

COMMODITY MANAGEMENT FOR METALS



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CTRM Market Research, Analysis and Insights

INTRODUCTION

The global market for CTRM (Commodity Trading and Risk Management) software solutions that cater specifically for metals and ores trading and risk management is the third largest among the major commodity groupings of energy, ags & softs, and metals, at an estimated \$174m in expenditures in 2019 according to ComTech's most recent market sizing report¹.

It is also among the most complex of these markets in terms of its functional requirements, especially in areas like concentrates and ores. Complexity is also found throughout the supply chain. Perhaps these are just some of the reasons why the metals market for CTRM and CM (Commodity Management) software have been underserved by commercially available solutions in the past.

Until recently, there were just a few commercial CTRM or CM solutions available to buyers.

However, like all commodity markets, it is now facing a whole set of new challenges in which a renewed focus on costs, margins and business agility are driving trends like digitalization, migration to the cloud and ecosystems of solutions, and software as a service. Indeed, in just the past couple of years, many new commercial CTRM and CM solutions have come to market with a detailed focus on metals functionality requirements and supply chains and, as a result, the buyer is now spoiled for choice.

¹ 2019 CTRM Market Sizing, Trends and Outlook report, Commodity Technology Advisory Report, 2019.

THE NEED FOR BUSINESS AGILITY

Even though metals have performed better than many other commodities in 2020 in terms of returns for investors, margins have still been squeezed. With many of the world's largest economies in deep financial trouble, (especially as a result of the impact of COVID lockdowns that occurred at a time when many central banks had already slashed interest rates to try to avert recession), precious metals like gold and platinum have seen higher prices while base metals are mostly more or less flat at the time of writing.

After suffering the combined detrimental effects of trade wars, tariffs, embargoes, sanctions and so on, COVID-19 has been a hammer blow, destroying demand and interrupting supply as some mines were shuttered due to infections among the workforce. This combination of economies in trouble, COVID-19, geopolitical impacts and so on, mean that profits are under attack and many in the metals industry are seeking to reduce costs and to increase the efficiency of all aspects of their operations.

As metals and mining companies face these new business challenges, they often do so on ageing software platforms that do not and cannot support increased business agility. Legacy and often monolithic, CTRM software solutions lack many of the features that users need in order to do their jobs effectively and this has only been exasperated by the need to work from home. Business continuity is threatened by these legacy systems which lack,

- Modelling flexibilities for complex pricing formulaes and risk capabilities needed for a metals and ores trading,

- Automation of workflow, approvals and the flow of documentation,
- Ability to aid users to identify new risks in the supply chain, alternate sourcing and other operational issues or, require manual intervention, access to fax machines, use of risky spreadsheets for critical business information,
- Are unable to support remote teamwork, and
- Are harder to support both internally and via the original vendor.
- Secure and available remote access.

In industries where the supply chain is long and complex and open to disruption, these issues are only magnified and many are now reviewing their options, looking at alternate solutions and realizing that this set of issues are the tipping point in terms of needing to modernize and update their legacy software. Others are looking at digitalization projects as a result of these and other trends in the business and noting that their current legacy CTRM solution is not very supportive of those digitalization efforts.

THE LEGACY PAST OF METALS CTRM SOFTWARE

The problem has been that there were just a small number of CTRM solutions available for metals in the past and so many firms either adopted these or built their own internal custom solutions. Most of these older solutions are now reaching end of life due to ageing software components that are often no longer supported, like power builder for example, or due to their monolithic architecture that makes them both difficult and costly to maintain.

These legacy solutions simply do not offer the business agility needed in today's fast-moving markets and are too costly to keep. Any update or enhancement is expensive to create and involves significant testing and implementation costs as well, meaning that it can take months to upgrade a solution with business-critical functionality.

Meanwhile, many of the newer solutions now available in metals and mining are available on much more modern technologies and utilize a more modular architecture. They use up to date and fit for future technology to make the user interface more usable and more intuitive, advanced workflow and approvals to drive productivity, enhanced business controls and are easier and less costly to implement and maintain. Although replacing a solution that has been a key and core part of a company is never easy, especially if millions of dollars have been spent implementing, extending and supporting the solution, it is more feasible now as a result of,

- the use of new technologies, technical architectures and cloud, implementation of a new solution can be done in less time with less risk and less cost,

- most of these vendors will offer a pay as you go structure (usage fees) meaning that there may not be a huge upfront capital cost for the software but rather an ongoing operational expense,
- most modern solutions will provide a solution that can help safely and securely operate your business under lockdown conditions with built-in workflow, approvals, document management, audit trailing and much more.

Certain vendors, who have been involved in multiple replacements have developed detailed strategies and planned approaches to ensure that end-users do not suffer any downtime during implementation and when switching to the new system. Some of these include:

- executing the replacement/implementation with a "parallel-run" mindset, using live transaction data to test the system, and run reports, without effecting actual deals.
- run trades as early as possible from front to back, including settlements to provide confidence in delivery and highlight solution and process gaps early in the game.

- starting with an effective implementation and testing framework that facilitates business validation iteratively with a prototype based approach.

Even under lockdown conditions, many of the emerging metals vendors can go through the sales process and even implement the solution remotely.

THE NEED FOR COMMODITY MANAGEMENT

On top of all of the issues facing metals and mining firms, supply chains have now also become much more important, and a CTRM that is purely focused on trading and risk management may no longer be a complete solution. Indeed, a CTRM may never have really offered the complete solution for many companies in the space who need to manage inventory, metals and ores processing, transportation, finances, and much more in addition to trade management. Even some of the legacy solutions offered this broader range of functionality only as a necessity.

