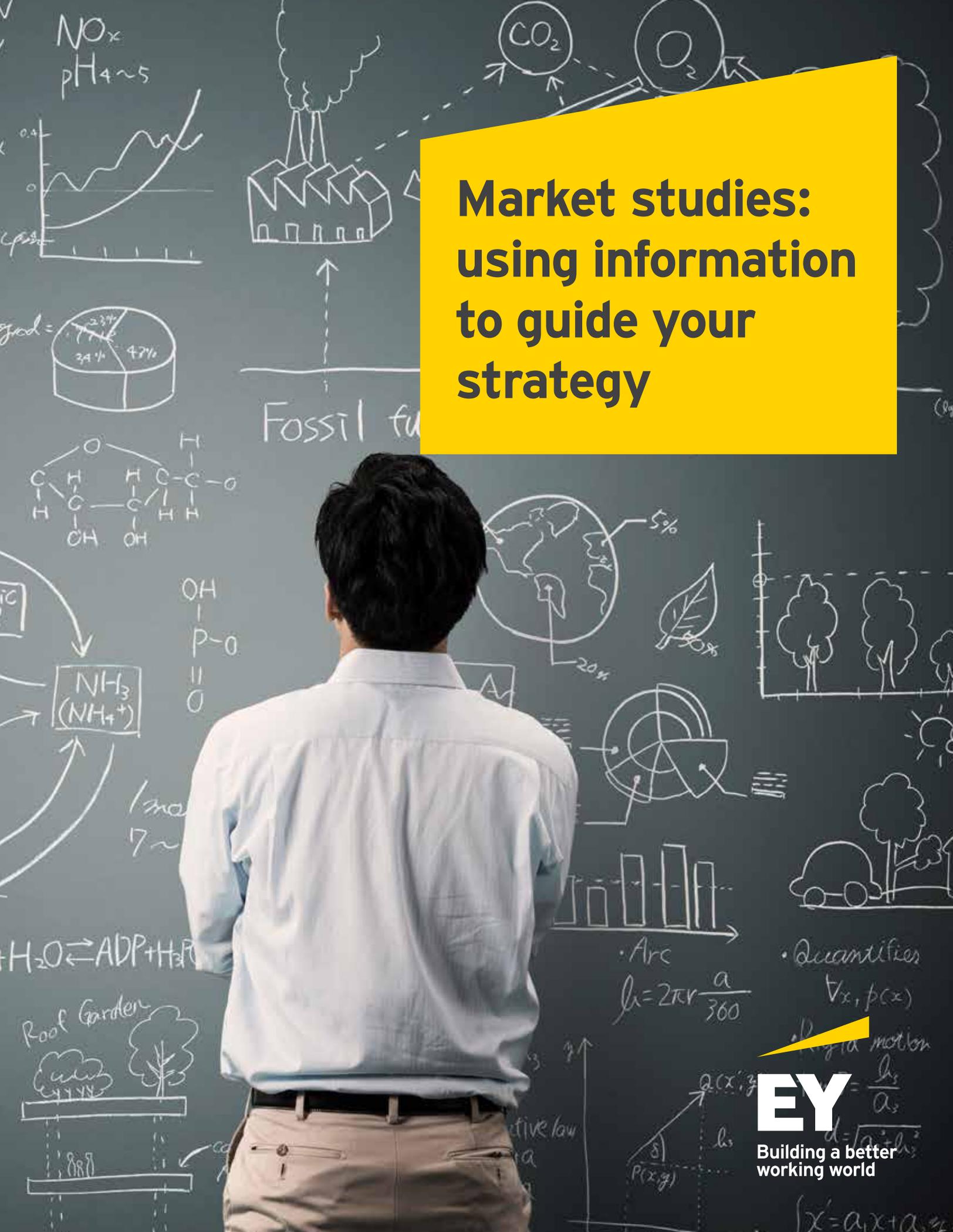


Market studies: using information to guide your strategy





1

Introduction

Fact-based decision-making can take effort. In a rapidly changing world it can be tempting to rely on gut feel or intuition to make a quick decision in a critical moment, rather than committing the necessary time and energy to gather and analyze data.

Unbiased decisions can also take effort. Solely gathering opinions and information from within an organization often results in a lack of new ideas and perspectives, and may result in groupthink winning out.

Market studies can address these issues by providing an unbiased analysis of the gathered information and data. The main purpose of a market study is to enable unbiased, fact-based decision-making to support an organization's most complex strategic issues.

2

What is a market study?

Decisions are based on beliefs, and beliefs are based on a set of hypotheses about a given situation.

