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## **Diamonds Mark CTRM's Coming of Age**

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The announcement by Triple Point this week that Su-Raj Diamonds had selected its Commodity Trading and Risk Management (CTRM) software to manage its Precious Metals sourcing and operations is the latest in a series of announcements by the CTRM vendor community of licensing deals in what might be loosely termed the “end user” market. The “end user” market segment comprises firms that utilize commodities in their operations and wish to reduce their exposure to price volatility. It includes companies in the food and beverage, agricultural, transportation, and manufacturing areas, and it is rapidly growing in importance as a source of new clients and revenues for CTRM software vendors.

### **A Growing Market?**

The “end user” market segment has, in fact, historically sourced a number of deals each year. SolArc, for example, has gained a solid foothold as a solution of choice among airlines managing their aircraft fueling operations. But recently, the licensing activity in this segment appears to have surged as Triple Point has signed companies in a number of industries including the explosives business and counts Unilever, North China Shipping, ST Shipping Nidera, General Mills, IFFCO, Campbell Soup Company, and Incitec Pivot amongst its installed base. Recently, Abacus Solutions announced its selection by Walmart Texas Retail Energy which manages the energy supply for Walmart and Sam's Club stores and distribution centers including over 300 stores in Texas and over 400 stores in the United Kingdom, and vendors like Eka and Brady, amongst others, have also had success in the “end user” segment. SunGard Kiorex and Aspect Enterprise have also had successes in the segment with their Software as a Service (SaaS) delivery model.

To some extent, the increasing activity in the “end user” market segment is the natural consequence of how commodity markets have, and continue to, develop. Commodity prices have become increasingly more volatile while access to commodity trading has become easier. In fact, ease of access to commodity trading via very transparent and quite liquid Exchange-traded instruments may be one of the reasons as to why commodity prices are now more volatile. It is no real surprise that companies exposed to commodity price volatility in agricultural feed stocks, fuels, chemicals, metals and elsewhere should start seeking to manage that price volatility and exposure. In doing so, they naturally find that they require a CTRM solution to track and account for their trading activities and to insure compliance with various regulations and standards such as hedge effectiveness testing, for example. This trend has naturally been a boon for CTRM software vendors.

### **Helping Change Deployment Models?**

In parallel with the uptick in “end user” CTRM software procurements, non-traditional CTRM deployment models such as SaaS and hosted have increased in popularity too. Again, these two trends appear to be related as a company seeking to manage its commodity supply side will often naturally gravitate to a SaaS or hosted solution to minimize its upfront software and IT investment while obtaining a good trading and risk platform for its activities. As the financial crisis continues to bite into budgets, SaaS and hosted CTRM solutions often appear to provide a better value solution.

### **CTRM Market Maturity**

CommodityPoint's model of CTRM adoption discussed in detail in Chapter 2 of our book, *"Trends in Energy Trading, Transaction and Risk Management Software - A Primer"*<sup>1</sup> suggests that historically periodic dislocation events such as the Merchant collapse a few years ago help shift market requirements and therefore the pace of licensing deals. Since the Merchant collapse however, we have observed an expansion of the market across commodities (ETRM to CTRM), the entry of hedge and other funds and banks (despite the temporary reversal of this trend as investors pulled funds and commodity prices collapsed, the funds are back) and now a rapid expansion of the market into the end user segment.

Potential market dislocators such as the collapse in commodity prices last year and the impact of the financial crisis appear to have had more limited negative impact on market growth indicating to us that the CTRM software category has long since moved from the early majority phase and is now mainstream. The, at times, rapid development of commodity markets has allowed broader and greater participation across many commodities for a broader group of participants beyond the producers and marketers of those commodities. At the same time, technical developments such as SOA, for example, have allowed vendors to respond to the twists and turns in market development faster as well as access via hosted or SaaS delivery, much more of the potential market.

At this point, it would seem that CTRM has finally come of age.