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

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The CTRM Vendor Space continues to Reshape and Redefine Itself

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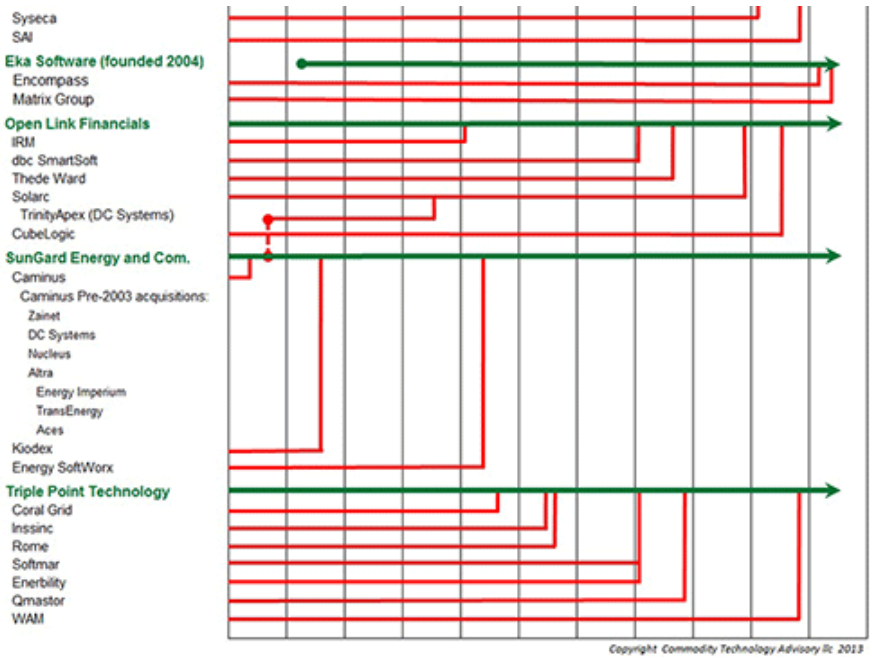
The recent announcement by Eka Software Solutions that they had acquired a stake in Australia's Matrix Group marks just the latest deal amongst the vendors of commodity trading and risk management (CTRM) solutions in a space that has seen continuing consolidation and extension over the last several years (earlier this year Eka also acquired Calgary-based Encompass Solutions). Though the pace of acquisitions has slowed somewhat year to date, indications are that we will continue to see Eka, Brady, Triple Point, OpenLink and potentially others pursue additional acquisitions.

I spoke with Manav Garg, Eka's CEO and founder, about the company's strategy related to their recent acquisitions. Mr. Garg indicated that both the Encompass and Matrix Group deals are in-line with a wider "commodity management" strategy, expanding the company's market reach outside the traditional capabilities that have defined CTRM and into a potentially larger market – global scale companies seeking to acquire software products from a single vendor that can manage the entirety of their complex commodity supply chain operations from source to market. Mr. Garg points out that these large, global-scale commodity merchants are looking not for just a trading or trade management application, but are seeking software products that provide end-to-end commodity management capabilities, including robust enterprise risk and treasury management functionality.

Market Bifurcation

The marketplace being addressed by the six largest vendors of CTRM applications (Allegro, Brady, Eka, OpenLink, Sungard Energy, and Triple Point) is becoming bifurcated, separating into what could be called "traditional CTRM" versus "commodity management" (a term used by both EKA and Triple Point – OpenLink defines their similar strategy as "transaction lifecycle management" or TLM), with the two paths being driven, at least in part, by the vendors themselves. Reviewing the acquisition activities by five of the six leading vendors in the CTRM space over the last 10 years (Allegro has not pursued M&A as a growth strategy), shows that of the 23 acquisitions completed by the five companies, 16 of those deals have focused on consolidating market share in a commodity class or improving functional capabilities directly related to "traditional CTRM". The remaining deals could be best

classified as true extensions of functionality and capability to service parts the commodity supply chain (such as mining operations, shipping or terminal operations) that have traditionally been considered outside the scope of commodity trading and trading risk management.



What is the market for "CTRM" vs. "Commodity Management"?

While the largest license deals (in terms of revenue and single deal user counts) have most recently been very much in line with the "commodity management" strategy, including a number of "eight figure" licenses sold by Triple Point to global scale commodity merchants such as Cargill and Archer Daniels Midland, the majority of deals by the top six "CTRM vendors" still continue to be associated with commodity trading activities – capturing production volumes or trading contracts and trades, managing positions, hedging, calculating risk metrics, tracking logistics and accounting for those activities. And while a number of these CTRM deals will include multiple classes of commodities (energies, ags, softs, metals, etc), there still remains an active and lucrative market for applications that address the specialized requirements of dealing in a commodity class (such as energy or metals), a specific commodity (such as natural gas, wheat, iron ore, cotton, or gold), or a specific market segment (oil and gas producers, gold miners, electric utilities, etc).

ComTech Advisory has tracked about 100 new license deals by these six leading and other smaller CTRM vendors over the last 3 years (this count does not include license sales of acquired products that we view as extensions of the core commodity trading and risk management marketplace – products such as WAM, Matrix Group, SAI, etc). Of the deals that we tracked, at least 90 percent of the new customers have purchased products that would best fit the category of "traditional CTRM" – software used to address the needs of trading or marketing groups that actively buy (or produce), move, and sell one or more commodities, such as oil, power, grains, natural gas, metals and softs. The remaining deals, including many the most lucrative transactions, have been done with food processors or global scale multi-commodity merchants and would fit within the emerging definition of "commodity management" – addressing not just the needs of a commodity trading group within a global scale merchant company, but also (or even more so), the needs of that global enterprise to track multi-commodity purchases or production from multiple types of facilities; manage inventories in warehouses, silos, elevators or terminals; manage multi-modal transport; track and value commodity transformations through processing facilities; track physical losses and sales; manage enterprise risk; and address the needs of their treasury operations including cash, FX and credit management.

While the number of licenses sold (measured in terms of new customer companies signed) that could best be identified as "commodity management" has been a minority of new deals to date, there is significant room and momentum for further growth in that market. Over the last five years, we have seen accelerating demand from the largest ag merchants, food processors, consumer package goods (CPG), and industrial manufacturing companies looking at one or more of the top-six CTRM vendors to supply software solutions to address their global commodity supply

Generation 10

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chain, enterprise risk, and treasury management requirements. In the food processor space alone, ComTech Advisory research shows that 10 of the top 50 (but only 14 of the top 100) companies have acquired such solutions from a "top six" vendor to date; leaving a significant pool of high value prospects for these "commodity management" or TLM solution vendors to pursue.

Having said that, there is no doubt that there will continue to be an active market for CTRM solutions that address the needs of traders, marketers, producers and merchants that operate in limited geographies, transact in a limited number of commodities and require the specialized functional capabilities found in the market leading CTRM products. These companies' buying decisions won't be based on the needs of a global scale operation, but on the ability (and reputation) of a vendor to supply and support software that can help them manage their business of producing (or purchasing) and selling one or more physical commodities in a specific geography or market.

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