

Buy? Build? Why Not Both?



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INTRODUCTION

A recent survey and report by analyst firm ComTech Advisory¹ suggests that a majority of users of E/CTRM software might consider building custom software to meet their business requirements. In fact, around 70% of the survey's respondents suggested they would consider such an option. As ComTech noted in the report, about 35% of the respondents were representatives of the top tier of the industry who have extremely complex, global, multi-commodity supply chain operations to manage. Nonetheless, given the maturing market for commercial E/CTRM solutions, the idea that anyone would chose to build a solution is perhaps surprising. ComTech concluded that especially in todays' business environment of rising costs and diminished profits, a more appropriate solution might be to build around a commercially available solution.

This white paper examines the pros and cons of build versus buy while also examining other approaches that in the end may offer a cost effective, yet superior solution. It looks at the Brady cloud offering in particular as a potential starting point for a hybrid solution and examines why a hybrid solution may make commercial and functional sense.

¹E/CTRM Software – To Buy or to Build, That is The Question, ComTech Advisory Research Report, 2016

BUY V. BUILD

ComTech's study showed that commonly considered reasons to favor build over buy were to have complete control over delivered functionality while avoiding generic and unnecessary functionality. The idea that each business is different was also a key criterion along with the view that users knew their own business best. On the other hand, the cons were led by issues such as not being an IT organization and having the depth of IT skills internally to deliver, maintenance and keeping the solution current. The overall cost of internal development was also a key concern along with inability to access busy business resources and their knowledge of the business. The time taken to complete the project and the fact that requirements would almost certainly drift and change over that period was also highly ranked.

Finally, the respondents understood that adequate commercial solutions existed anyway. The respondents also demonstrated that while an internal build might satisfy various stakeholders in the organization, it was invariably delivered over budget and time.

In fact, background research on the Internet will quickly demonstrate that the buy v. build argument is often an emotive one and is unsettled; there seems to be a dichotomy of expert opinion on the topic. Perhaps that is because the question can't be answered philosophically but has to be a specific decision for a particular company, specific business culture, specific set of business processes, and application area?

When it comes to E/CTRM software, one needs to consider that there is a wealth of commercially available applications that have mostly been built to be highly configurable to cater for all the varieties of differences between firms that buy, sell, trade, move and manage commodities. Every commercially available application already includes adequate basic functionality around trade capture and so on while there has been sufficient focus on areas of specialties such as various risk metrics, analytics, logistics and so on, to provide basic coverage for most needs in these areas. Despite all of that, it is a truism that certain buyers will have certain additional needs either in terms of further depth of functionality or additional key strategic or proprietary business processes. This is, after all, why most commercial solutions remain a 70-80% fit to requirements at best and even less for certain industry segments and commodities.

Perhaps the biggest area of weakness in commercial solu-

tions is in catering for a broad set of requirements in a single solution? We have in mind here larger, global, multi-commodity, supply chain businesses that historically have either built internally or acquired a hodge podge of off the shelf commercial solutions. This is essentially the top tier identified by the ComTech study, however one should not forget that middle tier companies might often hold as much complexity yet without the transaction volume and scale.

Quite clearly, a number of factors need to be considered in making a buy v build decision and these are absolutely critical in nature. These too were identified by the ComTech report and include availability of internal IT and project management resources without which, an internal build is a non-starter. Another key issue is should your key business specialists be working on an IT project or deployed on the front line of the business? For without their expertise and input into the project, a suboptimal result is all that can realistically be expected. Finally there is the cost of an internal development to consider as well as the timescale for delivery.

In considering both the generic and specific challenges around making a buy v build decision, the final analysis must be that it will always be a company-by-company decision. Many of the criteria for consideration are related to availability of resources and business expertise, costs both direct monetary costs as well as opportunity costs, decisions around whether to attempt to standardize business processes or maintain a position that proprietary business processes are the competitive and strategic backbone of the business and so on. It is in essence, an individual decision and in so far as it goes, that is why such a dichotomy of opinion can be found on the topic.

IS THERE A THIRD OPTION?

There is a third option in terms of taking a hybrid buy and build approach. In the past such an approach has proven to be a problematic integration issue; how to integrate a variety of third-party platforms that have overlapping functionality? Additionally, each 'buy' required its own selection and implementation process while the maintenance of all of these third-party applications could become a nightmare as each vendor rolled out upgrades independently of the other. The 'build' component became the integration rather than the strategic or proprietary functions that gave the business its advantage in the market.

