

# CTRM Thought Leaders Panel Addresses Impacts of low commodity prices on CTRM software

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By Commodity Technology Advisory LLC

## Commodity Technology Advisory

Question - We're hearing that OPEX is under considerable pressure at a majority of energy and commodity trading shops, with some facing cuts as high as 30% versus 12 to 18 months ago. What advice would you give a CIO facing such cuts in their organizations?

### Manav Garg, CEO & Founder, Eka Software Solutions

In today's environment of low commodity prices, it is more critical than ever before to do more with less. Eliminating waste and trimming expenses wherever possible is necessary, and many companies have already taken steps along that path. Companies need to cut costs while still serving customers and successfully managing the business.

Operational efficiencies can be realized through the use of technology. Most companies have previously adopted some type of CTRM or ETRM software to manage commodities, but may also continue to rely on spreadsheets, at least partly. As E/CTRM has increased in functionality, companies will benefit from eliminating these in-between spreadsheets in favor of a fully integrated multi-commodity CTRM solution that supports all front, middle, and back office functions.

Once companies have gained transparency in operations through the use of a comprehensive CTRM solution, the next step to increasing effectiveness is making better decisions. The most significant savings will result from the investment of commodity specific analytics. All parts of business are becoming more intensely data driven, including physical and financial supply chains. With advanced analytics, commodities companies can make the best decisions, smarter than ever before, and in turn, increase profitability.

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To put this in real-world perspective, let me use one of our customers as an example. This agriculture company wanted to increase throughput at their grain facilities. They had already invested in Eka's CTRM software and automated the receivables process. The next step was to leverage advanced analytics for better decision support. We provided an IoT solution that runs algorithms against the sensor data collected from weighbridges and reclaimers. With this solution, site operators at this agriculture company can answer the difficult questions such as: will a minor upstream delay result in significant tonnage deviation; if the bench height setting of a reclaimer is changed, will throughput increase; what are the root causes of differences between planned and actual performance at a site? Solutions like this are giving our customers a competitive advantage.

The message to any CIO struggling to meet budget cuts is clear: critical to success is leveraging the best technology to efficiently manage the business and remain profitable.

#### **Gavin Lavelle, CEO, Brady PLC**

Ultimately, Brady Cloud Services offer companies the chance to reduce the TCO (of its software solution) by more than 30%. Not only do we have the ability to leverage an economy of scale that customers can't take advantage of when hosting solutions themselves, but we can also do so without compromising quality of service. Brady offer fully managed solutions through their Cloud Services, which means customers have none of the overhead of operating the platform or solution – just the benefits from using it. Furthermore, because our Cloud solutions are proactively managed by our product and technical specialists (who understand our products better than anyone), we can ensure the best possible user/customer experience is delivered. This in turn, typically, leads to a more efficient support model and reduction in support costs while still maintaining the highest quality of service. A range of ancillary services extend this idea, making Brady's Cloud Services a true "one stop shop" and further improving the cost savings.

In current market conditions when companies are pressured into reducing their OPEX, why would they want their IT experts managing third party software systems, when companies like Brady offer fully managed and SaaS type models that provide them with higher quality service at a fraction of the cost they would need to invest



themselves for their own hosted or on-premise deployment? What we are able to do is not only offer them a higher return on investment but also allow them to free up their own staff, from supporting third party solutions, to drive more value in their organisations through innovation.

Win win!

### **Chris Strickland, Founder and CEO, Lacima Group**

There are 2 broad areas that probably should be addressed:

- Where can you cut costs and save money
- Where can you focus your (reduced) spend to drive value in the business, or enhance company value

Where can you cut costs and save money? My advice here would be to review the current tech spend to identify the main cost drivers.

- Don't just focus on the current hardware costs and software license fees, but also consider the head count required to keep the applications up and running (feeding the relevant data, making sense of the output, preparing reports, etc.)
- This analysis should also consider the costs of in-house development on the same basis (including the cost of when the only person who really knows what is going on in the in-house solution walking out of the door).
- Interestingly we have had a couple of inbound enquiries in the past 2 months with the same premise – “We bought our current ETRM system to do deal capture, data capture, settlements, invoicing, credit, and risk management, etc., and 2 years later we see that we only use it for deal capture. Credit, valuations and risk management are all done off system as the ETRM doesn't have the necessary sophistication. Can we replace our ‘front to back’ ETRM with a ‘light’ deal capture system and a dedicated risk engine for less than we are paying for our full blown ETRM which is being used at 25% of its ‘capacity’?”

Where can you focus your (reduced) spend to drive value in the business, or enhance company value? It is getting harder and harder for energy companies to do business, and we live in turbulent times; deficiencies in risk management appear to be a leading contributor to the credit crisis and many shareholders, boards, and rating agencies are taking a closer look at the company's approach to risk management. Good analytics forms the basis for this – I believe that analytics (real stuff not the rubbish that most ETRM systems put forward as

'analytics') is the next frontier to help management make good, fact based decisions and gain a competitive advantage.

