Strategic Management for Competitive Advantage
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Lecture 57
Developing Strategic Plan of a Major Oil Company - III

Welcome to the course Strategic Management for Competitive Advantage. In the last sessions, we discussed how to formulate a strategy for a large oil company. In this session, we will be talking about strategy implementation. So, how what are the ingredients, what are the components, and how to implement it is very crucial for a strategy.

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So, the concepts that will be covered in this lecture are the say high-level implementation plan, resources required, then financial implications, then key success factor. These are the entire steps, these steps, as from this 1 to these 7, 8 are, same will be for different sectors, different industry. Now, as per those industry characteristics, your strategic direction, mission, vision, situation analysis, and strategic objectives will change it.

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Now, we will first talk about those implementations, what, and how you go about them. So, the first thing is that you prepare or create a high-level implementation plan. That is a road map.

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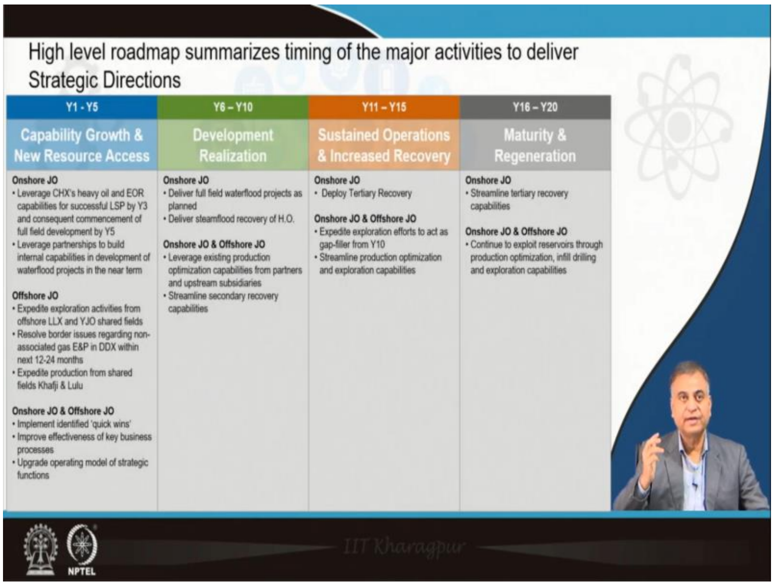

You have to a high-level road map, you have to create it. Say here, those strategic formulations and all have been summarized with a high-level road map, wherein you can find the timing of the major activities to deliver your strategic directions. What are your strategic directions, that 350 thousands barrel of oil production per day and similarly non-associated gas is 500 million 500000 billion cubic feet per day from year 05 to year 20?

So, these are what you do. It is your strategic plan is 20 years. So, for the implementation part, what do you do? You have to connect with your midterm plan and further to your annual plan. So, these 20 years you divide into 4 phases. So, phase-wise, you develop. Your plan has to be phase-wise. Say, year 01 to year 05 is phase 1. In phase 1, what is your focus? The focus is capability growth and new resource access. So, that is your, for that what are your opportunities. See, these are the onshore opportunities and offshore joint operations opportunities.

So, what are the listed? Leverage your partner’s heavy oil and enhanced oil recovery capabilities for success. So, for successful LSP by year 3, LSP is Large Scale Pilot and consequent. So, you find out your those list down your that opportunity, your portfolios, your strategic projects, strategic initiatives, here. Similarly, these are for the offshore. Here, expedite exploration activities from offshore these fields and shared fields. Resolve border issues.

Similarly, for onshore and offshore, there are Implemented identified ‘quick wins’. So, these are your plans and major activities for phase 1. Similarly, this is for your phase 2. That your focus is development realisations. Whatever you have done it here, you realise it in concrete terms. So, you have delivered your fulfilled waterflood projects as planned. Deliver steam flood recovery from heavy oil. So, these are the focus area this project has to be realised.

Then the third phase is your focus is sustained operations and increased recovery. So, for this, these are your forecast area. Deploy tertiary recovery methods that is stream flood and all. Then expedite exploration efforts to fill the Gap from year 10. Then streamline your production optimisations and production exploration capabilities. So, these are phase 5. Similarly, phase 4 is maturity and regeneration, and these are the activities you will be focusing on. This is the high-level road map.

