**Southern Water Corp Case Study – Objectives II**

Previously in the financial section, I helped management understand how the business is faring from the Revenues, Expenses, and EBIT perspectives. I also covered the EBIT Margin which gave management a good understanding of the revenue-to-expenses ratio. In this section, I am going to unpack how economic factors impact Southern Water Corp business.

SWC competes in a highly contested market: the open water market, which is split into several smaller markets. In this market, water is traded by the mega-liters at a price known as the Water Market Balancing Price (WMBP). The WMBP is the settling price between water buyers and sellers. The WMBP is influenced by supply and demand like any other market. If there is more water demand from customers, the price should theoretically increase. The reverse also holds true – if there isn’t enough demand, the price will fall until we hit an equilibrium point where the market supply and demand are balanced. It’s important that we can understand and model these market demand factors to identify the periods where demand is highest. These periods represent the ideal opportunities to generate revenue and sell more water. This then ties into our next concept – cost-effectiveness desalination plants. If SWC’s desalination plants are less cost-effective than the competition’s, then other people will buy the competition’s desalinated water.

If I were choosing between two companies which produce the exact same product and specifications, you would likely go with the one which is cheaper. With management very much aware of the tight-competition in the Desalinated Water Market, they have requested the following Economic Data Analysis for you to complete:

1) **Economic Market Analysis** – What trends am I able to identify when comparing the Soft Water Market versus the Hard Water Market? In other words, do we see any type of price elasticity/inelasticity when analyzing these markets?

2) **Cost-Effectiveness** – How cost-effective are the three (3) desalinated water plants when compared to the overall market? Are there periods where SWC is not cost-effective when compared to the overall WMBP? These are periods SWC can expect to bring in less revenue.

3) **What-If Analysis** – There is an ongoing consensus within the team that the best time for SWC to perform a major desalination water outage is in the first quarter of the year. However, this hypothesis needs to be tested and validated to see if the first quarter is truly the best – or whether there exist more desirable periods to perform the major desalination water outage.