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A Commodity Technology Advisory Whitepaper
Next Generation CTRM

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Introduction

Commodity markets may well now be at an important crossroads in their evolution. Always risky and intricate, trading, procuring and/or selling commodities, is increasingly more complex and becoming even riskier. For those engaged in commodity markets, there has always been a need for flexible and configurable CTRM software to cater for the rapidly changing nature of the business. Unfortunately, most traditionally implemented on premise CTRM software solutions are suboptimal in terms of keeping current with new business challenges. Often the solution also carries a high cost of ownership as this traditional development model can mean months, if not years, between the emergence of a new requirement and the delivery of the matching functionality. New models are now emerging that utilizes the Cloud from new vendors who, familiar with such issues, have innovated different approaches that hold much promise for users.

This white paper examines how the industry is changing and why legacy CTRM software and the traditional models of development, implementation and support are problematic for users. It reviews the emergence of new technologies and delivery mechanisms and contrasts how these solutions may prove to be more responsive to industry needs in the future.

New Challenges Mount

As raw materials and natural resource supplies tighten, commodity markets simply become more volatile. Volatility and risk, in turn, attract speculators who, through their activities in the market, can increase those volatilities still further. For non-speculative players, increased volatility and higher prices means that they need to more closely monitor and manage the greater risks (market, credit, liquidity and operational) that they are faced with as a result of the volatility.

This level of volatility, when combined with a progressive drive to ever-higher prices, several very high profile trading scandals and the still fresh memory of the 2008 financial crisis, has led to calls for increased regulation and oversight. The regulators, backed by both consumer groups and politicians, have already introduced, and continue to propose, more and more regulations. In general, these regulations are ensnaring more trading companies in their net also add to the complexity of the trading business via increased reporting while increasing the cost of doing business. As more and more non-financial traders fall under the regulations, both legal and regulatory risks are increased. Furthermore, the regulations add a whole level of additional work in the form of additional reporting, workflow management and data collection that in turn adds burden to the company's systems.

Meanwhile, despite the generally negative popular view of commodity and financial markets, trading markets have proven to be an effective and efficient method of allocating scarce resources and, despite the cyclical nature of the markets, there is an increasing demand for more commoditization including derivative products. As investment has continually flowed into commodities markets, centralized exchanges have developed (and continue to develop) new market places to trade commodities and new derivatives with which to hedge commodity exposures, for example, the new bitumen futures launched in China. Many of these innovative new products are quite complex and, in some instances, have attracted the eye of the regulators. The complexity of these instruments has also increased risks both at a systemic level and on the level of the individual trading firm. As these instruments are often difficult to model properly in existing CTRM solutions, they are often captured and monitored off-system in spreadsheets.

For companies that need to procure raw materials in wholesale commodity markets and then sell finished or semi-finished products, the ability to hedge out price exposure and optimize supply chains is becoming more and more essential. Volatile, but generally rising prices for feed stocks and resistance to price increases for finished products (particularly consumer products), are reducing margins for many companies and affecting shareholder returns. For such companies, hedging price



-  price volatility increased through speculation and influence of hedge funds
-  more products get commoditized and new commodities expected
-  financial rules are more complicated through legal requirements and by financial institutions
-  increasing shortage because of limited resources
-  new complex derivatives arise at the exchanges

risk has become a necessity; but unfortunately for many of these, the function of hedging has been, until recently, unfamiliar and few of these companies have been equipped with the necessary tools effectively manage the processes required to monitor and manage such risks. Activities such as hedge effectiveness reporting and commodity position management are yet new complexities for already complex businesses. The procurement planning function is also more complex because of highly volatile and variable prices and for energy intensive businesses, the unpredictability and volatility of fuel prices adds uncertainty to their profitability and increases pressure on management to find ways to optimize fuel costs.