Based on this high-level road map, different functional groups will prepare their functional activities to attain those 350, 000 oil productions per day. Those will spring from there.

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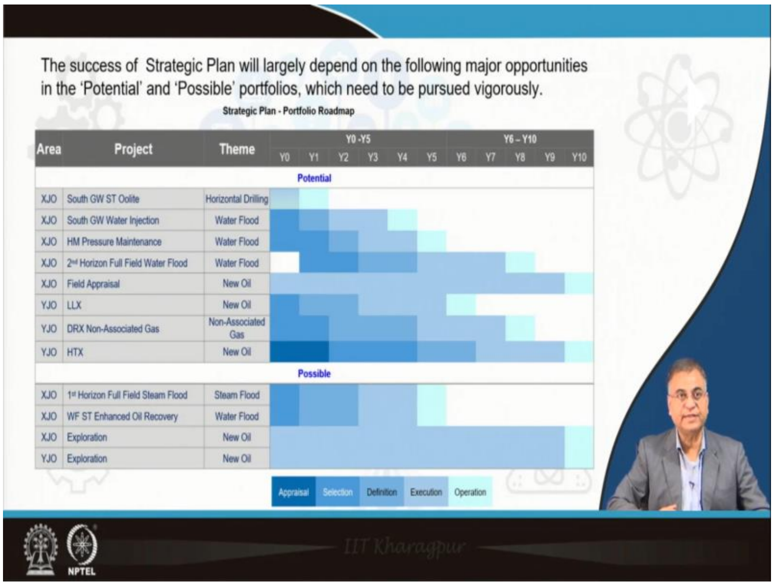

So, having done this, this is your successful strategic plan will largely depend on the following major opportunities in the potential and possible portfolios which need to be pursued vigorously. So, these are your portfolios. These are the potential, and some are, are the possible portfolios. So, these projects you have to complete these in time so that you can meet your strategic directions. These are the so, which year this will be realised.

So, you make a plan. Say, this is the first 5-year plan, the second 5-year plan. It is there that you have to; these are the different phases of your project. The appraisal phase, the selection phase, different define phases, an the execution phase. This is the operation. It will streamline operations and all. So, you have to, and your strategic plan will depend much depend on these projects in potential and the possible opportunities. So, you have to develop this. This has to be vigorously pursued and closely monitored by the top management team. Because these projects will give you strategic directions, so, this is very important.

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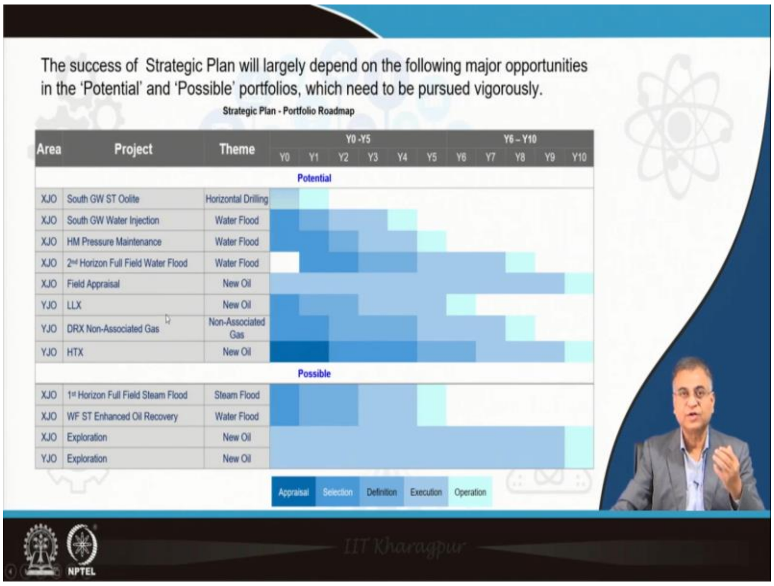

So, that you have done your attaining strategic directions, that is your producing, your opportunities are producing. But, this company will need to improve its business processes to meet the challenging strategic directions. That is, you have to improve your internal business processes, as you have seen in the balanced scorecard. To succeed in future, there are four perspectives.