Consider the decision to commit a company's resources to entering a new market. The belief is that this is a good or profitable action to take. The set of hypotheses that support this decision could be that the target market is not oversupplied, the competition can be overcome, the company can make money, and so forth.

How do we know that those hypotheses are true and that the decision is the right one?

Often, hypotheses are based on experience and instinct and are not tested against data. This is because the data to test these hypotheses can be hard to come by or time consuming to gather. When it is not acceptable to make a decision based on experience and instinct alone, data is needed, regardless of how difficult it may be to obtain.

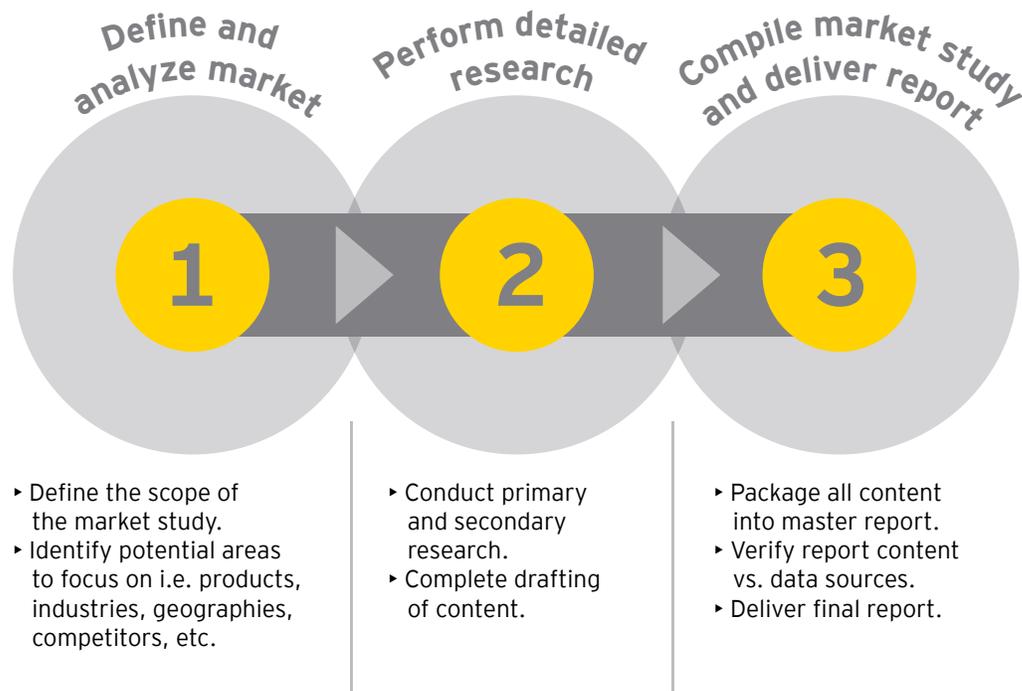
A market study is the task of gathering data to test a set of hypotheses associated with a belief, and then testing the hypotheses to confirm or debunk the belief.

The data can be gathered in two ways:

- ▶ **Secondary research** - Find information that already exists in publications or studies related to the topic. Sometimes you'll need to buy this information, but other times you can find it free of charge online or by requesting it from the right person.
- ▶ **Primary research** - Create new data through direct communication with sources. Interviews and surveys are common methods of primary research.

At EY, we've developed and deployed a simple three-step market study approach focused on initially defining and analyzing the market, performing the detailed research and compiling all the market study data into a final report with associated recommendations.

