



# A Guide to - CTRM Software Selection



# A Basic Guide to Selecting CTRM Software

## INTRODUCTION

If your business has made the decision to implement a CTRM system for the first time, or replace an old system with a modern CTRM system, then you are going to need to select a new CTRM system. How do you decide which CTRM system is right for your business?

Working out how to decide which is the right CTRM system is a difficult task, and a task for which most trading companies are poorly prepared. If a trading company is fortunate they will only buy a new CTRM system every 5 to 10 years. This means that most trading businesses have very little experience of running a CTRM selection.

This lack of experience is a problem for 2 reasons. The first reason is that CTRM systems are complex software solutions that cost a great deal of money to buy and implement. Picking the wrong system can have serious financial consequences for a trading business and more direct consequences for those that were responsible for the selection.

Unfortunately, the trading industry is littered with horror stories of trading businesses that have spent millions of dollars and years of effort on implementation projects only to find that the projects have failed. It doesn't seem to matter if trading businesses are big or small, all trading businesses face the same challenges when selecting new CTRM solutions.



After watching trading businesses struggle to organize CTRM selection processes for several years Fendahl has decided to offer this basic guide, that covers the process outlined above, on how to select a CTRM system. Our aim in providing this guide is to try to help trading businesses consider what is important when performing CTRM system selections and try to help them avoid common mistakes. Some of our advice is simply common sense other parts are based on our experience of what works.

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## PROJECT SCOPE & REQUIREMENTS DEFINITION

At the start of the project senior management need to make sensible decisions about the scope of the project. CTRM projects create disruption and an additional workload for employees.

Senior management need to make rational decisions about what is actually possible with the resources available, rather than what they might want the project to achieve over a given period of time. Too many projects have been condemned to failure before they have even started because the scope for the project was too ambitious to be achieved with the available resources (i.e. time, people, skills, money, etc.).

Fendahl normally recommend that the scope of projects be broken up into discrete bite sized chunks that can be seen to deliver tangible business benefit. This is a different approach from the "Big Bang" approach that most consultants will advocate. In our experience failure to set achievable goals and objectives leads to significant project overruns and project fatigue that puts the whole project at risk.

### TIME

Making an informed and reasoned decision about which CTRM system to buy cannot be done quickly. It is therefore important to budget adequate time for the selection process.

How much time is required will depend on the complexity of your business and the scope of the project. As a rough guide smaller trading businesses with relatively standard business processes should budget at least 6 months from project inception to contracting with a software vendor. Larger businesses with complex business processes should budget anywhere from 9 months to 18+ months to get to the same point.

It takes a long time because making this type of decision involves many different groups of people within your business that all have to buy into the decision that is finally made. In addition, the technical process of running a selection has many steps all of which require enough time in order to be performed properly.

### PEOPLE

When a CTRM system is implemented it becomes the "central nervous system" of a trading business. It should be used by everyone in the business and it is therefore critical that every department be actively involved in the selection process. Every department needs to buy into the final decision, because getting end users to use a system they don't believe in is next to impossible.

This means that the selection process cannot be delegated to one group within the company, such as the IT department. Frustratingly the people who have to do the "grunt work" of the selection process are usually the busiest people in the business. They are the people who are running their respective departments day to day operations. It is usually impossible to take these people out of the business for any more than a few hours at a time to perform CTRM selection duties. But it is essential that these people are actively involved and have a sense of ownership of the project. It is therefore very important to pre-plan each step of the selection process. A board level sponsor needs to be appointed to drive the process and ensure people commit adequate time to the project.

### PLANNING

Planning of the selection process is perhaps the most important single step that a trading business can take to minimize the risk of project failure. Planning should start with defining the functional requirement for each area of the business that is within the scope of the new CTRM system. Requirements should be documented in as much detail as is required.

Defining functional requirements can be a challenge and sometimes it makes sense to bring in third party skills to assist in the process. An experienced consultant can help cut through internal politics and speed up the process. However, ownership of the functional requirements definition process has to remain with the business.

A CTRM software selection project plan should be drawn up with allocated resources and time slots for each evaluation event. This is important in minimizing the level of additional work that the selection process will place on selection team members. The selection project needs to have a formal organizational structure with defined roles and responsibilities.

Planning the project should take as long as is needed. Time and effort spent planning the project will pay dividends many times over later in the project, and significantly increase the chances of a successful project.

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## THE SELECTION PROCESS

When you have developed; a realistic project scope, defined your functional requirements, and have a workable plan, it is time to engage with CTRM software vendors. Produce a summary version of your key requirements that includes subjects like; required commodity coverage, critical functionality, scalability and system performance requirements, preferred licensing models, etc. Use this summary list to produce a long list of possible CTRM software solutions that meet the basic requirements.