Optimization of the supply chain includes monitoring of estimated and actual cost variances, time scales and vendor performance. Global industrial supply chains are inherently complex and require extensive tracking of a multitude of prices, quantities, qualities, facilities, processes, shipments, and inventories across multiple geographies. Each transaction within that supply chain must be viewed in terms of reducing acquisition and logistical costs and risks; and achieving the highest possible value for finished products, or potentially intermediate semi-finished products, that may in fact provide a higher return. Unfortunately, as difficult as the management and optimization of a supply chain can be under the best circumstances, continuing globalization and shifting supply and demand patterns require increasing the need for flexibility within that supply chain. Sources and shipping routes can change quickly and frequently in response to such factors as weather, availability of vessels, currency values, political instability, or even geo-political conflict. In turn, this too places a demand on the systems used to track movements of commodities.

While much focus is on addressing the financial exposures of supply chains (such as market and credit risk), the considerable operational risks associated with them are gaining additional attention as well. These supply chain risks are most evident in terms of managing material movements, documentation and inventories levels, including the proper timing of deliveries of feedstocks and finished products. Operational risks may also reach from fraud detection and brand protection, to the information technologies that support the business, including the ability to accurately capture transactional data and produce timely and accurate reports. The best of these IT systems will provide straight through processing capabilities, reducing a number of risk points, such as limiting the number of complex system interfaces and minimizing the use of off-system spreadsheets, for example.

Another example of the considerable complexity inherent in the business is risk management. Increasingly, traders want to be able to see real-time Mark-to-Market and Value-at-Risk valuations as well as perform what-if analysis. Treasury and credit analysts need up to date credit exposures and credit assessments as well as timely cash management predictions and tracking. Many CTRM solutions do not offer, as standard, some of this functionality forcing the use of off system tools.

Many of these complexities are magnified exponentially when a firm trades multiple commodities, multiple markets and/or multiple time zones. Trade capture, valuation, reporting, scheduling and risk management can become separated for each commodity as different CTRM solutions are used. In turn, this makes gaining an enterprise view much more challenging requiring an additional layer of software to integrate across commodities and provide tools such as executive dashboards.

Given the complexity, intricacy and the vast amounts of data that must be captured and processed, these critical IT systems, commonly referred to as Commodity Trading and Risk Management (CTRM) software, are continuously challenged to keep up with the constantly changing market while providing a flexible, configurable and sustainable solution with a reasonable cost of ownership and lifespan. As many of the currently available CTRM systems have been developed and delivered in a traditional manner, this is proving to be increasingly difficult.

The CTRM Software Challenge

Much of the commercially available CTRM software in the market today has evolved from a client/server past where the initial solutions were developed around a specific commodity, or group of commodities, and serviced the needs of a particular market or market area. The genesis of these software products is often reflected in their individual functional strengths and weaknesses, which may almost be predicted depending on how the software came into being and how it has subsequently evolved.

Often, the evolutionary development of the CTRM software (many times driven by the requirements of the vendors' latest client) ends up creating a patchwork of functional depth that addresses parts of many markets and/or commodities, but which is, in fact, suboptimal for most of them. Not starting out with a comprehensive vision of what the software needs to do and how it will do it is also an issue; though, to be fair, the industry has evolved rapidly, often in unanticipated directions, making an overall vision difficult to deliver on even if it were accurate. Fundamentally, however, the technical architectures and tools used to develop the software are also to blame, as they often do not allow for the level of flexibility that is required by CTRM software even if the ultimate product vision was good.

Despite using common lexicon in the industry, most companies actually do things quite differently at the level of detail required for a successful CTRM implementation. Not only do individual companies within the same industry or market do things differently, but also those differences can grow exponentially when viewed across markets, regions, and commodities or products. This is considerable complexity to manage and model in a software product at the best of times, but particularly when the technology is older and traditional development methods are, by necessity, followed.

The large majority of today's CTRM solutions are delivered in a traditional fashion - installed locally at the client's site after a long and difficult implementation that probably involved a hefty amount of customization and even potentially enhancements, to the core product. Although covered by a support and maintenance agreement, required changes are often slow to make it into the latest release of the software and upgrading major versions can be almost as complex and lengthy as a complete re-implementation. This cost and complexity can cause many users to fall multiple versions behind the vendor's current release and some never catch up again.

