



INSIGHTS GLOBAL

What you don't know can hurt you!

A better understanding of Market Intelligence in the oil and gas industry



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1 Introduction

Gathering market data via different sources, connecting the dots and creating intelligence or knowledge to support decision making in a hostile and turbulent environment captures the essence of Market Intelligence. In this eBook we will further outline the concept of Market Intelligence in the oil and gas industry. Is there a difference between the market players in the oil and gas value chain? Also we will have a look at other industries mainly the banking sector. How does Market Intelligence influence these companies active in the financial industry? Furthermore, we will describe a number of relevant and important tools which are used to integrate Market Intelligence in the operations of oil companies.

Let's start with a quick snap shot of our previous eBook and a conceptual framework of Market Intelligence which helps us to understand the scope of this concept.

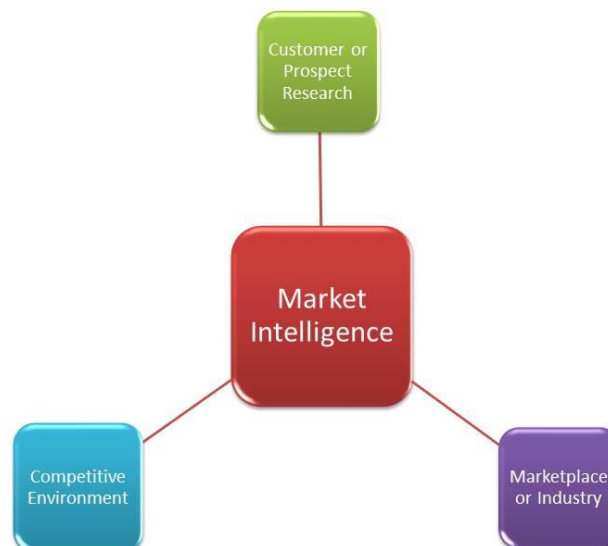
2 A short summary

As we described in the previous eBook 'Market Information as Competitive Advantage' Market Intelligence is of all ages. We defined Market Intelligence as a systematic and structural approach for gathering, analysing and managing information that could influence a company's strategy, decisions and tactical operations. The purpose of Market Intelligence is to facilitate a company in making critical decisions. Extensive research has learnt that there is a positive correlation between Market Intelligence and gaining Competitive Advantage. Especially the IOC's outperform other industries through sophisticated Market Intelligence systems by collecting, storing and analysing every kind of internal and external data.

3 Conceptual Framework of Market Intelligence

The conceptual framework (figure 1) describes three focus areas: (1) customer research, (2) competitive environment and (3) trends in the market environment. Each area provides a different perspective that will support decision making. Integrating all three areas creates synergy effects in making decisions.

The Three Pillars of Market Intelligence



Customer research can provide valuable insights on customers' perception of the company, their actual needs and the receptivity of new products and services. Understanding the competitive environment will outline what the competition is doing at the moment, capable of doing in the future and the loyalty of customers towards the competition. Market and industry information will provide knowledge about regulators, public opinion, economic fundamentals, technology developments and other environmental factors.

3.1 A comparison of Market Intelligence between oil and gas companies

Oil companies pass information through multiple layers of software with almost every employee concentrated on collecting and storing various kinds of information. Shell has a long history of systematically analysing its business environment and are strong believers of

Market Intelligence in action with Shell

The Shell Exploration & Production organization has integrated the Market Intelligence framework as a key ingredient in their strategic formulation process (GIA, 2011). The leadership team of Shell E&P is fully committed, and the intelligence activities are joined in a centralized unit, called Competitive Technical Intelligence (CTI). CTI has developed a Technology Play Mapping for understanding the future technology and their key player strategies. The Technology Play Mapping starts with a dialogue with top management to determine key issues. CTI will then collect information from internal resources and thought leaders and from external sources such as market information reports and external expert interviews. In the analysis phase the intelligence unit combines all the information in an overview of existing and emerging trends, uncertainties and challenges and movers and shakers in the industry. This 'intelligence work' will identify competences that Shell will have to focus on in order to stay on top of the market. Finally workshops and top management evaluations will assimilate this information to act as empirical source for critical strategic decisions. Although it's a time consuming process to set up, eventually it will earn back the efforts, a Senior Strategic Marketing Analyst illustrates.