The previous risk management analytics paradigm seemed to be focused on risk mitigation - the value was addressed in terms of how much risk was mitigated. Risk management is often seen as a high level compliance exercise. The new paradigm is look at risk across the entire business – companies are in the business of taking risks (more so if the margins are so low) so they need to make sure that they take the right ones and get compensated for the risks they are taking. Companies are recognising the growth and performance improvement opportunities that an expanded approach to their risk management tools can provide – provided they have the right analytic engines. An IT spend in these areas – not a defensive use of risk analytics, but an offense one, can provide significant returns on investment.

### **Henry Bonner, SVP Commodities, OpenLink**

One area where we are seeing significant change taking place is in moving captive data centers to the cloud. Our research shows that captive data centers are only reaching perhaps 30% CPU utilization when measured on a 24/7 basis. This suggests that a large amount of dedicated hardware is sitting powered up but idle most of the time, at least in terms of CPU work being done. By shifting to a cloud-based data center, organizations can pay for CPU time as used.

To make the most of this, application software should also be hosted and be sufficiently agile in its processing requirement to affect savings. For example, when deploying OpenLink's Endur application, an increasing processing load is taken up by dynamically enabling more compute engines on virtual machines; similarly, reduction takes place in lower load conditions. Imagine running ad-hoc risk reports: as the compute demand spools up, additional virtual machines are dynamically created, and Endur compute engines run on them. Once the job is completed, the VMs and engines are shut down; hence a highly scalable dynamic compute environment is achieved.

In a cloud environment, the cost is associated with the actual CPU demand at any time, so the expense ramps down once the job is completed. All this can be a considerable cost savings when compared to running a data center with sufficient capacity for peak CPU, which is

idle for significant amounts of time.

Furthermore, in a cloud environment, OpenLink offers managed services. Teams of dedicated professionals looking after many clients, as opposed to a team which is in-house but not easily scalable, can operate in a much more cost effective manner. Better automation of tasks, whether routine housekeeping items or break/fix, can be achieved in a vendor service offering due to the familiarity of the software and access to subject matter experts.

Deploying broad, highly functional, cross asset C/ETRM solutions can often save on OPEX when compared to managing multiple best of breed solutions, with separate support teams. Modern systems can also be less expensive to operate and support and can introduce competitive advantages as well as operating efficiencies.

We are seeing a lot of interest in making these changes, and OpenLink is at the leading edge of helping clients manage OPEX by moving to on-demand technology environments.

**Tim Rogers, Head of Sales and Business Development, Contigo**

OpEx squeeze is nothing new. In tough times, or even in good times following a growth phase, OpEx is a target. Fixed overheads can creep up and are often seen as the enemy of profit margins. On the other hand, predictable cash flow on either side of the balance sheet is easier to manage than lumpy one off payments. For a CIO coming under pressure to reduce OpEx, there are several options to consider.

The first step will usually be to prioritise and ensure that best value is being achieved. Assets can be reviewed to see which produce additional work, in the form of internal support, as it may be that these resources could be deployed elsewhere. Licenses that are up for renewal could be re-negotiated, and an audit may even find that some licenses are not actually being used by registered users. This can often be the case if there has been a period of growth, followed by stagnation or even redundancies.

While there will be a set of core systems, which are 'untouchable', they may include optional modules that are no longer used, so again undertaking an audit is important. Also, some services and assets may be in place simply to

provide insurance in the event of a system failing. There may now be better ways to mitigate this risk.

Throughout the process, it will be important to protect any return on investment. Systems that would cost money if they were shut down, either because of additional support required or lost opportunity, should be identified. It will also be important to ensure that operational risk continues to be managed effectively, and that this is not jeopardized through any OpEx reduction. Colleagues in Risk will be keen to add weight to the argument supporting operational risk management - going back to manual keying or spreadsheets should not be an option.

If the support model is old, suppliers can be asked if there is a more efficient option available. Consider migrating to a new system as this may have many long term business and cost saving benefits for the company.

Legacy systems on old contracts can be financially burdensome, but they often hang around because it can be hard to get the momentum to move. A focus on OpEx can help provide this momentum and can be a perfect time to put the case for change. Bear in mind that implementation and migration costs could go into Capex.

Consider moving to SaaS or a managed service. While moving to a rental model may seem counter intuitive in the OpEx battle, it can actually be a cheaper alternative. There are often high costs associated with physical servers, SANs, licenses, server rooms, redundancy, disaster recovery and the people to run the current system, so outsourcing to a rental model may be a sound financial decision.

Moving to a managed environment with a SaaS model can bring many benefits. But make sure the software is designed to run in such a way and the vendor can support it. For example you should find market configuration offered as a service, so you do not need to continually maintain a complicated set of reference data as new products and instruments appear in the market.

OpEx decisions can be by their nature short term. The case for future proofing can seem like a wish list, but there are hard facts in the energy industry which can't be overlooked. Regulation has made its mark, and is set to bring more change. Perhaps the largest change in the energy industry for decades is well underway – the

changing generation mix, move away from legacy assets and dramatic changes in trading patterns mean systems will have to cope differently.

Companies running legacy systems are likely to have to draft in expensive consultants or pay for upgrades to deal with these changes. A move to a more modern system with fast upgrades can enable organisations to protect themselves from this risk.