The result can become a patchwork quilt of different commercial CTRM solutions held together by custom software and supplemented by off system spreadsheet and tools. The trading company, having fallen too many versions behind the vendor's current release, will find some of its commercial CTRM solutions are no longer supported. Some of the solutions will be heavily customized. The integration costs increase rapidly as the trading firm struggles to keep up with industry evolution and keep everything working. The cost of ownership skyrockets as a result.

New Solutions - Not Quite Nirvana

Technology, like the commodities trading industry, also evolves at a rapid clip. Newer and existing vendors, who have the resources to invest in their platforms, can utilize these newer technologies to improve the fit between an E/CTRM software solution and the industry's requirements. Some vendors have already migrated their solutions to a .Net environment and added a web-enabled, thin-client user interface and are able to offer their solutions both in a traditional on premises mode as well as either hosted or as Software as a Service.

These new technologies allow for more rapid delivery of new functionality, especially when combined with a highly modular architecture. New regulations, new risk management approaches or trade capture requirements and other changes in the industry can be catered for and new functionality developed quickly, but more importantly, introduced to the client easily and without the need for a major re-installation. Industry complexity is more easily managed in these new technologies too. However, while new tools and technologies are important, so too is the design philosophy employed in delivering the functionality required.

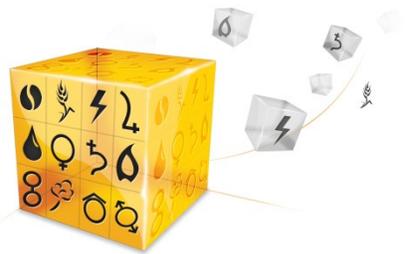
After just over 20-years (FERC 636 marks the beginning of the E/CTRM software category), there is significant know how and experience in the industry that can be applied to designing and developing the software. It's not just the issues described above that vendor's face, but also the task of continuously improving features of the software. For example, reporting and reporting flexibility, the user interface and making it easy for users to interact with the software, provision of adequate security of access and ensuring audit trails, and ease of integration into the enterprise, must also be improved.

Armed with newer technologies, a vision for a solution based on the experience of having worked with several in the past and a different vendor model, new solutions are quickly emerging. A new breed of E/CTRM solution is being brought to market along with new implementation and pricing models. Although perhaps Nirvana may never be entirely reached these new solutions offer a significantly enhanced ROI and cost of ownership along with improved capabilities from a functional, flexibility and a feature point of view.

Agiblocks by Agiboo

One such solution is the new Agiblocks software developed by Agiboo. A group of industry veterans established Agiboo in 2009 with a singular vision in mind – the creation of not just next generation CTRM solutions, but solutions that truly met the users’ business and technical needs. Their extensive experience within and around commodities trading meant that they had been exposed to the full mediocrity of existing CTRM solutions. Agiboo could and would do better by creating and delivering the ‘very best commodity trading solutions on next generation technologies’.

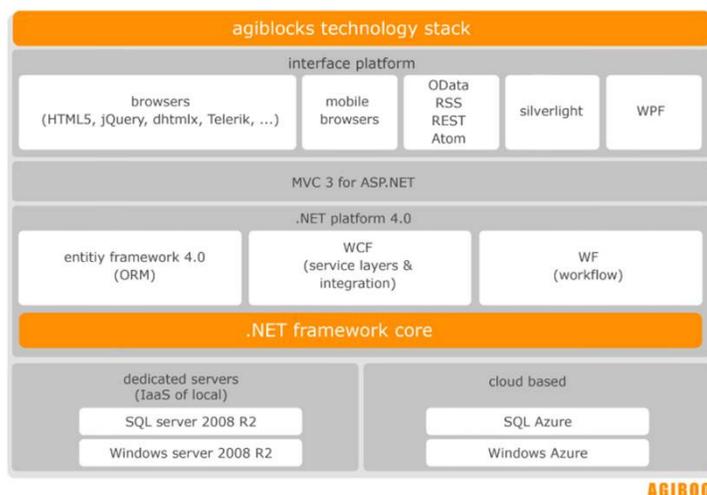
Today, Agiboo serves its clients across the metals, agricultural and energy markets with its flagship Agiblocks CTRM software solutions. Agiblocks incorporates Agiboo’s detailed understanding of the specific business and IT requirements to successfully manage commodity trading and risk management. It is a truly revolutionary CTRM solution for commodity producers, manufacturers and traders in terms of technology, delivery options, pricing, architecture and flexibility.