EY's market study approach



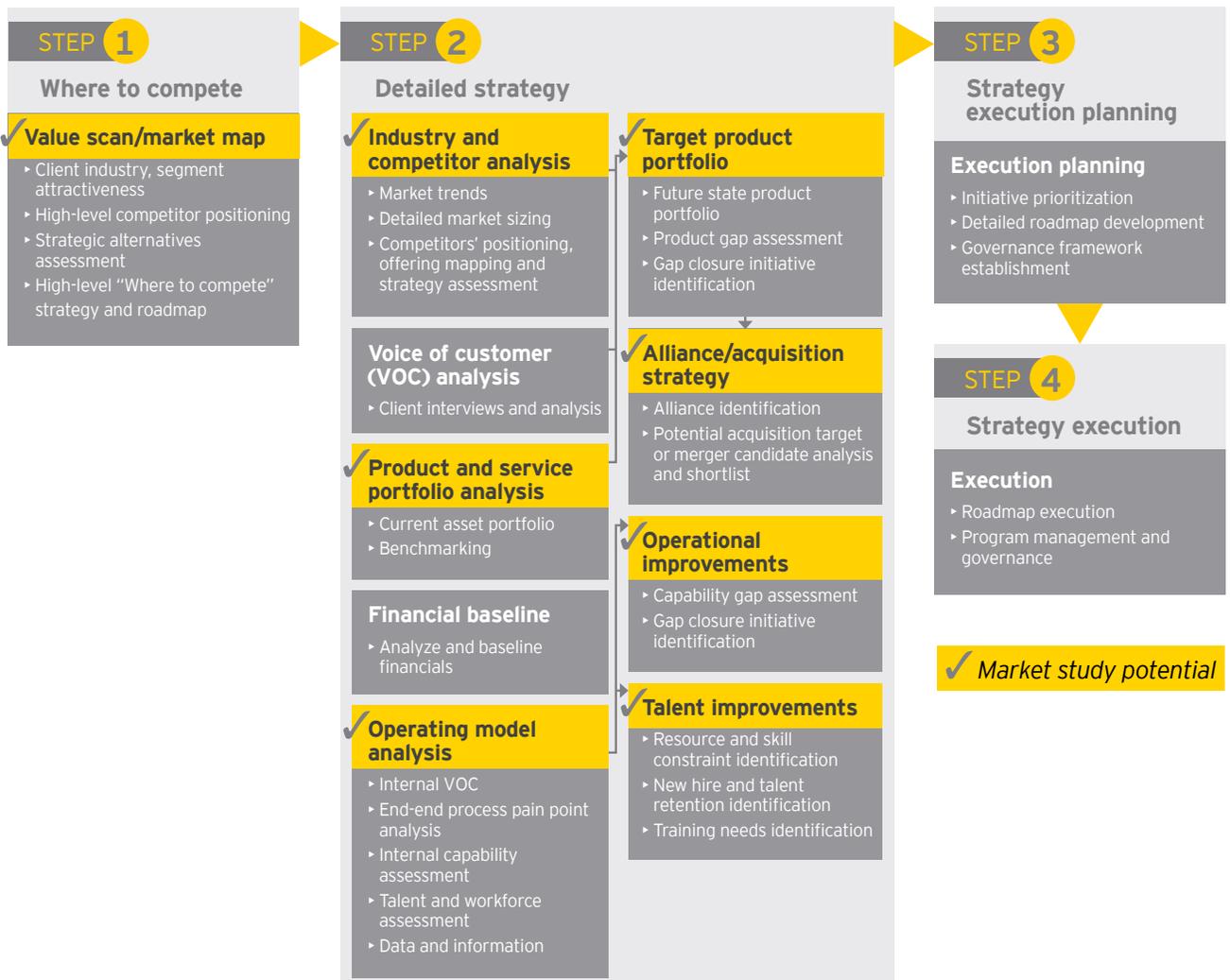
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A well-executed market study can inform and support strategy

Strategy development is complex. Progressing through the four steps from strategy development through execution requires careful consideration of how it will impact and translate across the business. That is where having the right information on which to base decisions is crucial in order to increase the likelihood of success and reduce risk. A market study can provide that information by informing and supporting the strategy as it moves through these four steps.



The graphic below illustrates in more detail some of the key areas in which a market study could be useful in supporting the end-to-end strategy process.



Using market studies to inform and support strategy development and execution

While it's sometimes useful to frame decisions around strategy development, decisions often need to be made when an organization is debating changes to how it already does business. Before making a change, you should ask questions and seek answers - and that's where a market study can be particularly useful.

Some of the most common decisions and the questions to answer, for which a market study can be used to test, are identified below:



 **Market entry study**

Coco Group (Construction services company)

Coco Group was considering investing \$50 million to build a manufacturing facility in a new industry. They asked EY to confirm the attractiveness of the opportunity.

We conducted an in-depth study of the market opportunity that examined supply and demand, competitor profiles, customer requirements, price scenario analysis and alternative investment options.

The analysis found the opportunity to be unattractive, and Coco Group decided not to invest in the \$50 million facility.



Key questions to determine if a market study will help inform decision-making

A market study's range can also be quite broad and therefore applied to nearly any significant decision. While you don't need a market study for every decision, here are six questions to ask yourself to help determine if a market study would be valuable.