One perspective is the internal business process perspective. This is you strengthen your internal capability to sustain the delivery level. So, what are these? Like you have to, these are, the company has identified these are the ten activities, in turn, you have to improve. Like, you have to do some quick wins to generate, which will have a very short time; you can deliver that through that quick win. That will motivate people around. People will be when people see success very quickly, success and they get motivated and they will get engaged in it.

Then there is a project management office that governs all the strategy, the plan and everything. Then integrated planning and performance management should be there. Recruitment and development. For this development of 350000 oils per day, you have to that you need experienced people from different areas, say heavy oil. Then reservoir engineering, technical areas, geologist geophysics. So, recruitment and development have to be scaled up.

The capital project handling. You have seen all those projects just before these all these projects. These are capital projects. These are billion dollars; each will be either a few hundred million dollars or some are even a billion dollars project. So, the capability to handle this has to be there. For that capital projects, these have to be, this capital projects capability, you have to improve that.

Then supply chain management, and procurement must be scaled up; otherwise, you cannot get the materials, you cannot get services and technical services, and you cannot get the experienced hands. So, you have to scale up this. Technology management is these are of many technologies we have to acquire. That new technology that is acquiring and the management, in-house development of technology, all those things have to be toned up.

Then well, delivery like you are developing a field. You are drilling. Then you have to hand over the well for production. So, that takes a lot of time. That has to be which skills have to be developed. It has to be streamlined. Then exploration to production. The time from exploration and production is huge. It may be 6, 7, or 8 years. It may be 5 or 6 years. It may be 2 3 years. It depends on many things. So, you have to, that time has to be shrunk, has to be reduced. So, then production efficiency improvement.

The health safety environment. These are the internal processes the company has identified that need to improve. For that, how will they do it? They make their functional plan. Each of these is different functions. So, the company has to make their respective functional plan. Like health safety environment, production efficiency, supply chain management, well delivery, capital projects development, recruitment and development, integrated planning and performance management, all these functional plans have met out a business process implementation program scope in phasing. These are given in, say, months.

So, these are the different phasings. The existing activity preparation, kickoff, selection, definition, execution and operation. So, these are, within the time scale, they are gearing up. This was the sum. So, you also have to prepare such a plan in-house in your organisation while developing your strategic plan. Because you have to, the internal process has to be strengthened to cope with the increased activities that are being done at the, to meet the strategic directions. Otherwise, you cannot deliver. Unless these internal things are strengthened, you cannot deliver strategic directions.

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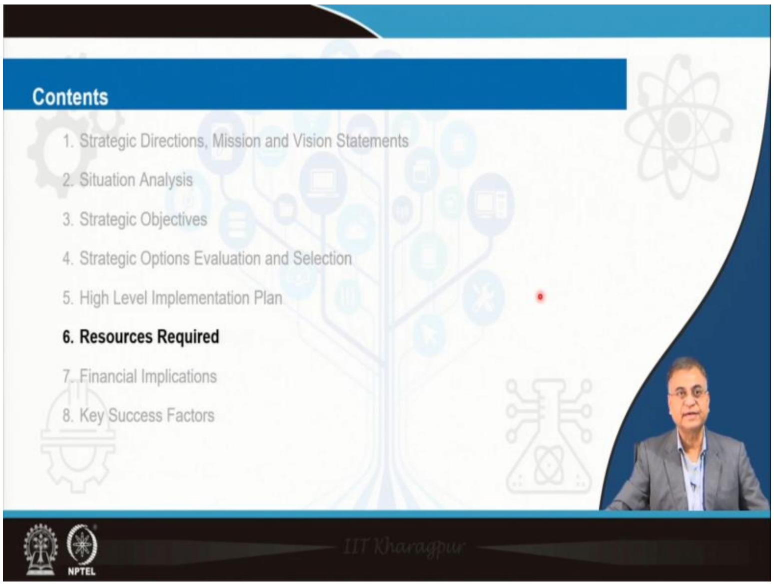

Next, is essential is the resource required. As we have already learned, strategy implementations require allocations of resources. So these resources are human resources, financial resources, technological resources and physical materials resources. So, we will be talking about these resources. So, how do you? You have to plan for that.