However, things have changed. Today, there is the cloud, the Internet and there are new technologies, architectures and approaches that theoretically suggest a hybrid approach should be reconsidered. Integration ought to be a significantly lesser problem in the modern world of Internet-based, XML services and the like. The key to the puzzle becomes identifying the services that can be procured versus those that should be built while defining an appropriate architecture. In such an approach, for example, transaction management can be separated from analytics and reporting allowing superior performance in both areas as an additional benefit.

Many of the other issues around the buy v build argument

can also be less difficult to handle such as the resource issue where ring fenced functionality delivered as a distinct service can require less of the experts time. By using non-traditional development approaches, issues around shifting requirements might also be lessened in terms of impact. To some extent, the maintenance issue is also diminished using such an approach, as each service is essentially independent of the other. It's not a panacea however as specialized IT skills and project management are still required in an area of technology that is in high demand. However, many of the E/CTRM vendors have moved or are moving to such an architecture themselves recognizing its cost and flexibility benefits.

BRADY – THE CORE OF YOUR HYBRID SOLUTION?

One CTRM vendor that provides leading commercial E/CTRM software across almost all commodities is Brady PLC. A leader in the metals space, it also has significant capabilities in bulk commodities from cotton to coal and across many energy commodities. It has pursued a strategy of both organic growth and acquisition and in order to knit all of its capabilities together in a coherent manner, it has embraced the cloud and a services-related architecture. Today Brady sees more than half of its revenues coming from recurring sources in terms of cloud delivered solutions and offers 30 and growing services to its clients.

Brady has developed a common framework for service development that can also be made available to customers known as the Software Development Kit (SDK). This allows Brady and/or customers to quickly extend Brady's services and solutions or third-party solutions and even build custom services. The SDK includes data services for easy integration

of any data source and presentation services to insure a rich, consistent and modern browser-based user interface. Brady uses the SDK itself to build out additional services faster, to ensure consistency and an upgrade path.

Brady's SDK means a hybrid approach can be utilized by

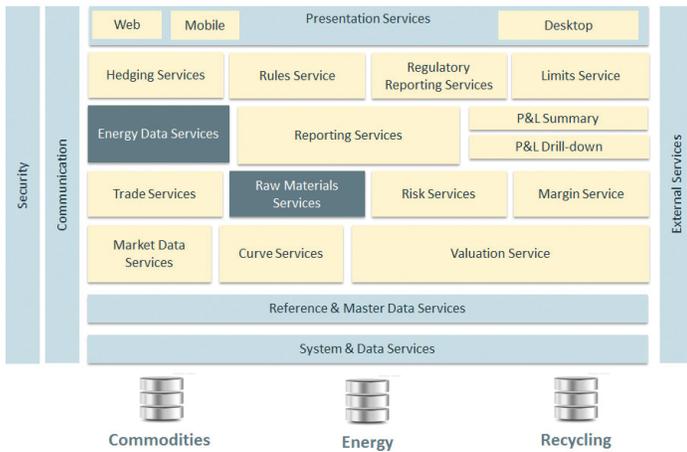


Figure 1: The Brady Service Inventory

those who want to develop custom functionality while taking their vanilla functionality from a vendor. The top tier that sees build as the way to go can get there faster and more cost effectively by selecting a hybrid solution of existing Brady services, third-party solutions and then utilizing the Brady SDK to devel-

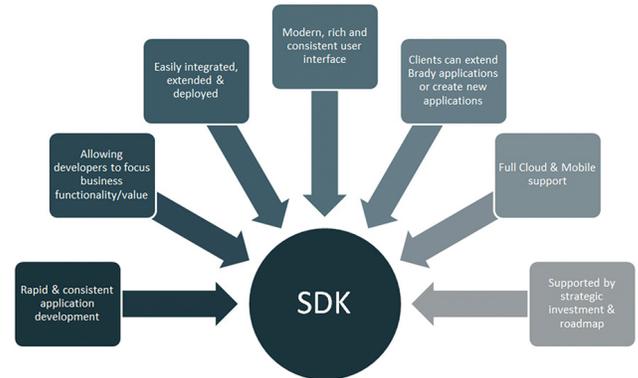


Figure 2: Brady Web Framework Benefits

op custom services and manage the integration. Essentially, new applications can be built rapidly in a consistent fashion and with a similar look and feel. This allows the internal developers to focus squarely on the business content as opposed to build all of the plumbing and architecture from scratch.

