable manner – for example via defined change handling within the transaction process.

Current developments in commodity strategies

Commodity strategies are currently changing in three dimensions: sustainability, resilience and digitalisation. Those who fail to keep up lose competitiveness and compliance certainty.

Sustainability and compliance

Supply chain due diligence is becoming a mandatory task for more and more companies. Requirements such as the Corporate Sustainability Due Diligence (CSDDD) and existing reporting obligations on conflict minerals or CO2 emissions must be integrated into the commodity strategy. Concretely, this means: sustainability criteria in supplier evaluation, defined audit processes and clear escalation paths. The pricing of more sustainable materials, such as low-CO2 steels or recycled plastics, is also increasingly becoming part of the strategy.

Resilience instead of pure cost reduction

Since the supply chain disruptions of recent years, the focus of many strategies has shifted: alongside price, security of supply is increasingly at the centre. This is reflected in more dual sourcing, more regional supply chains, higher safety stocks for critical materials and stronger protection through long-term agreements. Regulatory requirements and customs issues are also assessed strategically, for example when building up alternative procurement markets in Asia, Eastern Europe or Turkey.

Digitalisation and data basis

Digital tools significantly improve the data basis for strategy decisions. Spend analytics, automated market monitoring and AI-supported enquiry processes accelerate analysis and implementation. Content enrichment of item master data helps to identify duplicate or inconsistent material positions and to evaluate the volume of a commodity group realistically. In parallel, digital approval workflows in procurement increase the traceability of strategic decisions.

Typical metrics

Metric	Typical value
Material cost index	2 % to 5 % p. a. *typical target corridor for consolidated commodities*
On-time delivery (OTD)	> 95 % *usual target for strategic suppliers*
Volume share under framework agreements	> 80 % *measure of the strategic protection of the commodity group*
Price deviation from the order	< 2 % *control of agreed pricing models in day-to-day business*

Practical example

A medium-sized mechanical engineering company with around 400 employees faced the problem that stainless steel tubes and profiles were being procured via twelve suppliers and several plants without uniform terms. Material costs fluctuated considerably because individual buyers had concluded their own framework agreements. The company developed a commodity strategy for the stainless steel semi-finished products commodity group and consolidated step by step.

- Analysis of three years of order history to determine the actual volume and real prices per supplier
- Consolidation onto three qualified suppliers with an index-based price escalation clause and an agreed on-time delivery target
- Introduction of mandatory central fields in the ordering system and a procurement approval workflow for deviations from the strategy
- Qualification of a second supplier per critical dimension as a backup with full material approval

Conclusion

The commodity strategy is the central steering instrument with which companies manage a commodity group rather than individual transactions. It combines market analysis, supplier structure, pricing and risk models into a viable framework for operational purchasing. Decisive for success are reliable data, a clearly named owner and a regular review cycle. Those who consistently anchor the strategy in day-to-day business reduce costs sustainably and noticeably reduce failure risks. In times of volatile raw material markets and stricter sustainability requirements, it is less an option than a necessity.

Frequently asked questions

? What is a commodity strategy?

A commodity strategy is the strategic procurement planning for a clearly defined commodity group or material category, such as steel, electronics or standard components. It defines the supplier structure, pricing models, contract formats and risk mitigation over several years. In contrast to operational purchasing, it sets the framework within which individual orders and negotiations take place.

? How do you create a commodity strategy?

The process begins with an evaluation of spend data, order history and supplier ratings. This is followed by a market analysis, often supplemented by a portfolio analysis according to Kraljic, in order to identify dependencies and levers. Specific measures are then derived and prioritised, such as supplier consolidation, index clauses or dual sourcing. The strategy is reviewed and adjusted regularly, typically annually.

? What belongs in a commodity strategy?

The core elements are a commodity group and demand analysis, the supplier structure with sourcing model, pricing and contract mechanisms, and risk management with contingency plans. These are supplemented by target KPIs, responsibilities and an implementation plan. For critical materials, compliance requirements, such as those relating to conflict minerals, also belong in the strategy.

? What is the difference between a commodity strategy and category management?

In practice, the terms are often used synonymously. Category management is usually the overarching approach, which also covers organisational structure, processes and the entire portfolio of commodity groups. The commodity strategy refers specifically to the strategy for a single commodity group or material group within this framework.

? Why do you need a commodity strategy?

Without a strategy, operational purchasing often makes ad hoc decisions, leading to price fluctuations, redundant suppliers and unnecessary risks. A commodity strategy bundles volumes, creates negotiating power and systematically secures supply and quality. It makes procurement objectives measurable and creates transparency for management.

? How often should a commodity strategy be updated?

In practice, a review cycle of six to twelve months has become established. In the event of strongly volatile raw material markets or supply failures, an extraordinary review makes sense. More important than a fixed cycle is that changes are documented and consistently implemented in operational processes.

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