Commodity Technology Advisory
E/CTRM Market Research, Analysis and Advisory

ComTechAlert

Sizing-up Market Trends in E/CTRM

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ComTech Advisory is beginning to pull together the granular analysis that is the foundation of our E/CTRM Technology Market Sizing Report due out in the next several weeks. In determining an estimate for market size, we examine not only the current activity in the market, but also historical activity in that it provides a sanity check on our data and also forms the basis for plotting the trajectory of current and out years' activity. Additionally, we spend quite a bit of time and effort examining forward looking trends, in both technology and the wholesale commodity markets, that will impact the ability of vendors to sell product from the beginning of this year through the end of 2018.

In our E/CTRM technology market sizing exercise, any individual wholesale commodity trading market trend must be examined in the context of the individual segments, and even sub-segments, that comprise the overall market. For example, natural gas and power in North America are the most mature commodity markets for physically oriented trading systems, and as such, they have the highest vendor-supplied product penetration of any of the commodities or geographies that make up the global market for CTRM solutions. If there were to be an event, say a sudden and lasting shortage of natural gas that results in much higher prices and high volatilities in the North American markets, that market segment would not show the same sensitivities (such as a sudden increase in demand for systems to better manage price risk) should a similar event happen in one of the other commodities or geographies that are less penetrated by vendor supported systems.

So, as we begin our exercise to quantify the market for CTRM technologies in terms of annual dollar spend, we keep the penetration rates of technology at the fore front of our analysis when examining the trends that impact the wholesale commodity markets and the companies that trade within those markets. By way of a preview of our views of the current and future markets for CTRM solutions, we offer a look at a few of the more interesting commodity segments that we'll quantify in the upcoming report.

Some of the Significant Trends

As mentioned earlier, North American gas and power were the early drivers of

E/CTRM system sales, with those markets having driven the founding and growth of a number of vendors in the early and mid-1990's. Adoption of vendor supported systems by European gas and power traders in the late 90's and early 2000's further cemented the role of gas and power as the leading physical commodities in driving system purchases on a global basis. Now, however, as the markets for those commodities are nearing maturity, penetration rates are high and the market is primarily a replacement market. Continuing low prices and volatilities for power and gas in North America and lagging liberalization of European energy markets will result in low annual growth rates for new system sales for the next several years.

However, the news is not all bad for technology vendors in the energy centric markets. Oil and oil products markets were not early adopters of vendor supplied technology solutions. While there were sales of oil centric systems in the mid 1990's, these products were primarily purchased to manage financial trading activities, with the very complex management of oil supply chains left primary to custom developed solutions or spreadsheets. Over the last 5 years we've seen a clear uptick in the number of physical oil-centric CTRM systems sold around the globe, driven by enough price volatility to make the market attractive to new entrants and increasing adoption by existing market participants as the vendors themselves matured and began offering more capable systems to address the complex physical logistics that drive the global markets.

Outside of the energy markets, we also see strong and continuing interest from companies seeking agricultural capable systems. Ag companies, including growers, merchants and food processors, have been buyers of supply chain solutions for a number of years and as such, there are a relatively large number of product vendors providing products to address those needs. However, it's been only relatively recently that ag trading solutions have been available to address both the complex business of trading and the wide ranging multi-modal logistics (and in some cases the unique processing operations) found in these markets. The huge run-up in prices and extreme volatilities found in the ag markets starting around 2005 drove increased trading as merchants and food processors sought out lower prices from a more diverse supplier base. The demand for new systems continues today as new sales of ag-capable, vendor supported CTRM solutions continues to show good, and we believe, sustainable strength.

The metals markets, like the ag markets, were late adopters of vendor supplied, physically oriented trading systems. With continuing volatility and prices extremely sensitive to the global supply/demand balance, metals market participants continue to adopt more aggressive risk management practices and are seeking solutions that provide them with the capabilities to address not only improved risk management, but also manage the logistics and their unique operational requirements such as mining, refining, and milling. We believe this market, though still relatively small compared to the energy CTRM markets, will continue to grow at a fairly rapid pace; though that growth may be more sensitive to global economic conditions than that found in many other commodities.

A non-commodity specific technology trend we've been watching for several years is the adoption rates for web-delivered solutions that eschew the traditional in-house technology models that have been the norm for the E/CTRM markets. The impact on global market sizing of this particular trend (being driven in large part by the vendors themselves who are looking to create more predictable revenue streams) can be a bit of a conundrum to measure for an analyst. The acquisition price for these solutions (SaaS or Hosted) is generally lower than for traditional software; however, the annual continuing spend for that license will usually be higher in the subsequent years. Most vendors in the space will price their annual fee for the hosted solution at one third of the traditional license, looking to recoup the equivalent value over 3 years. So, while greater adoption of web solutions may reduce the overall spend in a given year, the reality is that as the market matures, the base of user companies grows and there is no real net loss of total revenue in the market. Additionally, we also believe that the lower initial acquisition cost will actually grow the overall spend in the E/CTRM market as many smaller companies that couldn't afford the large up-front investment required by traditional licenses can now acquire a vendor supported web delivered solution.

An Expanding View

As an analyst group, we enjoy the challenge of measuring the various aspects of the market in which we operate...and challenging it clearly is. We'll be publishing some numbers that quantify the trends noted above, and many others, in our upcoming E/CTRM market sizing report. Additionally, going forward we'll be expanding our market sizing coverage to include other categories of solutions that may lay outside the traditional scope of the wholesale commodity trading markets as the market reach of "trading companies" expand up and down the commodity value chain. So,

About ComTech Advisory

Commodity Technology Advisory is the leading analyst organization covering the Energy and Commodity Trading and Risk Management (E/CTRM) technology markets. We provide invaluable insights, backed by primary research and years of experience, into the issues and trends affecting both the users and providers of the applications and services that are crucial for success in markets constantly roiled by globalization, regulation and innovation.

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in the upcoming months, we'll be publishing additional market size supplements that will include coverage of logistical solutions such as shipping and rail, upstream oil and gas products and downstream applications such as distribution products. Watch this space.

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