How will the CTRM vendor landscape evolve?

CTRM Thought Leaders Q&A

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By Commodity Technology Advisory LLC

This last quarter, we asked our Thought Leadership panel the following questions.

ComTech: *"In our recently released 2016 CTRM Vendor Perceptions Report, when our respondents were asked to name vendors of CTRM products (and without prompting), the group cited more than 85 different vendors. Additionally, in our ongoing research, we have uncovered more than 98 different vendors that produce software products covering at least some portion of the CTRM value chain.*

In each of the last couple of years, ComTech has observed less than 50 new top and mid-tier customers buying CTRM solutions, with another 50 or so existing top and mid-tier customers buying additional technology components. Given the number of active vendors and this level of market activity, how do you see this potential disconnect between that market activity and the number of technology providers evolving? Will we see a consolidation of vendors via acquisition? Will we see the smaller vendors simply exit the market over time as the large vendors get larger?

Will a significant number of the small vendors be able to capture market share from the larger vendors? Or, do you feel that the current levels of activity is enough to sustain the majority of the existing technology providers both now and in the future?"

Not surprisingly, we got some great answers that make for very interesting reading. Clearly this group of individual Thought Leaders have very firm ideas as to how they view their markets and how they believe those markets are developing. We believe these occasionally differing views reflect the sheer complexity of what is termed the "CTRM Market" and the particular priorities and specializations of the many companies that service that market.

Thought Leader Responses

Jan van den Brom (Agiboo)

The signs are there that the CTRM market is becoming increasingly specific to the different segments within the CTRM space and that there is a shift towards the use of CTRM in smaller commodity organizations rather than the traditional large-scale implementations at the top tier commodity trading houses. The market for the latter has either become a smaller replacement market or a non-market because of in-house CTRM development, hence the observations in the vendor perceptions report. It will and it is requiring a different approach from CTRM vendors, with more readily available industry-specific solutions and less implementation consultancy.

The small vendors will take market share in this new market, because of technology, price, delivery and specific-industry capabilities. My belief is that we will also see an expansion in requirements of related Internet capabilities towards CTRM, which will increase the size of the market, but not in the traditional CTRM space, especially where the commodity trading organizations have a close relation to the end-consumer or direct processor of these commodities.

The current levels of activity in traditional CTRM is not enough to sustain the existing model in CTRM, but because of these expansions in low-tier markets, I believe that many vendors will survive in these new markets and the number of acquisitions will be moderate. By comparison to the more evolved business software such as ERP, CRM and accounting, commodity industry software require specific features not used by mainstream businesses and therefore demand will remain for the upcoming years.

Many of the vendors are innovating rapidly to expand their capabilities in this fast changing industry, and the possibilities in the technological area are changing even faster. Although there might be exits and acquisitions or newly-founded CTRM companies, it looks like many vendors will specialize further and will gain market share in these diverse new areas without significant competition.

Steve Hughes (Aspect)

I agree with the contention that few top tier clients were or are buying new CTRM systems. At Aspect, we predicted this many years ago and it is why we have focused our sales and marketing efforts at smaller firms. However, we also predicted that this would change and that Top Tier firms would also start to change outdated, inflexible systems - not wholesale, but desk-by-desk. We have seen

this happen particularly in H1 2016, when we secured the business of 3 such desks (geographically separated) in a global, integrated major, and secured another desk at one of the world's largest commodity trading firms. For the latter, this is viewed by the customer as just the start and the proving ground for many other projects to follow. I believe this trend will continue and that cloud-based solutions will win out over older technologies. Now, I know you would expect me to say that, but the current wave is growing and I, and many other observers, think it will become all pervasive in future. This explains why so many older technology companies are 'jumping on the band wagon'. As I have stated before, taking a legacy app and moving it to Microsoft Azure or AWS does NOT make it a cloud app, not even close. Cloud apps have a single, multi-tenanted version and shared infrastructure and many that claim to be 'cloud' are simply 'relocated legacy apps'.