Agiblocks is a multi-commodity solution out of the box. It supports agricultural and soft commodities with an emphasis on optimizing and managing risks in the associated supply chain, energy and metals. It is a modular solution, which enables complete customization of your commodity trading and risk management solution. Each Agiblocks module can function stand-alone or as an integrated part of your current system landscape. It has been developed in a specific and flexible technology stack to allow superior performance in both a SaaS or hosted environment as well as a traditionally on premises arrangement. It is .Net and it has a browser-based user interface.

Complete Solution

Agiblocks enables users to manage all aspects of their commodity trading and risks in a single clear application. Users can manage all physical aspects of their commodities with purchase/sales contracts, shipments, invoicing, and real-time inventory information; obtain up-to-date information on positions, specified to their own criteria and actual market data. Agiblocks also enables users to manage Futures and Forex contracts in order to minimize your risk exposure.

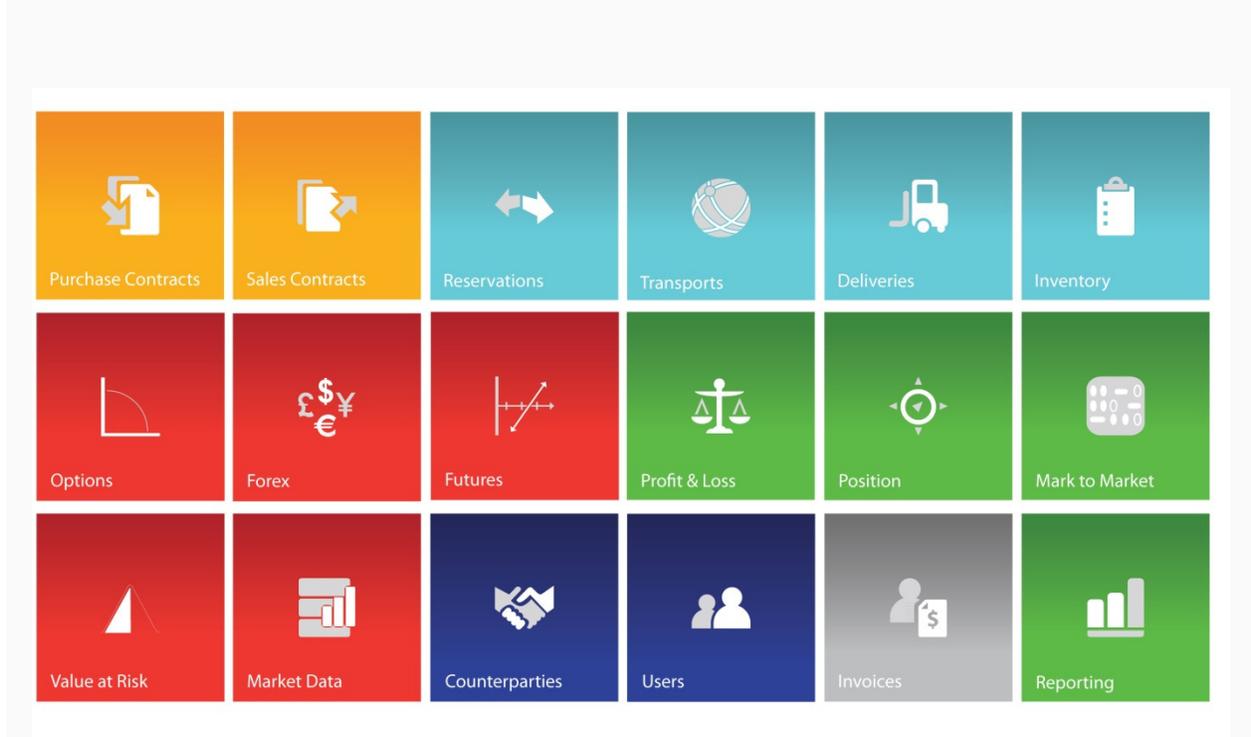


User Friendly

Through an innovative and clear user-interface, users are able to easily and quickly manage their entirely different commodity trading activities. Agiblocks offers a comprehensive and easy to use dashboard from where users can choose to manage contracts, view their position, generate custom reports and all manage all other aspects of commodity trades. Users can control their trading activities anytime, anywhere as Agiblocks is available for PC, tablet and mobile phone.

