

Commodity Auctions and Exchanges

Interview with Phil Bird, Perfect Channel

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By Commodity Technology Advisory LLC

ComTechAdvisory: *Can you tell us a little about Perfect Channel? How did it get started and what are its objectives?*

Phil Bird: I suspect, like any venture, it's more about following a trail of crumbs than a eureka moment. I looked at auctions and what they were used for, alongside what level of sophistication, both technical and theoretical, was being brought to bear. It's an amazing mechanism for balancing supply and demand and has broad application, it just didn't look like anyone was harnessing its power, so hence Perfect Channel.

Broadly our objectives are;

1. Bringing efficiencies to complex B2B markets by creating the right situation (competitive tension) and the right segmentation (buyer, sell and inventory matching).
2. Enabling price discovery and liquidity for infrequently traded assets.
3. Expanding marketplaces from local to global.
4. Creating information equality.

ComTechAdvisory: *What is going on in the world of commodity exchanges and how can Perfect Channel address these trends?*

Phil Bird: We see commodity exchanges moving quickly to take advantage of legislative changes that affect how the OTC markets operate in terms of both mandatory clearing and transparency. In so many segments of the commodity markets, OTC trades remain favourable for various reasons; there could be fewer transactions in a fragmented market or the product is generally quite bespoke to meet the needs of the end-user. We can all cite examples where an Exchange has launched a futures contract that fails to attract the liquidity to become viable. The degree of optionality by quality, seasonality or location makes it impossible to benchmark against a 'common'

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index. What Perfect Channel offers is an e-commerce platform that fills the (very large) hinterland between homogenized cash settled commodities instruments and the OTC physical market. Exchanges come to us when they require a system that can be tailored for the physical markets. We refer to this as a complementary model.

ComTechAdvisory: *What role do auctions play in commodity trading and the broader industry?*

Phil Bird: It can be argued that Auctions are already the de facto form of trading. After all, a futures price is fixed upon the intercept of an intraday continuous supply and demand auction. With regards to running auctions for a discrete, time bound event it really does depend on the commodity. Running tendering auctions for example to determine access to a gas pipeline or oil storage is commonplace. Where it remains less popular is in the peer to peer bilateral markets. Brokers still provide the backbone of price discovery in a majority of large markets. To name but a few, these include shipping, LNG, Fertilizers and most soft commodities. We envisage a broadening appeal of running an auction service for a narrow window to set the benchmark for the more geographically fragmented markets. It will be a slow but steady evolution where either an exchange or indeed the broking community will lead the initiative.

ComTechAdvisory: *What has Perfect Channel learned from its experiences in dairy and cattle?*

Phil Bird: Each market that we help implement and design gives us an additional set of skills and experience. For cattle, we learned that negotiation was inherent to that industry. As such we bring a lot of experience on how to create a user friendly negotiation module that can be applied to other commodities. With regards to dairy, we learned the importance of offering new and innovative auction methods that create a fair value for the goods yet to be produced. A tendering auction is, in our opinion, an excellent way for the dairy industry to match forward production with demand. Again such innovations can be applied to other industries where the forward demand curve is based on forecasting.

ComTechAdvisory: *Who is your target market and why?*

Phil Bird: We firmly believe that there are many more opportunities to partner with the 200+ derivatives exchanges. This may be a broad remit, but there will be further opportunities to launch an auction based marketplace that sits beneath/alongside a continuous (futures) exchange serving secondary markets. These



secondary markets are readily identified by Exchanges and are not ideal to serve with a continuous marketplace. The markets can be too fragmented, too small or subject to complex negotiation: in the past six months we have talked about shipping, middle distillates, bonds and even government receivables.



Phil Bird, Perfect Channel

www.perfectchannel.com/

Phil Bird is an entrepreneur and innovator of internet auction and trading technologies, auction theory, and thought leadership for creating marketplaces, disruption of marketplaces, price discovery and price optimisation.

He is currently the CEO at technology company Perfect Channel, which he formed after reviewing auctions and what they were used for, alongside what level of sophistication, both technical and theoretical, was being brought to bear. He discovered they are an amazing mechanism for balancing supply and demand and has broad application – although there didn't seem to be anyone who was harnessing its power. In response to this, in 2011 he developed Perfect Channel's auction theory and engagement model, which seeks to align value within complex buyer and seller environments. He has created and orchestrated numerous auction implementations as well as orchestrating the use of auction as a mechanism for creating markets.

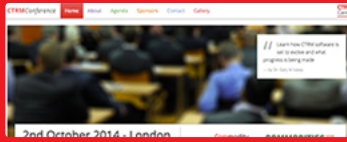
Prior to Perfect Channel, he has been instrumental in bringing to market many large-scale consumer- and business-focused technology projects in the past 15 years.

He has worked on a number of high-value projects for the likes of Lloyds of London, BBC, Specsavers, London Underground, Thetrainline, Boots, and The Guardian. With his in-depth experience across many industry sectors Phil has a good understanding of the complex challenges and business subtleties that arise across disparate problem domains.

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