



Is Software as a Service Catching On? - By Gary M. Vasey, Ph.D.

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Free

Traditionally, commodity trading and risk management (CTRM) software has been delivered via a licensing arrangement where the software is installed at the user's site. Implementations are long, expensive and quite risky. CommodityPoint data suggests that CTRM implementations costs range from one to three times the cost of the software licenses and a fair proportion of projects end with a suboptimal result or a failed implementation.

However, with the financial crisis biting and the balance of the type of buyers of CTRM software changing, CommodityPoint has observed an increasing number of buyers favoring an alternative delivery mechanism such as Software as a Service (SaaS) and hosted mechanisms. Vendors such as Aspect Enterprise, OATI, SunGard Kiorex and others who offer hosted or SaaS CTRM software have benefited from this trend and most vendors will now offer alternative delivery of their software on a hosted basis. This does appear to be a trend that will continue and have broad implications for the CTRM software space even though it is also true that both OATI and SunGard Kiorex have been doing good business selling hosted and SaaS CTRM solutions for some time now.

Cost as an Issue

The financial crisis has impacted budgets and discretionary expenditures meaning that trading divisions have less to do more. As a result, the lower upfront investment cost of a SaaS or hosted solution is attractive even if as a temporary solution. At the same time, the emergence of hedge funds as well as commercial and industrial end users who require more rigor around hedging and procurement programs has essentially created a natural market for SaaS or hosted solutions.

To some extent, the CTRM software market has lagged other software categories in terms of a movement to SaaS or hosted solutions. Other software categories such as the emissions monitoring category are dominated by SaaS and hosted solutions, for example. The barriers to utilizing SaaS or hosted CTRM software have traditionally been many including the sheer complexity of functionality required by individual end user companies and the fact that, as CommodityPoint has stated in the past, CTRM is not a traditional packaged software market.

CTRM Software Not Truly a Packaged Software Market?

What we mean by this statement is that there isn't a standard, one-size-fits-all, solution. To explain further, the market for CTRM software is extremely heterogeneous with different industry segments, different geographies (markets) and different sizes each requiring something slightly or, in many instances, broadly different. At the same time, the industry has tended to go through rapid and disruptive changes (see our book "*Trends in ETRM Software, A Primer*", Booksurge, 2006 - Chapter 2 for a significantly more detailed explanation) that can change requirements almost overnight. Furthermore, at least in the top tier of the industry, there has been—and remains—a reluctance to adopt "standard" business processes to replace practices and processes that are believed to provide competitive advantage.

As a result, CTRM software packages are highly configurable and complex that, at best, will meet 80% of any potential end user's set of requirements and almost always they require specific enhancement, set up and additions during implementation. In this sense, it is not a standard packaged software market and, as such, doesn't necessarily lend itself

to the concept of “shared” software via a SaaS model and using an ASP approach doesn't necessarily deliver the expected cost benefits because it still requires specific configuration and enhancement for the specific end user.

However, there are areas of CTRM software functionality that do lend themselves to a more traditional packaged model such as financial trading and risk management—much of the complexity outlined above is related to physical trading and transaction management. Vendors such as SunGard Kiodex have been well-placed to capture market share in these areas of more standardized software offerings. With the new budget challenges faced by trading firms and the emergence of more exclusively financial traders such as hedge funds, a real SaaS or hosted market is developing.

Support Our Research Effort?

But how is it, based on the arguments made above, that vendors such as Aspect Enterprise have been able to capture market share dealing with more physical aspects of commodity trading? And In North America, OATI has gained a major foothold in the electric power market with its SaaS offering and is now perceived as one of the market leaders for electric power there? In fact, OATI have been selling physically oriented SaaS products for both power and gas for several years and probably have the largest installed base of any of the SaaS vendors in physical markets. Perhaps in an era of greater austerity, companies are more willing to adopt the business processes offered by a vendor's package?

This is one of the questions that CommodityPoint is now addressing in its research program. We have commenced our research study into the emergence of SaaS, hosted and other delivery mechanisms for CTRM software (kindly sponsored by Aspect Enterprise, IHS, Navita, OATI and SolArc,). The study questionnaire may be found at www.utilipoint.com/2/CTRM/ and CTRM software end user companies are invited to respond. The final study report will be freely distributed and those responding will be sent a copy on completion of the study.

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