Flexibility

Agiblocks is a modular based solution and therefore highly flexible. Each module can function by itself or in combination with other modules, enabling users to fully customize their system. This flexibility means that users can implement a cost-effective solution, as they only need to pay for the modules that they actually require and not an entire package. Furthermore, the stand-alone functionality enables Agiblocks to be implemented in the existing system landscape with relative ease.



Summary

It isn't just commodity markets that are at a crossroads today but also it is the E/CTRM software vendor and solution landscape as well. New technologies, combined with more than 20-years of experience of delivering commodity trading and risk management functionality in an ever-changing commodities industry, is now producing a new and innovative set of E/CTRM solutions. When combined with delivery of those solutions in the cloud and the use of more rapid development methods and approaches, it may be that E/CTRM software will meet more than the often-quoted 80% of user requirements. Furthermore, it may do it at a lower price point and deliver a better total cost of ownership. Agiboo's Agiblocks is one those newly available solutions.

About Agiboo

In 2009, a group of experienced commodity trading and risk management professionals established Agiboo with a singular vision in mind – the creation of not just the next generation CTRM solutions, but solutions that truly met the users business and technical needs. Their extensive experience within and around commodities trading meant that they were exposed to the full mediocrity of existing CTRM solutions. Agiboo could and would do better by creating and delivering the very best commodity trading solutions on next generation technologies.

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Agiblocks is a modular solution that enables complete customization of your commodity trading and risk management solution. Each Agiblocks module can function stand-alone or as an integrated part of your current system landscape.

Agiboo currently operates from its headquarters in the Netherlands but has representative offices in Switzerland, Brazil, Singapore and Turkey.



About Commodity Technology Advisory LLC

Commodity Technology Advisory is the leading analyst organization covering the Energy and Commodity Trading and Risk Management (E/CTRM) technology markets. We provide invaluable insights, backed by primary research and years of experience, into the issues and trends affecting both the users and providers of the applications and services that are crucial for success in markets constantly roiled by globalization, regulation and innovation.

About the Author

Dr. Gary M. Vasey – Managing Director and Partner

Dr. Vasey is an industry expert noted for his analysis, consulting, marketing, and branding skills. With over 29-years' experience in the energy and commodities trading industry, Gary has experienced the industry's volatility as an executive of a trading firm, geologist, consultant, software developer, analyst, and marketing practitioner, providing him with unique insights, not just into the entire value chain, but also into how to position, brand, and deliver products and services to the industry.

Gary was most recently Executive Director of a Pan-European power trading firm. Prior to that, he led CommodityPoint as co-Managing Director and is a noted expert on the commodity trading, transaction and risk management software industry and an accomplished industry analyst and thought leader.

Gary has published more than 200 articles on energy and commodities industry trends in a variety of publications, is a regular speaker at industry conferences, and is the co-author of the books *Trends in Energy Trading, Transaction and Risk Management Software – A Primer* and *Selecting and Implementing ETRM Software – A Primer* (with Patrick Reames). He also contributed two chapters to *The Professional Risk Managers' Guide to Energy and Environmental Markets* published by PRMIA and two chapters, co-written with Peter C. Fusaro, to *Weather, Energy and Environmental Hedging – An Introduction* (ICFAI University Press, 2007) edited by Amando F C Da Silva.

Gary is also the co-author of *Energy & Environmental Hedge Funds – The New Investment Paradigm* (Wiley, 2006) with Peter C. Fusaro, and of many trade press articles on hedge funds in the energy, commodities and environmental industry.

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