COMMODITY SOLUTIONS. SIMPLIFIED.

Understanding the True Cost of CTRM Software

WHITE PAPER

iRely COMMODITY

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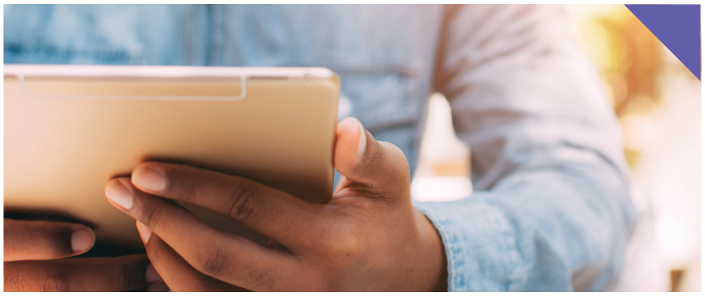
When you are investing in a new commodity trading and risk management (CTRM) solution, your final decision often comes down to price. Therefore, you need to evaluate price carefully. The cheapest option may have hidden costs and the most expensive option may end up cheaper in the end. You need to understand what you are paying for, ensure you get the features you need, and evaluate the true cost of the software to make the right decision.

How long will your CTRM system last?

The average lifespan of enterprise software is about seven to 10 years. Today's CTRM solutions can be upgraded over time, extending the life of the software further without requiring a huge investment.

Implementing a new CTRM system is an endeavor, requiring months of implementation time, training personnel, learning new processes, etc. Changing systems too frequently drives resistance and frustrates users, inhibiting success.



Businesses typically see a return on investment for enterprise software between two and four years, so you need to keep the software for at least that long to ensure it pays off. Given how long it takes to choose the right system, you should plan for more than four years.

75% of ERP (enterprise resource planning) projects fail. 59% take longer to implement than originally projected.

When evaluating the cost of new software, make sure you have the complete picture.

Make sure the price does not have hidden costs. Beware of companies that may tack on additional fees because they don't understand the scope of the project upfront. Use a comprehensive business process review to ensure you have the functionality you need to meet all your goals and ensure implementation success.

Analysts have found that roughly 75% of ERP (enterprise resource planning) projects fail. Nearly 59% take longer to implement than originally projected, 74% experience costs overruns, and 88% of companies end up customizing their new systems.

PE firms make a lot of money whether they sell software or not. They do not need the software company to succeed to make money.

iRely's Business Process Review

In iRely's Business Process Review, our software experts partner with your team to determine exactly what you need from your new commodity management system. We evaluate and map your business processes and design an ideal solution and implementation plan for your business.

Our Business Process Review is part of the iRely sales process, so we unearth gaps before you sign the contract. You know the cost of modifications upfront, unlike companies that rush to close the sale and leave you with cost overruns during implementation.

- We discuss goals, resources, and expectations so everyone is aligned and focused on the same success factors.
- We define your ideal processes and key system configuration parameters and identify any changes required for your desired workflow.

iRely's unique Business Process Review ensures proper costing of the project and delivers a solid software implementation plan, greatly reducing project risk.

Be careful of companies that are owned by private equity firms.

After five to seven years, private equity firms must cash in and show investors profits, potentially leaving you with unsupported technology.

The problem with private equity (PE)

PE-owned firms can sell software at a lower price because they make money on more than software. Firms generally have a 2-20 fee structure, which means they get a 2% management fee from their investors and a 20% performance fee on the money they make from their deals. If an investment goes well, they get 20% of that. If it goes poorly, they still get 2% of the money they manage, which is still a lot of money. They do not really need the software company to succeed to make money.

However, PE funding comes with significant risk to software users.

When a PE firm takes over, they put a lot of debt on the business – often four to five times EBITDA. By putting a small amount of cash upfront and leveraging the business with debt, they can get a much higher return on their investment. However, healthy companies acquired by private equity firms through leveraged buyouts see their probability of defaulting on loans increase ten-fold. When you put that much debt on a business, it constrains operations and thwarts success.

Because PE-owned companies have so much debt, they often can't invest to keep up with competitors. It takes a long time for returns on R&D investments to be realized – longer than the average five-to-seven-year period before the company is sold off. Investing in new products, upgrades and software improvements may be abandoned.

Layoffs are often part of the cost-cutting measures that buyout companies use to make an investment more profitable. Following such layoffs, private equity executives sometimes hire new talent of their own choosing. Valuable human resources and institutional knowledge are lost.

Companies often take out additional loans to pay private equity investors dividends, then pay a fee when they are sold. If they can't pay off the debt, the companies are on the hook, and their employees and customers are the ones who suffer the consequences.

ComTech Advisory analyzed Ion's acquisition of Triple Point: "Looking back at the Triple Point acquisition, there's little doubt that the deal didn't pan out the way anyone expected. After having outbid all other suitors by a significant margin, ION closed the deal for a reported $900 million and within just a few months essentially took the company out of the market, letting go most of the company's sales and marketing personnel and by all appearances, not competing for new business…in the aftermath of the acquisition and retrenchment, several of the company's customers dropped the product and moved on, leaving Triple Point with declining revenues and a somewhat tarnished reputation."