CONCLUSION

Today, the decision is no longer simply buy or build. Service oriented architectures mean that a hybrid approach can be taken utilizing commercially available services from Brady and supplementing that with custom functionality built with the Brady SDK. This hybrid approach can also integrate data sources and utilize third-party functionality to knit together a custom solution that provides all of the benefits with few of the downsides to a custom build including ensuring a forward upgrade path. The approach further benefits the user in terms of overall cost, adaptability and speed of deployment. The hybrid approach is now very much a feasible way forward.

ABOUT BRADY PLC

To prosper in today's increasingly complex commodities marketplace, physical trading companies and financial institutions rely on specialist technology and sophisticated analysis to maintain a competitive edge in the global markets. The latest generation of Brady's market leading software provides integrated trading, risk, settlement and logistics solutions. With comprehensive audit, compliance and regulatory functions, businesses can now combine cost saving with sophisticated management techniques. The straight-through processing capability of a single platform enables an enterprise to quickly achieve a lower cost per trade and provides a proven foundation for effective risk management and a streamlined, efficient business process.

With 30 years of experience of developing leading technology, Brady is now used by over 400 companies globally; our clients include some of the largest commodity, energy and recycling companies, including traders, financial institutions, producers, mining and brokerage corporations in the world. By working closely with our clients in the softs, agricultural, metals, minerals, oil, electricity, natural gas, emissions, coal, recycling and freight markets we continue to lead the way in trade capture and risk management, increasing productivity and operational and regulatory efficiencies in an ever changing landscape.

The global commodities markets are becoming more volatile and complicated and growing regulatory, legal and corporate governance requirements are adding even more pressure. To keep pace businesses need to unlock the real value of their information and market intelligence. That means breaking up data silos and deploying the tools necessary to capture, access and share data accurately, efficiently and in real-time, throughout a trade lifecycle. Brady's transaction and risk management applications are designed to help producers, consumers, financial institutions and trading companies manage all of their commodity transactions in a single integrated solution – including pre-deal analysis, trade capture, foreign exchange, credit risk, cash management, logistics and other physical operations, reporting, settlements and more.

Brady is a proven market leader and provides solutions for all sizes of operation. Whether the requirement is for hundreds of users across the entire process – from point of production to end-user – or for just a few users who are targeting one aspect of the supply chain, we have a solution. Brady's products can be fully integrated with 3rd party systems and applications, whether internal or external.

The goals are the same for everyone – to be competitive, profitable, and timely, effectively manage risk, streamline operations and meet regulatory requirements.

The benefits seen by our customers across trading companies, merchants, producers, banks, brokers, hedge funds, fabricators and corporates, include:

- / Ability to anticipate market moves
- / Analysis of all types of costs
- / Compliance with FAS133 and IAS39
- / Detailed cash flow projections
- / End of day valuations
- / Full audit trail and regulatory compliance
- / Integration with 3rd party applications
- / Integrity, accuracy and reconciliation
- / Interface to accounting systems through a general ledger interface
- / Interface to ERP systems/clients
- / Latest market data
- / Management of market rates, allowing creation of option premium indications
- / Margining positions
- / Operational control
- / Planning long-term strategies
- / Real-time information
- / Risk measurement
- / Seamless straight through processing
- / Storage and shifting of forward price curves
- / Supply Chain Management
- / Support for a broad range of commodities
- / Third party application interfaces
- / Weighting scenarios
- / "What If" reporting, scenarios and stress testing

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ABOUT

Commodity Technology Advisory LLC

Commodity Technology Advisory is the leading analyst organization covering the ETRM and CTRM markets. We provide the invaluable insights into the issues and trends affecting the users and providers of the technologies that are crucial for success in the constantly evolving global commodities markets.

Patrick Reames and Gary Vasey head our team, whose combined 60-plus years in the energy and commodities markets, provides depth of understanding of the market and its issues that is unmatched and unrivaled by any analyst group.

For more information, please visit:

www.comtechadvisory.com

ComTech Advisory also hosts the CTRMCenter, your online portal with news and views about commodity markets and technology as well as a comprehensive online directory of software and services providers.

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