I am aware of the almost 100 solution providers in the CTRM market, but we rarely see more than a handful in any one project. The key ones are Open Link, Triple Point and Allegro with Eka and Amphora occasionally. For the remainder of players, they are in generally too small to show up in these opportunities and we simply don't see them represented; other than very occasionally. The other important factor is that most market sizing studies (Comtech's included) focus on Top Tier firms, whereas Aspect believes the largest market (by $'s) is in the mid tier. This tier has been stuck between 2 poor alternatives - the $millions needed to implement the past market leaders or the continued use of spreadsheets which is seen as the low-cost alternative and maybe the only alternative. These are the reasons I believe there is no disconnect between the announcement of new business wins and the number of potential suppliers.

As recently announced, Aspect experienced a 71% increase in its bookings for its flagship product AspectCTRM, in 2015 (over 2014) and has seen a 127% increase in AspectCTRM bookings in H1 2016 (over H1 2015). However, Aspect is aware that others are not experiencing the same growth but are experiencing declining revenues. In short, I think this splits into 2 groups - true cloud providers and those that pretend to be a cloud provider.

I believe consolidation is inevitable, but I think success here lies in consolidating some of the new entrants who are using new, open technologies (cloud, for example) rather than the big guys buying up the smaller guys. The only real justification for the latter is to convert existing clients onto a more modern, flexible platform - I wouldn't

put this beyond the realms of possibility in the coming months and years. I don't think anyone wants to see a repetition of what happened to Solarc and Triple Point - it's good for Aspect and other small players but its bad for customer choice.

Chris Strickland (Lacima)

There are many dimensions that support niche software vendors in the C/ETRM space. There is the functional dimension covering deal capture, data management, credit risk, valuation, market risk, settlements & invoicing, logistics, position management, regulatory compliance – and within each category there are further niches; collateral management and potential future exposure in the credit area for example. The second dimension is the commodities themselves – power, gas, oil, metals, grains, etc. (and within that hydro power is very different from thermal power, wind, and solar). A third dimension is geography – European markets operate differently, and have different dynamics from North American, and Asian markets. Although many of the larger vendors put themselves forward as all singing & all dancing, covering all the functional areas, across commodities & geographies, we can all recount spectacular, and expensive, failures that show that this particular silver bullet doesn't exist. The reality is much more mundane – all of the systems have grown out of a particular niche, and when they branch out into other areas (adding a credit module, or addressing a new commodity area for example) what they produce really only satisfies very basic needs and if users want to 'do it properly' they turn to the niche vendors.

There are so many nuances within the multiple dimensions that, to be honest, I'm surprised that you have only found 100 vendors in this space. When you count in the in-house development – there are many thousands of 'vendors'. I think that you could have posed this question a decade ago and it would have been just as relevant.

Consolidation by acquisition is an interesting question. I would have thought this *IS* the way to grow, but there are many examples where this doesn't seem to have worked

Tim Rogers (Contigo)

The Market - Commodity trading is a huge field with a multitude of potential specialist areas: end-to-end C/ETRM, risk analytics, forecasting, logistics, retail. Some years ago, all of these were dominated by a few players attempting to do everything under one roof. For some trading firms this is still the preferred option, but with

smaller footprints, lean operations and less complex portfolios many traders are willing to look for precise, best of breed applications.

The global market consists of a diverse set of companies each with unique challenges and where there is a demand, problem-solving technologists will invariably find a way to step in. Some of the resulting solutions blossom to well established brands and find themselves solving similar problems as patterns emerge in other companies. Others, by taking on a handful of long-term maintenance contracts, will stay small. Still others will disappear leaving firms with perpetual licenses to bespoke solutions.

I suspect the number of buyers is larger than we think - some sales will go under the radar or not be reported under contractual obligation. The number of potential customers is growing too with generators, aggregators, supply businesses not to mention the occasional utility spin off. In my experience (We've sold significant numbers of trading systems over the last 24 months) the market is buoyant.

Vendors - Acquisition certainly may prove to be a factor; there have been a few of these recently but trading system components need to be integrated carefully so as to fully exploit the competitive advantage intended. Not doing so simply leaves a gap in the market, which will be quickly filled by the next entrepreneurial start up.

Some smaller vendors will exit, deciding to concentrate on stronger parts of their product portfolio. These strategic decisions will leave many of their customers looking for replacement systems and in the process re-thinking their approach to complex systems.