### VENDOR SELECTION



#### 1 - Shortlist Vendors

Through issuing an RFI and/or reviewing overview system demonstrations draw up a shortlist of vendors that initially appear to meet the businesses requirements. A non-scripted overview of a CTRM system is useful to obtain a high level view of system functionality.



#### 2 - Business Scenarios

At this stage the short-listed vendors should be supplied with a selection of business scenarios to model in their solutions. These scenarios should represent a variety of day to day business activities, for example modelling various actual or fictitious trades. Due to the time involved in this stage a maximum of 3-4 vendors should participate.



#### 3 - Board Room Pilot

This stage may only be suitable for larger businesses but Fendahl recommends conducting in-house pilots over a period of a few days to allow end users extensive exposure to, and experience with, the final 2 short-listed solutions. The Board Room Pilot will also provide your team with the opportunity to assess the domain expertise of the vendor's consulting team and gauge if there is a good cultural fit between the two organizations.

We recommend modeling the different trade types that your business uses and following the trades through their full trade lifecycle within the vendor's CTRM system. Make sure to include a healthy selection of reporting and decision support requirements in the business scenarios. Reporting and decision support are areas that are almost always overlooked during CTRM selections, and are traditionally areas of weakness for almost every CTRM software vendor.

## DUE DILIGENCE

After selecting the CTRM solution with the best functional fit, it is important to perform due diligence on your preferred vendor. The systems architecture should be thoroughly reviewed by the IT Team to ensure it's flexibility and the ease at which it will integrate with third party systems such as ERP systems. Proposed support and maintenance agreements should also be thoroughly analysed for guaranteed service levels, help desk services, contract duration, etc. You should also perform a detailed review of the vendors proposed implementation plan, covering the duration, cost and expected resources required. Financial due diligence should be carried out, as standard, to assess the stability of the vendor and the likelihood of their existence in the future.

Also of high importance is referencing. Reputable vendors should be able to readily produce several references. When requesting references consider the following points; the size of the organisation, the commodity vertical they operate in and if integration with a finance system is required then request a reference where this has been successfully implemented.

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## DEPLOYMENT OPTIONS

When selecting a system it's also important to consider how you wish to deploy the solution. Some vendors offer multiple methods of deployment where as others are fixed to either in-house and hosted or cloud.

Factors such as existing IT architecture, hardware costs, reliability, resilience, down time, fail over time, etc. should all be taken into consideration when evaluating solutions.

The deployment method is important to consider when selecting a system but ultimately the functionality of the CTRM software should take precedent.

Fendahl supports SaaS, hosted and traditional on-site deployment models. We advocate selecting the deployment model which best suits your business requirements.



## PRICING OPTIONS

CTRM vendors typically offer 2 different pricing models, perpetual licencing and software as a service SaaS, with numerous variations of these 2 models. SaaS is a "subscription" based software service, you never actually own the software but instead lease the product as a service from the vendor. Monthly, Quarterly or annual payments are then made for use of the software. With perpetual licencing you are paying for the software in full upfront or in stages over the lifecycle of the implementation. A perpetual model then requires annual support payments at a percentage of the original licence fee to provide access to updates, bug fixes, etc.

Both licencing models also come with implementation fees which are one off costs to setup the software and train end-users. These fees vary hugely depending upon many factors such as size of the business, integration with 3rd party systems, physical locations, data migration, development work, etc.

SaaS solutions can help some trading businesses reduce costs in the short term, but they are always more expensive over the long term. In addition they also have practical weaknesses. For example SaaS based solutions with a browser based user interface, use significantly more network bandwidth than traditional solutions. This means that end users in geographic locations with poor internet or network conductivity may struggle to be able to use a SaaS based system at all.

**SaaS**

**Perpetual**

+

- Lower Upfront Costs
- Faster Updates
- Lower Short Term Operating Costs
- No Need for On-Site Hardware

+

- You Own the Software
- Indefinite use of the Software
- Transferable Licences
- Lower long term cost of ownership

-

- Total Cost of Ownership Higher after 3-4 years
- No Control Over Downtime
- Never Own the Software

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- Higher Upfront Costs
- Updates may Cause Downtime
- Additional Operating Costs with IT Staff & Hardware

## ABOUT FENDAHL

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Fendahl is a specialist provider of CTRM (commodity trading & risk management) software solutions to commodity trading organizations. A rapidly growing global software company we have a dedicated team of over 130 staff with offices in the Americas, Asia, and EMEA, serving an ever growing global client base across multiple commodity segments. Fendahl offices are located in the London, UK; Houston, USA; Dubai, UAE; Singapore and Nagpur, India.

Our customers produce, refine, market, ship and trade globally. They rely on Fendahl's expertise in these key physical and financial markets: Oil, Gas, Petrochemicals, Metals and Mining, Coal, Road & Marine Fuels, Biofuels, and Agriculture/Softs.

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