- 1 Is there uncertainty?**
The most common reason why organizations commission a market study is that they're unsure of the best decision for their business.
- 2 Has the business environment changed?**
With change occurring at an increasing rate, disruptions to the environment that organizations exist in can create both opportunities and threats. An organization needs to understand both what is changing and how to adapt to these changes. Failure to adapt risks fading to irrelevance.
- 3 Is the organization underperforming?**
With the complexity of many organizations and their internal systems, it isn't always apparent when a company is struggling until the issue has become significant. Market studies that compare the organization or parts of the organization to others can help with this.
- 4 Do people have conflicting opinions on the matter?**
Credible people having different opinions on the matter is a good indication that people are relying on experience and instinct. Experiences can be biased, but quality data is objective.
- 5 Are the people involved in the decision not discussing the data and facts?**
Even when everyone is in agreement on what to do, a lack of discussion around what the data indicates likely means that beliefs have not been tested against data. This is another situation where experience and instinct may have created an unconscious bias.
- 6 Does due diligence or regulation require that you test your decision?**
You know you are making the right decision, but regulation, policy, public opinion, highly political situations and other factors can require that you seek a third party to confirm your conclusions.

 **Market potential study**

Stolt LNGaz
(Downstream LNG company)

Before determining the viability and optimal size of a new LNG liquefaction plant, Stolt LNGaz engaged EY to assess the current and expected LNG demand in five global regions.

Our team assessed market opportunities in the mining and metals, power and utilities, trucking and marine transportation sectors for each region.

In addition to supply and demand, the report provided insights into market conditions, investment opportunities, potential challenges, recent developments and competition.

4

A market study can help you avoid unnecessary risks and increase your chances of success

Using a market study allows you to gather information and challenge beliefs to avoid taking unnecessary risks and increase the chance of success.



Avoid unnecessary risks

Not gathering data and testing your beliefs can result in either making a bad decision, or at least not making the best decision possible.

- ▶ **Limit risk of failure:** In most situations, a little bit of credible data can easily change opinions. In situations where the stakes are high, not being willing to test your beliefs risks failure.
- ▶ **Missed opportunities:** Failure to ask the right questions or not asking enough questions can result in an incomplete understanding of the situation and risk of missed opportunities.
- ▶ **Avoid decisions based on luck and gut feel:** An individual may get lucky for a time, but sooner or later decisions that are not based on facts and data run the risk of leading to poor outcomes or even complete failure.



Increase chances of success

Gather the supporting data needed to make informed decisions and thereby increase chances of success.

- ▶ **Confirm the course of action:** Sometimes going with your gut and experience is the way to go, but challenging beliefs may provide a better alternative or confirm the course of action.
- ▶ **Identify new opportunities:** The difference between a good decision and a great decision can be a couple of key pieces of information. Asking the right questions can reveal new information that may not have otherwise been evident.
- ▶ **Make informed decisions:** Informed decision-making has a greater chance of leading to positive outcomes and limits risks associated with following a course of action with no supporting data.



Economic diversification program review

Alberta Energy (Ministry of the Government of Alberta)

The Government of Alberta's Department of Energy developed an incentive program for new petrochemical facilities. They asked EY to validate the benefits of the program.

We reviewed the program to ensure that it was: i) aligned to the Government's overall strategy, ii) able to attract investment, iii) able to increase economic diversity, and iv) able to generate the expected economic impacts.

This review provided an unbiased assessment that allowed the province to make a fact-based decision on implementing the program.

5

Top 10 key considerations when developing a market study

Based on the numerous market studies EY has conducted for our clients, we've found 10 leading practices in the creation of market studies, all of which should be considered before making the decision to pursue a market study.

1

Know your hypotheses.

Be clear on the problem you're trying to solve.

Be sure to think about and clearly document what you want to test before starting a market study. Make sure the hypothesis is testable. An ambiguous hypothesis or focus area can lead to:

- ▶ Missed deadlines and cost overruns if a hypothesis is vague or open to change every time new data is found.
- ▶ Incomplete results if a hypothesis is too narrow.

2

Understand how the findings of the market study will be used, and make sure it is easy to understand.

Without a clear understanding of the decision that will be made based on the market study, the report's findings may not answer the right question. Taking the time to test the direction of the report with the audience throughout its creation can help prevent this.

In addition, if the important findings are not easy to find in the report or not easy to understand, the audience may not be able to effectively use the study. Having an effective executive summary or infographic that makes use of visuals is an effective means to communicate the key findings.

3

Consider all focus areas.

The most obvious area to research doesn't always tell the complete story. For example, when considering a new market opportunity, supply and demand is often not enough. What about the potential for new competitors, and how that could change pricing? What about how regulation changes could change barriers to entry? What about all those other factors that could potentially change the game? Applying Porters 5 Forces is an excellent starting point.

4

The key findings of all areas can be quantified.

While direct calculations may not be possible, there are always ways to extrapolate and estimate values. While this may not be exact, applying the right logic to estimates and extrapolations can provide valuable results and insights.