As mining and metals business face declining margins and increasing costs, optimizing aspects of the supply chain has become more important. By minimizing delays, omissions and errors throughout the supply chain, penalties and other costs can be eliminated or minimized and by increasing effectiveness, digitalisation and process improvement, other costs can be avoided or kept under control. This requires a broader set of functionality in key systems like CTRM and tighter integration with ERP, accounting and other software. Some CTRM software solutions have added ERP-type functionality to support these aspects of the business and some ERP vendors have added more CTRM-type functionality to create Commodity Management solutions.

In order to support their businesses, offer agility, lower cost, ease of use and business continuity especially in a

work from home environment, ComTech expects to see a migration of metals and mining companies moving to implement more modern software solutions, in the cloud, and with a broader Commodity Management focus than in the past. For smaller businesses that have operated on spreadsheets or other more manual solutions, the ability to procure a complete solution including finance and accounting has many attractions least of which is the improvement in all forms of risk management that this would bring along with increased stakeholder confidence.

Much of a metal and/or mining company's back-office functionality and core business processes have previously been supported by multiple solutions, including an accounting package and/or Enterprise resource planning (ERP) system which would typically track business resources: cash, raw materials,

production capacity—and the status of business commitments: orders, purchase orders, and payroll. This approach brings with it a spectre of massive integration needs that lead to challenges in inventory management,

risk analysis, and trade book to financial reconciliation, among others. It also becomes a constant source of irritation every time one of the solutions is upgraded.

ENUIT ENTRADE – A NEW METALS COMMODITY MANAGEMENT SOLUTION

For many of these reasons, ENUIT® decided to invest in building the functionality to support an entire business from Front to Back including all aspects related to Enterprise Resource Planning into its core ENTRADE® CTRM system.

Initially implemented for a multi-national, cross commodities trading company, Enuit's platform now offers a complete Commodity Management solution which they call ENTRADE® Unite. This platform is one of the few solutions available that incorporates all the aspects of both a Commodity Trading Risk Management system and an Enterprise Resource Planning solution directly in its core, in a single platform without cumbersome modules to enable integration and mapping from one system to another.

Entrade is also one of the newer CTRM/CM platforms that has been designed for metals, concentrates and ores offering extensive functionality in that area. It offers the following key capabilities, which are required for the metals and mining market players as listed below,

- User-configurable pricing formulae,
- Advanced FX hedge management capabilities to link physical and financials,

- Back office workbench to improve scheduling and matching of materials,
- Warehouse management capabilities including reporting; rent calculations and accruals,
- Stock reconciliation,
- Invoice reconciliation,
- Streamlining credit risk and credit exposure management,
- Inventory valuations,
- Accelerators to support ERP type integrations.

It is currently used by several major metals commodity players and, although relatively new in the Risk Management space, it has already been widely accepted as a leading solution. In fact, in the recent vendor perception study², Enuit were ranked as the second most recognized leaders in Metals and Iron Ore by market participants and were also awarded the CTRM House of the Year award by EnergyRisk Asia 2020.

²2020 CTRM Vendor Perception Survey and Analysis, Commodity Technology Advisory Report, 2020

Enuit's solution is clearly a more modern solution offering complete commodity management functionality specifically for metals, concentrates and ores (as well as other commodities) and it is one of the solutions that ComTech feels will be competing to replace legacy metals solutions across the industry. In today's business conditions, Enuit's solution is positioned to offer a complete solution on which a business can develop the agility to compete as well as the opportunity to increase effectiveness, efficiency and cost reductions while ensuring business continuity.

For the Front office, *"deal and trade types can be quickly configured to handle complicated commodity trading transactions whilst automatically decomposing risk according to each deal type's risk profile. Each transaction type is automatically integrated into every part of ENTRADE® – no coding required. Transactions can be immediately valued, settled, scheduled, invoiced, confirmed, taxed, hedged and analyzed."*

According to Enuit, *"ENTRADE® makes it possible to track everything from inventory volumes, aggregation of costs, value at risk, ancillary costs, the quality of the product, and then tie that data to respective counterparties, contracts, and portfolios in the middle office and it generates invoices and remittance statements including all associated fees and costs. It stores general ledger codes and can generate and post journal entries directly to your General Ledger system."*

It is clear to us that the metals market is undergoing a huge change right now, and with this uncertainty business owners are looking for ways to streamline their operations and ensure that they can mitigate risk. Many firms are undertaking digitalization projects seeking to optimize supply chains, eliminate manual processes and associated human error, reduce operational risks and increase business agility. Enuit's platform is one that has many of the features and functions that could support such efforts and will undoubtedly be vying for new customers in the metals and ores space.

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 to sent bill.

ENTRADE® supports Every commodity, every feature, and every user in one place.

There's no Third Party or Legacy System to integrate. Enuit call it One Platform.

Whatever you trade, wherever you trade. Its universal deal manager and risk engine ensure that all of your trading activities can be well managed within one system, with one architecture, on one trade management platform. ENTRADE® also provides industry and market segment-specific logistics management forms and reports, which take into account the nuances of the specific logistical requirements of each commodity.

Enuit give their 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. Enuit, LLC is headquartered in Houston, Texas, USA, with offices located in Beijing, China, London, Singapore, and Tokyo to serve markets in China, Asia-Pacific, Middle East, Europe, and North America

To learn more about Enuit visit www.enuit.com



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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