strategic planning that is supported by in-depth analyses of market information (see Market Intelligence in action). Also BP has set up an intelligence unit a number of years ago (PIU, 2009). They have shared an interesting view on Market Intelligence through a supply perspective. BP's Intelligence unit has an active role in gathering market information for the assessment of risk in the availability of oil commodities and the price risk of these commodities. Market knowledge with fact-based information and future forecasting has improved their buyer position by challenging their suppliers on costs. 'Rather than being behind on our news information, we are actually staying ahead of the game in the markets we do business in', the Head of BP's Market Intelligence Unit said. As we can clearly see these IOC's have implemented one or more focus areas of the Market Intelligence framework and strengthened their positions in the oil and gas industry.

Let us have a look how NOC's are dealing with the concept of Market Intelligence. The Kuwait National Petroleum Companies (KNPC) is one of

the largest oil producing and refinery companies in the world (Alfadly, 2011). The contribution of KNPC to the K-uwait economy is over 80% of the government revenues and its earnings are of great importance to the country. What can be said about the Market Intelligence framework of KNPC? In the recommendations of Alfadly's scientific research about potential marketing

strategies for KNPC lie implicitly the answers. He advises to review the service offerings and assess to what extent they satisfy the customer needs. Furthermore, KNPC should look at the competition to identify potential areas for improvement to their service offerings. Finally spotting market opportunities should become a part of their operational routine. This implies that KNPC have an underdeveloped Market Intelligence framework regarding all three focus areas.



"I know nothing about the subject,
but I'm happy to give you my expert opinion."

This results in a reactive attitude in a hostile and unbalanced business environment. Another NOC that we looked at regarding the Market Intelligence framework is Nigeria, Africa's leading oil and gas producer (Akinyele, 2011). Akinyele argues that the deregulation of the Nigerian economy affected the oil and gas sector in Nigeria in several ways. Yes, the Nigerian oil and companies incorporated a competitive orientation from that period in time. But the poor performance of Nigerian oil and gas companies is caused by insufficient translation of customer needs and macroeconomic factors in their service offerings. We can conclude that there is commitment within these companies to integrate Market Intelligence, but they lack the knowhow and expertise to succeed in a sufficient way.

3.1 Diffusion of Market Intelligence in other industries

So to this point we have looked at several companies in oil and gas value chain. But what can we learn if we look at the Market Intelligence framework in other industries such as the banking sector?

Research in UK Retail Banking has shown that the banks perceive Market Intelligence as one of the key success factors in their business operations, especially with regards of service offerings to customers (Wright, 2009). Also these banks recognized the correlation between Market Intelligence, increased revenues, profitability and thus shareholder value. However, they lack commitment from senior management to invest in the development of the right processes, procedures and available market information. These banks react mainly on competitor movements and are trying to find answers to questions that are already obsolete (Wright, 2009). Within the retail banking organizations no centralized unit is formed to gather and analyse market information from various sources. The sources of market information are limited to public domains and the internet.

In consensus with these findings are the results from the survey among US companies in the Banking Sector (Outward Insights, 2005). These results clearly show that also US Banks have less organized market intelligence activities. These banks have – to a smaller extent – not a process in place for delivering early warning of emerging threats and opportunities and there is no engagement in scenario planning and competitor response modelling. These banks are

less likely to make intelligence an integral part of strategic planning process. However, research learnt that companies that make efficient use of Market Intelligence are large financial institutions such as Bank of America and JP Morgan.

The Central Bank of Malaysia (Bank Negara Malaysia) has emphasized the importance for domestic banks to be more knowledge based and more efficient with managing intelligence in their banking operations (Ali, 2006). The Malaysian banks have been actively automating their manual processes to manage their resources and procedures what resulted in the creation of many information systems. The information systems produced a huge amount of information resulting in an information overload. Instead of becoming better informed and equipped for their work, employees of Malaysian banks became more reactive and inert.

Bank Negara Malaysia has made policy of managing knowledge as a key corporate asset.

