

IS IT TIME TO REPLACE YOUR E/CTRM?



PAST

FUTURE



**Commodity
Technology
Advisory**

CTRM Market Research, Analysis and Insights

INTRODUCTION

Historically, the E/CTRM replacement market has been quite small and relatively slow. There simply hasn't been so many replacements and where replacements of E/CTRM solutions have taken place, it had usually been because of a truly compelling need. Usually, that reason would be that the vendor had repeatedly and persistently failed to deliver the requirements, or support the E/CTRM installed, and usually, this would be because the vendor had been acquired, gone out of business or had dropped support of the product.

The reality was that replacements were always extremely difficult to do, meaning that users would put up with almost anything rather than go through a replacement in order to avoid having to select another product and vendor. The risk is always that this will be no better than the original and will cost a lot of time and money to do it along with all of the business disruption. The devil you know is better than the devil you don't. Other reasons include,

- For those who had made the original choice, admission that it was a poor choice could be a career-limiting move and reflect on them poorly,
- It always seems as if it is safer, less risky and less costly to work with something you have no matter

how poor it may be than start all over again and anyway "we know the supplier and have a relationship in place with them",

- Sometimes, the sunk cost of investment into the existing legacy, interfaces, user training and so forth is simply too large.

However, E/CTRM is now well in its third decade as a software category. Much has changed over those years in terms of needs and technology. We now see a developing and growing replacement market emerging that will only grow in the coming years. There are a number of compelling reasons why the replacement market is set to grow.

TECHNOLOGY

Many legacy E/CTRM were developed on old client/server technologies now being withdrawn by their supplier, like Power Builder, for example. Support for these technologies is no longer available and the skills to support them in the market have more or less dried up and become very expensive, meaning it is now often imperative to migrate to newer technologies. This means it is now essential to undertake a re-implementation of a new E/CTRM.

As cloud and Software as a Service have begun to emerge as the chosen adoption models, many businesses now want their critical systems delivered that way and seek cloud-native solutions or at least solutions that can be deployed in the cloud. Even those that prefer on-premises delivery seek more modern technologies for greater flexibility and business agility like web-enabled and graphical user interfaces, for example.

Many legacy platforms are essentially monolithic

applications that are highly complex and convoluted sets of code. They are difficult to maintain both for the vendor and the user and do not provide the needed agility nor ease of use. Most newer vendors over the last decade or more have adopted more open architectures or even developed ecosystems of application or modules to allow better ease of support and increased business agility. Given the changes taking place in commodities and the frequency at which they are taking place, architecture has also become important.

M&A AND THE VENDOR LANDSCAPE

There has been M&A activity for many years in the E/CTRM software category but in recent years, that activity has seen several of the larger and most prominent solutions in the space fall under a single owner. Not unexpectedly, there is some discomfort in parts of the industry at this and a suspicion that there is increased risk around proper support, marketing and sales of the acquired software products primarily due to an earlier acquisition which saw high staff turnover and a model of charging premium fees. Others simply do not like the idea of a potential monopoly and for some of the earlier acquired platforms, replacements are seemingly already underway.

However, other large vendors have run into trouble as well with ageing platforms that have been acquired at

some point in the past and they have demonstrated a lack of ability to properly migrate them forward in terms

of functionality and/or technology for whatever reason. In fact, it is hard to point to a successful M&A strategy in this space at any point in its history if that M&A activity includes the acquisition of competing platforms. The user experience of these events has often been poor particularly in terms of the subsequent support for, and innovation around, these E/CTRM platforms.

Meanwhile, buyers are spoiled for choice in the E/CTRM arena these days with many start-ups and new entrants who have developed cloud-native solutions or existing vendors that have begun to invest in broadening and modernizing their solutions. This

choice also includes the buy and build route where a move to services or ecosystems of services facilitates a mix and match approach.

After more than 20-years of choosing, implementing and supporting E/CTRM software, there is also a good deal more experience around across the entire market than there was. This experience allows users to make much better and more informed decisions about procurement, selection and support of E/CTRM solutions. There is less 'fear' around making procurement decisions.

VOLATILE AND SHIFTING BUSINESS PROCESSES

The sector is experiencing much change and from every possible source. These include regulators, stakeholders, technologies, business models, geopolitical events and much more. Users increasingly recognize the need for much more nimble and agile solutions to help them adapt to change and find business efficiencies across business processes and supply chains. There is an increasing awareness and recognition that the older legacy solutions simply cannot work well in this environment.

Users struggle to keep the software up to date as the vendor continuously releases new versions and often end up falling very far behind. Sometimes, so far behind, that the software is no longer covered by the support and maintenance agreement. Sometimes, the demands to test each new release become too onerous and expensive as well. At the same time, there is a constant need to get costs down. By migrating to usage or

subscription pricing models costs can be reduced and migrating to the cloud also offers at least different ways of accounting for costs. Older, legacy solutions, where the cost of support and maintenance is significantly higher, are increasingly at risk of replacement.

Overall then, we see a more mature market in which legacy software simply often needs to be replaced.

Inevitably, the software category has reached the stage at which the overall business case to replace older solutions is understood and has strengthened considerably in all areas. We see the beginnings of a

stronger replacement market in E/CTRM starting to develop which will be a feature of these markets for many years to come.

IT STILL ISN'T EASY!