5

Be directional, not precise.

Market studies are not meant to provide exact predictions; they are meant to give direction. It's better to be generally correct than precisely wrong.



Regulatory framework review

British Columbia Oil and Gas Commission (BCOGC) (Oil and gas regulator)

With mounting public concern over hydraulic fracturing, the BCOGC required an unbiased review of their ability to regulate such activity. EY was engaged to conduct the review.

We assessed the current regulatory framework's ability to address environmental, social and public issues. The BCOGC's performance was then compared against other jurisdictions.

The study identified existing gaps and leading practices, allowing the BCOGC to make fact-based decisions on how to best adjust their approach.

6

Obtain primary data when possible, even though it can be difficult.

While often more difficult to quantify, taking the time to talk to the people who are the end users or key stakeholders can provide valuable information. Being able to complement data with context can uncover important considerations and dramatically change the conclusions.

Primary research often requires cold calling. This can feel like sales, and in a way it is. You need to sell other people on investing time in answering your questions for no apparent return. Many people will not be interested. Take time to develop an opening script, evolve the script as you gain experience, prioritize your questions, and never start with the most important primary research targets first. Like all things, conducting primary research is more effective after a bit of practice.

7

Know when to stop your analysis.

Market studies have a nasty habit of becoming bloated. A 20-page report can easily end up being 50 pages. The most common cause of this is the team conducting too much research and then including all of that research in the study. More is not always better. By being clear about the hypotheses that require testing, and understanding the depth of accuracy required, it is much easier to recognize when the goal has been reached. Just be sure to cut off the analysis once this point is reached, even if that means discarding research that has not yet been completed.

8

Understand the quality of your data sources.

Not all data sources are created equal. The best data sources are those that can be checked against others. For secondary research, be sceptical of any data source that isn't recent, and check that the institute that developed the data is credible and can provide their sources. Primary research can be especially tricky, as often this is a gathering of people's opinions. When conducting primary research, be sure to have a sufficiently large sample size.

9

Document sample calculations.

Often, quantification of findings can involve multiple steps, especially when only indirect data is available. In these situations, coming up with a number that makes sense can be an exhausting achievement. This runs a high risk of error, as anything that has a sense of accomplishment associated to it is less likely to be double-checked. Any market study that cannot provide sample calculations runs the risk of having errors, as initial calculations are not always repeatable when tested.

10

Never assign to individuals who have vested interests.

Findings can be tailored to suit an individual's biases and personal agendas. This isn't always intentional – people often subconsciously put more worth in data that support their interests. Find individuals or a team who wouldn't benefit from one decision over another – internal or external – to conduct the study, and don't let anyone with vested interests influence the findings.



Performance comparison

A Canadian based electric system operator (Electricity industry)

Sparked by the new challenge of incorporating a significant amount of renewable energy, the client commissioned EY to assess their performance against other jurisdictions.

Our team compared the performance of the Provincial Electricity Framework to 10 other jurisdictions on seven key performance indicators.

The findings of the report allowed them to better understand how it could best allocate its resources to draw on its strengths and improve or mitigate its weaknesses.

6

EY can help

In a changing marketplace it can be hard to make tough decisions that could have a major impact on an organization. Acquiring the information necessary to make unbiased, fact-based decisions takes time and effort. We can help you determine the better questions to ask to get you the answers you need to make informed decisions for your business.

We can help you:

- ▶ **Identify market conditions:** We can investigate changing market conditions to determine what that might mean for your business.
- ▶ **Assess market potential:** Some opportunities have a bigger upside than others, but you won't know their true potential until you have a complete assessment of the market and can make an informed decision as to the right course of action.
- ▶ **Evaluate business options:** An evaluation of options could go many different ways depending on the questions you want answered. We can help evaluate options using the criteria that are most important to you.
- ▶ **Support informed decision-making:** We can provide independent, unbiased assessments of existing data and information to prevent groupthink and give you the support you need to make decisions.
- ▶ **Conduct scenario analysis:** While nothing is ever certain, we can provide scenario analysis to help you anticipate what might happen after you make a decision.
- ▶ **Develop benchmark comparisons:** We can help you understand if you have the right balance to be competitive and are positioned to succeed in the market.



Labour market analysis

Canadian operations for a global mining company

As part of a \$7b potash capital project, the client needed to understand the future labour availability in light of competing mega projects across the country. EY was requested to assist.

We analyzed both the supply and demand of skilled trade labour over the next 10 years, and developed a database of the capabilities and capacity of approximately 60 specialized mining contractors.

The analysis allowed the client to implement recruitment and training plans that matched the realities of the labour market.



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