Ion Commodities has since acquired Openlink, Aspect, and Allegro.

Ensure they are continuously investing in technology.

Check product roadmaps and the company's history of investment. Make sure their technology is leading edge. In 2021, they should have a SaaS (software as a service) option. You may choose an on-premises implementation, but a software company that doesn't offer a web-based solution isn't investing in the latest technology. Ensure they have a stable, comprehensive program for software upgrades. Check the typical frequency and costs of upgrades to ensure you will always have access to new features.

Companies often choose a CTRM system based on current requirements, but it is important to account for functionality that may become critical as your company grows. Choose a system that can be upgraded to handle changing business models and organizational capabilities without completely disrupting your business. Make sure the company is investing in their software, ensuring it is flexible, easy to upgrade and has a growing list of features and functionality as markets evolve.

More than 62% of CTRM solutions sold each year are energy solutions. These systems may not fit your business.

Make sure the CTRM solution fits your specific industry.

Many software companies, especially PE-owned ones, are looking to maximize profits by selling generic solutions to everyone.

According to research from ComTech Advisory, the size of the overall CTRM market is approximately $1.8 billion in 2021. Of that $1.8 billion, more than 62% is energy products. Therefore,most CTRM software companies focus heavily on energy markets (ETRM), because energy is the biggest market. Will their energy expertise help you?

How likely are they to have functionality specifically designed for coffee processors, for example, since coffee is less than 1% of the market?

These companies may deliver a generic system and cobble together components to make it work, underestimating the specific requirements of each commodity market. Each commodity has its own trading and risk characteristics, and you need to address those characteristics in a CTRM designed for your industry.

Some of these characteristics may seem like minor details, but they can have a significant impact. For example, trading cocoa requires the ability to facilitate arbitrage between London and New York markets. These markets have different currencies. You can trade cocoa butter and powder on ratios. These details affect deal capture and the calculation and presentation of risk positions and valuations.

If your CTRM system is built to last for 10 years, you may save money with an on-premises solution.

Compare apples to apples.

One way software companies cut pricing is to provide SaaS instead of on-premises pricing. SaaS implementations are generally less expensive up front because they do not require hardware and maintenance and support are managed by the software company. There are many good reasons to choose SaaS if it works for your business, but you should not make that decision based solely on the cost in the first five years.

If you want a solution that will last for 10 years or more, you need to evaluate the software price over that timeframe and consider the long-term cost of ownership.

A SaaS system with a price of $250,000/year for 10 years will cost you $2.5 million. If an on-premises system costs $500,000 today with $100,000/year for maintenance, that system will cost you $1.5 million over 10 years. You should choose the system that works best for your business, just make sure you understand the entire price before you make a decision.

Research the software provider's implementation success.

Don't just assume a vendor can implement the software; speak to multiple references to ensure they can handle the job. One of the most expensive mistakes you can make when purchasing a CTRM system is choosing a system that will not be implemented correctly, on time and on budget. There are many examples of disastrous software implementations that cost millions of dollars for companies.

Revlon needed to integrate its processes across business units after acquiring Elizabeth Arden, Inc. in 2016. Both companies had positive experiences with ERP rollouts in the past – Elizabeth Arden with Oracle Fusion Applications and Revlon with Microsoft Dynamics AX. The merged company chose SAP HANA.

The rollout essentially sabotaged Revlon's North Carolina manufacturing facility, resulting in millions of dollars in lost sales. The company blamed "lack of design and maintenance of effective controls in connection with the ... implementation" for the fiasco and noted that "these ERP-related disruptions have caused the company to incur expedited shipping fees and other unanticipated expenses in connection with actions that the company has implemented to remediate the decline in customer service levels, which could continue until the ERP systems issues are resolved."

The crisis sent Revlon stock into a tailspin that led the company's own stockholders to sue.

When you are looking at the cost of new software, make sure to assess both the price you are quoted and the hidden costs, including the risks, to ensure you make the best choice for your business.

Our Promise To You

- We will refund your money if the company is sold
- There are no hidden costs. Our BPR will ensure you know the true cost of the software upfront
- Our software will last at least 10 years with easy to implement upgrades along the way
- Our implementation success rate is 100%

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About iRely

iRely's commitment to customer success has made the company a global leader in digital transformation, providing best-in-class software for commodity management, petroleum distribution, retail, grain operations, and agribusinesses. Headquartered in Fort Wayne, Indiana, with offices in Chicago, New Jersey, Texas, California, London, Bangalore (India) and Makati City (Philippines), iRely has nearly 40 years of experience delivering end-to-end enterprise resource planning (ERP) and commodity trading and risk management (CTRM) solutions to simplify complex business processes through a single point of truth. iRely has leveraged its deep industry experience and expertise to build genuine, lasting partnerships with over 500 customers in more than 25 countries.

For more information, visit iRely.com.

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