Despite that, changing out an E/CTRM solution still isn't at all easy. The system isn't a stand-alone feature and is integrated or interfaced with many other applications across the enterprise. Replacing it can be a bit like heart surgery. Not only that, but the user has to go through a selection process in order to determine which way to go. The selection and implementation will not be cheap.

That is why a best practice approach needs to be followed when going through a replacement. The user needs to ask the vendors even during the selection process an extra set of questions relating to this like,

- What tools does the vendor have to aid in replacement?
- Does it have any sort of methodology to help everyone through the process?
- Has it done this before – does it have relevant experience?
- What sort of an approach does the vendor suggest for data conversion and prior period processing?

Choosing and implementing a new solution is a very complex and time-consuming project and there is no cookie-cutter approach as each scenario is very different. None the less, all of these questions need to be considered and all risks associated with the migration covered off. That is why talking to the vendors about their replacement strategy and tools is imperative when undertaking the selection exercise.

AN EXAMPLE OF A REPLACEMENT STRATEGY – ENUIT

Enuit, an emerging vendor with a multi-commodity trading and risk solution called Entrade and which aims to 'give its customers complete visibility, insights, control and management over their business operations, helping them to have peace of mind to make quick and informed decisions that affect the bottom line,' is one of the vendors targeting the developing replacement market. In order to do so, it has developed an approach. This starts with providing an effective implementation and testing framework with a prototype-driven approach. It also advocates replacements that operate with a parallel run mindset to reduce risks.

The idea behind the prototyping approach is to allow users to see as early as possible in the replacement how trades will run from front to back so giving early confidence in the delivery. The approach also helps to highlight any gaps early in the project. The testing and operation of the prototype is done using pre-prepared test portfolios that represent the user's business and these are used to repeatedly test through a series of lifecycle processes covering front-, middle- and back office. Middle office processes and key controls are also tested so that end of day processes can be simulated and so on.

Enuit also strongly urges users to measure believing that what gets measured, gets done. It sees the key to successful testing and the prototype-based approach is to pre-measure (and maybe more than once) the trade calculations and process events within a "test portfolio" so that the entire project team is working on the same set of constant data to first configure the system. Following this approach, it believes that the replacement can deliver advantages to the customer such as,

- Reducing the amount of rework and reconfiguration during the UAT and Parallel run,
- Iterative testing and small issues resolution creates immediate transparency into any CTRM project,
- Stakeholders are well informed,
- All test results, open issues, and measurable scorecards can then be used to arm the Project Management team and steering committee members to move forward the project from testing to Go-live.

In an example of a replacement at a global resources trading business with operations across Asia, Europe and North America handling a wide range of commodities in ferrous raw materials, steel products and non-ferrous raw materials, Enuit found a highly fragmented CTRM and IT landscape. This meant that the user suffered from substantial issues including;

- High levels of tedious manual effort,
- Inconsistent information, error and omissions,
- Numerous interfaces between components of the solution with a high maintenance cost,

- Poor, time-lagged information,
- Rudimentary risk management and controls, and
- Expensive maintenance costs.

However, by following Enuit's approach, the user was able to successfully replace all the older solutions using a replacement / Implementation strategy designed specifically for the purpose. Enuit chose Europe as the base location and established a project with the

users to baseline the global replacement approach and design based on the experiences there. As Europe was replaced and lessons learned, this was replicated in the semi-parallel Asian roll-out by keeping the CTRM design principles intact. The non-ferrous metals trading operations were consolidated into a single ENTRADE platform to provide accurate risk reporting capabilities; streamline trading operations and reduce the overall IT spend across 3 different locations.

SUMMARY

The commodities landscape is changing rapidly and CTRM users are seeking lower cost of ownership CTRM platforms that offer a more agile platform to support and optimize their business operations. This is driving a wave of replacements of older, legacy solutions that no longer

provide a cost-effective or agile basis for operations. For those seeking to replace, selecting a solution is not just about the new solution but about the vendor's ability and track record in CTRM replacements.

ABOUT ENUIT LLC

Enuit was founded in 2008 with a single goal in mind: To bring to market affordable, functional trade management software. Entrade is all of this and more. And, it really works. It can help your company track its transactions through the entire deal life cycle: From done deal through sent bill.

ENTRADE® provides value to traders and the front office. It's deal blotters can be used to test profitability on potential deals. It has a workspace, called sandboxes, which produce Flash PNL reports to determine the effect of new deals to an overall portfolio. It gives users a tool to check end-of-day profits. And, it prints deal recaps and confirmation letters.

Our Front Office capabilities give each trader a sandbox to value and analyze their trading exposure to market movements. Traders can mark positions to market and calculate value at risk at any time without affecting anyone else or company operations.

ENTRADE® has interfaces with ICE, DME, and CME; and, it can receive updates to settlement and forward curves through price aggregators, such as GlobalView and Bloomberg.

Our Middle office capabilities makes it possible to track everything from inventory volumes, aggrega-

tion of costs, value at risk, ancillary costs, the quality of product, and then tie that data to respective counterparties, contracts and portfolios with an advanced analytical engine which allows you to decompose a trades exposure and risk by its individual pricing components.

And for back-office capabilities includes invoice management and remittance statements for fees and treasury management, generates invoices and remittance statements for trades; including all associated fees and costs. It stores general ledger codes and can send journal entries directly to your General Ledger system and includes a tax module capable of calculating taxes of various forms and varieties.

For more information, visit www.enuit.com



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Meets Technology

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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