It's a common complaint (which is often justified) that vendor components don't integrate as readily as they should. Vendors can be forgiven for concentrating on their own software and less so on how well the next component may fit in. However, complex trading landscapes demand smart solutions to discrete problems. We will have seen more of these solutions popping up over the last few years as development techniques, hardware and deployment models have improved the efficiency of software development. On some level these individual solutions need to work together and that’s not always easy.

Multiple components - Trading firms now have an array of solutions to choose from but it's not a panacea. One of the fears many firms have is managing multiple vendors with many support contracts and the perception that any incompatibility will be theirs to manage. Vendors must

address this and embrace working together. Figuring out how we serve our customers more effectively has to be better all-round. We can be sure that the trading community has not been impressed with single vendor lock-ins and relishes flexibility, performance and transparency.

If vendors are smart they will rise to the challenge of providing real services and make at least common interfaces more accessible. We have, for example strategic relationships with risk and European logistics providers. These companies are experts in their fields and although we could build in-house (and it often makes sense to do so) for certain elements many customers want best of breed - and why not? There is a lot of choice and some outstanding solutions, which is great for competition and ultimately the customer.

Richard Williamson (Generation 10)

My initial response would be to question the number of CTRM vendors (98) or your definition of a CTRM vendor and then the number of deals (50 over last 2 years). Depending on which agricultural commodity and geography, we usually bump into just the same 4-6 names.

There are thousands of companies that need some form of commodity management system or digital transformation just in the Ags sectors alone. There are just fewer and fewer companies wanting to invest millions up front for CTRM. It does not need to cost that much, seriously. And that does not mean compromising on quality. Quite the opposite in fact, with today's technology.

We have seen large vendors disappear and given the landscape I expect we will see some organizational streamlining in efforts to bring expenditure in line with new revenues. We are seeing a lot of those tier 1 and 2 trading companies either coming back into the market or contemplating a build vs buy strategy.

As mentioned in a previous Q&A, the market is skeptical, and for good reason. When prospects are telling you they only know of two different types of system; a demo system and a live system, you know people aren't living up to their promises/expectations – and it has damaged the industry.

What does this result in? We have seen a couple of trends. Some have started offering their licenses away for free and earn their money on professional services for income – ouch! Some companies are choosing to build versus buy. What we see most is prospects wanting to see a demo they can use that pretty much equates to a complete

implementation with their data in it and integrated with their ERP/Accounting system before committing. And while it's far from ideal from a vendor perspective, you can't really blame them. Fortunately for us, it doesn't take us long to do that for them. After all, we want them to be happy and confident with having us as their technology partner before commitment - from either side.

You might see some smaller vendors exit for sure, unless they are diversified in some way. It's tough breaking through the skepticism and unless you can implement quick or bank-roll a full implementation as part of your pre-sales effort, it will be harder still. Marketing won't cut it anymore.

Business is going through such a disruptive phase at the moment where there is less and less room or appetite for the traditional. Companies are no longer prepared to take the risk of paying for mega up-front licenses, engine rooms full of servers and other paraphernalia on long maintenance contracts and lengthy build-outs or "configurations" before finding out if the solution is going to work for them.

A good friend likens the traditional business model to pouring concrete into your business. It's heavy, it takes up space and once it sets it is very difficult to remove. You get to a point where, while you know it's wrong, you pour in more of the same concrete. Some vendors are tackling this paradigm shift by offering to deliver your first batch of concrete for free. The "Tier 1s" are currently costing up pneumatic drills.

The wider market is looking for a lighter footprint and lower risk in their choices of solution(s). Imagine running your business on a multi-billion dollar IT infrastructure with infinite scalability (down as well as up), the best security money can buy, disaster recovery, reliability and processing power but without having to house a single server or buy a license. Imagine all of that and your device-ready commodity management software costing you a few hundred dollars per month on a pay-as-you-go basis while having access to a team of technology experts who really understand commodities, logistics, risk and the power of data. Who wouldn't want that?

I encourage you to read Amazon Web Services story, and their incredible list of clients. It all sounds too good to be true until you read all the success stories. Done properly, moving to your own private cloud is a game changer.