Businesses looking at OpEx should take a longer-term approach, and consider total cost of ownership over future years. With a shifting market there will be a requirement to make changes, so organisations need to ensure that they have systems that can cope, quickly and inexpensively.

Please see ComTech's [CTRM Thought Leaders](#) page for more details on this program. If you would like to nominate someone to be a CTRM Thought Leader, please contact us with details.



**Mr. Manav Garg, CEO & Founder, Eka Software Solutions**

Manav provides overall leadership and direction in strategic areas such as product direction, growth strategy, and talent acquisition. As a former commodities trader with a large global commodity trading house, Manav witnessed first-hand the deficiencies in traditional trading and risk management software. Realizing the market opportunity, and combining this with his passion for technology, Manav founded Eka in 2004.

Since then, he keeps Eka focused on meeting the needs of the company's global customers. He constantly strives to achieve ever higher levels of organizational excellence and customer satisfaction by encouraging responsibility and accountability at all levels.

Manav graduated as an engineer from Regional Engineering College (REC) in Jalandhar, and followed this with an MBA from Indian Institute of Foreign Trade (IIFT) in Delhi. In 2014, he was named to Fortune Magazine's "40 Under 40" compilation of executives in India.

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**Mr. Gavin Lavelle, CEO, Brady PLC**

Gavin joined Brady plc in September 2007, with over 25 years' experience in the international financial software and banking industry. Having worked in investment banking for 10 years with Banque Paribas as Head of Equity Derivative Trading and latterly as Director of Deutsche Bank where his responsibility was Global Head of Equity Derivative Trading, Gavin founded RioFin, a Cambridge based software development company focused on capital markets trading. Following RioFin's acquisition in 2000 by SunGard, he continued as Chief Executive Officer of Panorama, a leading risk management solution, before heading the takeover of Sherwood Systems, a leading insurance company, where he also had the role of Chief Executive Officer. Gavin holds a BSc in Maths and Computer Science from Southampton University.

Since joining Brady, its market capitalization has increased almost 7 fold from £10m and Gavin has been instrumental at driving the business from a UK company that addressed the derivative markets associated with the London Metal Exchange, to a company that addresses the challenges of companies involved in physical trading and logistics of metals, soft commodities, power and gas and more latterly recycling. The company is headquartered in the UK, with offices in Norway, Switzerland, the US and Singapore and employs around 232 full time staff.



**Mr. Chris Strickland, Founder and CEO, Lacima Group**

He is an Associate Research Fellow at the School of Finance and Economics, University of Technology, Sydney and the Financial Options Research Centre, University of Warwick.

Chris works extensively with senior executives consulting on energy risk management and complex derivative valuation issues. Furthermore, Chris is a recognised expert for expert witness testimonials. Previously Chris worked for RBC Gilts Ltd and Kitcat and Aitken & Co in

London.

Chris is the co-author of the books Energy Derivatives Pricing and Risk Management and Implementing Derivatives Models and co-editor of the book Exotic Options: The State of the Art, and has a regular series of articles in Energy Risk Magazine. Chris was named in the Energy Risk's Hall of Fame in 2005. In 2009 he was named in an elite international group of five by Energy Risk Magazine as a pioneering quantitative analyst who has made an outstanding contribution to energy trading and has shaped today's global energy markets.

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**Mr. Henry Bonner, SVP  
Commodities, OpenLink**

Henry Bonner is responsible for OpenLink's global non-energy commodity sector, covering Agribusiness, Food & Beverage, and Consumer Packaged Goods. Mr. Bonner joined OpenLink in 2009 as SVP of Corporate Development, managing two key company acquisitions to create the Agribusiness Division, of which he became the Managing Director, merging and integrating the two businesses. As well as company acquisitions, Henry contributed to the private equity sale to the Carlyle Group and the subsequent sale to Hellman and Friedman. Prior to OpenLink, Henry was Principal at Fairlead Capital Management, responsible for strategic advisory to energy and financial services technology companies on areas such as capital raising, M&A, revenue growth, product positioning, and exits. Prior to Fairlead, Henry was Managing Director at SunGard Energy for eight years, where, as a founding team member, he was instrumental in developing the business from its beginning by driving both organic and acquisition growth strategies.. Earlier in his career, Henry was the general manager of leading risk management software company, Sailfish Systems Limited, which was sold to Reuters in 1995.

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**Mr. Tim Rogers, Head of Sales and Business Development, Contigo**

Tim heads sales and business development. He has an in-depth knowledge of the European energy markets and, prior to joining Contigo, was involved in a number of Trayport products.

His experience includes the development of in-house energy trading and risk management systems, power and gas scheduling and integrated 3rd party systems at companies including Gazprom Marketing and Trading Ltd.

“We have products that are unique in their approach and architecture and more and more businesses are coming to us. Some of these are a new cohort of generators and retailers keen to be a part of the changing landscape, but many are large established businesses adapting to the new landscape and taking the opportunity to migrate to more appropriate solutions. They are moving to enTrader because they need a more modern software solution that is flexible and easy to use.”

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