3.2 Market Intelligence in oil trading organizations / departments

As generally known oil is the most actively traded commodity in the world and at the same time one of the most volatile asset classes, enhancing the risk position of each organization. To mitigate the short-term impact of volatile oil prices trading organizations have a number of strategies with regards to obtaining Marketplace or Industry Intelligence (the third pillar of the MI framework). First of all, insight in the **trend of oil prices** supports trading organizations in understanding one of the main industries cost drivers namely fuel consumption. The analysis of the trend of oil prices, anticipating upward or downward movements of these prices and applying trading strategies, makes planning, budgeting and forecasting possible. This creates predictable costs and earnings and thus more transparent and valued companies. Secondly traders have to deal with a great flow of biased information from multiple sources. Consolidation of **market information** and oil (product) prices are helping trading organisations to create a more broad and integral perspective of the market. Information about economic, political, technological and industry factors on both macro – and microeconomic level result in the necessary fundament for decision making in trading strategies on f.e. futures exchanges or OTC markets. Additionally, understanding **supply and demand** of oil markets and their inventories give insight to the market volume and imbalances in trading regions such as Rotterdam, Singapore or Cushing. This knowledge provides trading organisations with a global distribution and storage network with arbitrage trading opportunities.

Complementary for trading organizations to this Market Intelligence domain of the marketplace and industry environment are the pillars from customer research and competitive environment. Trading organisations have full understanding of their customer's individual needs and focus their trading strategies in fulfilling those needs. These trading strategies range from hedging (minimize risk) to a more speculative approach (maximize profits). Information about trading positions of the competition gives a better understanding of the playing field. Knowledge about the competitive trading strategies and understanding their actions helps in adjusting a trading organisation's own strategy.

4 Conclusion

We conclude from our research that the companies in the oil and gas sector as well as the companies in the banking sector confirm the value of Market Intelligence. However, we see

different stages of incorporation of Market Intelligence framework. The IOC's and trading organizations have integrated the full concept of Market Intelligence. In contrary to NOC's that admit the importance and are intensively trying to implement the concept. At this stage they are reactively focused on the competitive environment. This also applies for the banking sector where a number of large financial institutions in the US fully embraced Market Intelligence. Other banks in various countries such as Malaysia, UK and US however are trying to manage their information flows more effective to create Market Intelligence. For now they are dealing with an explosion of data and a more inward looking attitude. On the other hand we see oil trading organisations analysing supply and demand fundamentals and anticipating on oil price movements. These companies have a complete understanding of the needs of their customers, action of their competitors and the risks involved. Their challenge is, as we have learnt, coping with biased information from multiple sources.

5 Methods and tools used for gaining Market Intelligence

As already described in this eBook there are a number of different tools and methods that make the concept of Market Intelligence a competitive advantage for IOC's. We completely agree with the fact that there has to be a culture for intelligence and commitment from the senior management. However, in this article we will focus on the instruments from external sources used by these companies and how they relate to the Market Intelligence framework (figure 2).

MI framework for IOC's and trading organizations



Figure 2: MI framework for IOC's and trading organizations

In the oil & gas industry are various instruments for upgrading the level of Marketing Intelligence. First, real time price data and current information about commodity markets are used to project pricing trends and calculate risks. Second, scenario analysis gives insight into the probability of occurrences related to oil markets and their impact on supply and demand, oil prices and spreads. Also chart technical analysis is a form of scenario analysis that helps to understand the trend of oil prices.

Third, market monitoring is essential to clarify one's competitive position in the oil and gas industry and other related economic sectors such as financial markets, stock markets and complementary markets. It is a daily operation to maintain and utilize the information flows from these markets to apply in the trading strategy. Forth, analysis of cost drivers are concerned with examination and quantification of the monetary effects of cost drivers related to certain activities f.e. analysis of freight costs within logistical activities of a company. Numbers tell the tale. Fifth, knowledge of the supply and demand fundamentals is essential. Fundamental analysis and inventory reports are intensively used to create insight in these market factors. Fundamental analysis helps to understand base factors such as supply and demand, world economic outlook and economic growth in individual countries.

All these types of data analysis via various perspectives create empirical evidence for policy makers to support strategic decision making and on a more operational level trading decisions and thus enlarges the intelligence within every organization.

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7 Market Analysis Services

Specifically, for oil traders Insights Global offers market intelligence and analysis services. These services aim to improve understanding, decision-making and risk management associated with oil markets within customer's organization.

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