Thought Leader Bios

Mr. Jan Van Den Brom, Founder and managing partner of Agiboo
Website: Agiboo

Agiboo provides the 'next generation' of CTRM solution with a dedicated focus on the Agricultural and soft commodity industry. Jan has his background in CTRM and Trade finance solutions since 1998. In 2009 he founded Agiboo as a response to the increased demand of a CTRM solution with an easy to understand user interface, but even more important: allowing specific functionality support for certain industries. His vision is that CTRM products should embed an in depth knowledge of commodity trade business processes.

After being CTRM implementation consultant for many years before the founding of Agiboo, Jan has a strong believe in a product approach, where systems are flexible and adaptable to the needs of commodity traders and purchasers. In addition he feels that latest technology should support and help a CTRM solution proposition.

Jan graduated as a technical software engineer at the Hogeschool van Utrecht and followed this with an MBA at the Business School Netherlands. Currently he keeps outlining the product strategy of Agiblocks CTRM and connecting CTRM business needs with new technology possibilities.

Mr. Steve Hughes, President & CEO of Aspect Enterprise Solutions
Website: Aspect

Steve has been in the IT industry since 1979 with over 35 years experience. Following studying for a degree in Applied Biology in Liverpool, he started his working career at the National Computing Centre (now NCC) as a mainframe Computer Operator. He stayed there for 11 years in many roles from Programmer, though Systems Designer and Project Manager to Business Manager of the firm's mainframe focused software businesses. Steve describes his time there as his 'apprenticeship'.

In 1990, he left to join Legent Corporation as Marketing Director, a USA systems management software vendor that grew from a relatively small base to over $500 million

in around 5 years. Computer Associates acquired the company in 2005.

Steve then joined a series of firms including Point Information Systems Managing Director), Youcentric (SVP International) and Carnegie Information Systems (CEO) providing customer relationship management solutions to large corporations. This was a period of tremendous growth in each of the firms was ultimately acquired by larger software firms such as S1 Corp and JD Edwards.

Steve has a reputation in building relatively small businesses into market-leading players with a particular emphasis on sales, marketing and strategic planning. He joined Aspect (then OILspace, Inc.) in 2005 as CEO taking on the challenge from the company's founders. Since that time, Steve has transformed the company into the leading cloud-based trading and risk management solutions vendor in the industry. At present, he continues the transformation of Aspect with a focus on developing indirect channels and in merger and acquisitions.

Mr. Chris Strickland, Founder and CEO, Lacima Group
Website: Lacima

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.

Mr. Tim Rogers, Head of Sales and Business Development, Contigo
Website: 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.”

Mr. Richard Williamson,
Founder-CEO of Generation 10
Website: Generation 10

Generation 10 is a software technology company that provides solutions to various sectors of the global agricultural supply chain including CTRM, quality assurance, cargo marine insurance, finance and big data.

He shares the view that information is key and is a firm believer that key to getting it is through collaborative software and knowing what to measure in order to optimise and find opportunities through better data management and analytics. This is evidenced by the attention given to user experience and data visualisation in the products and services that G10 delivers.

Richard consults for a number of trading companies as well as the USDA, WTO and various international commodity associations and writes regular contributions for trade publications.

Having dedicated his professional life to solving the complex issues in commodity management such as traceability, quality assurance and risk management, Richard is committed to improving the flow and value of information in the world of commodities. He encourages

his development team to get first-hand experience on the ground at origin, at the ports and at the trading desk, on the premise that you can only solve a problem you can understand.

G10 has recently launched one the industry's first truly multi-commodity trading and logistics platforms, G10 Commodity Manager, that has proved to be uniquely positioned to serve the needs of the market in terms of functionality, flexibility and ease of use with its quick and cost-effective implementation and pro-active service model.

Have you filled in our ETRM In a Low Commodity Price Environment survey? We're seeking your participation in a new research effort by Commodity Technology Advisory. This new project looks at the impacts and implications of low priced energy commodities as they relate to ETRM system use and value.

https://www.surveymonkey.com/r/ETRM_Cost

You may also be interested in Next Generation Integrated Treasury and Trading for Energy and Commodity Companies

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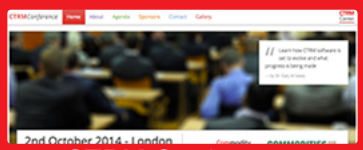
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