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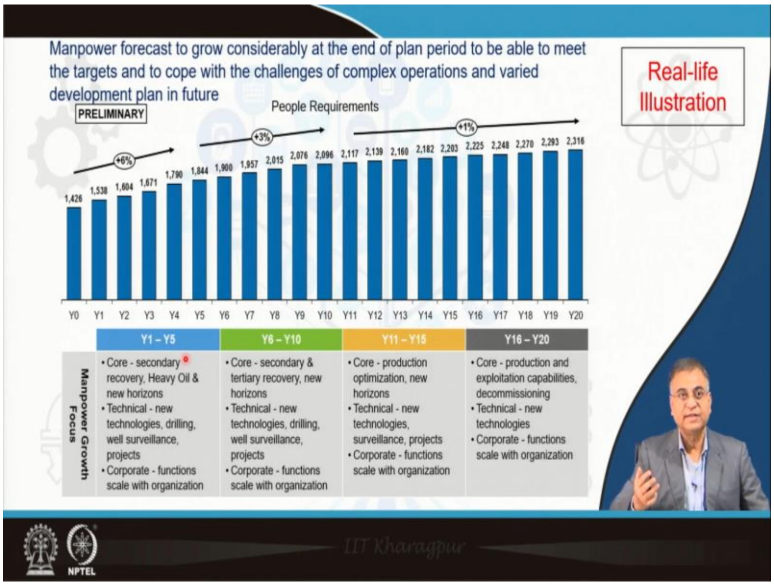

So, this is just a real-life illustration of that. So, the first thing you have to do is manpower forecast to attain those strategic directions given to you. Manpower is forecast to grow considerably at the end of the plan before being able to meet the target and cope with the challenge of complex operations and varied development plans in future. So, these are the projected manpower growth from y 0 years 0 to year 20. First, it is moving at a 6 per cent growth rate, then it will be 3 per cent, and from year 11, it is 1 per cent. This way, you have to develop your plan.

What are the, then similarly, it has to be done in phases? This are the first phase is crucial because you have to get an experienced hand in those areas. So, manpower growth focus areas you have to look at it. So, what are the in the first phase? Your focus area is core businesses like secondary recovery of oil and gas heavy oil and new horizons. Then your technical focus areas are new technologies drilling, well surveillance, projects, and the capability to complete those complex projects. The corporate areas are functions scale function scale with the organisation, functional areas as the activities grow.

Similarly, for the second phase. Y 6 to Y 10. The core area, secondary and tertiary recovery, new horizons. Technical area new technologies, drilling, well surveillance. This way, you identify your focus manpower growth areas and go for either new recruitment for those areas for these areas or develop your in-house people in these areas.

And both combinations are generally used. This company also use the combination. Because you are developing and all, it takes time. You are developing while they are working. But you have to hire experienced people for those, say, core heavy oil or reservoir engineering or the new technologies and all. So, you make an HR manpower growth plan.

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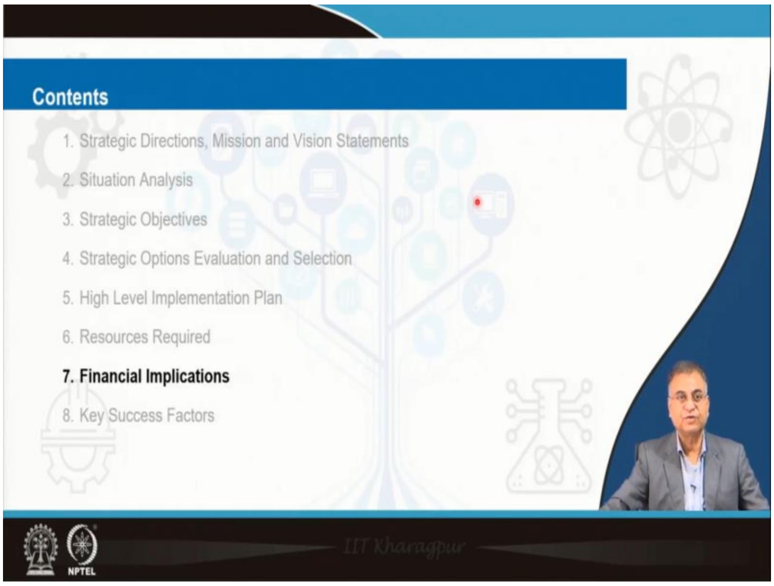

Similarly, you do a financial growth plan. So, financial implications we will talk about it.

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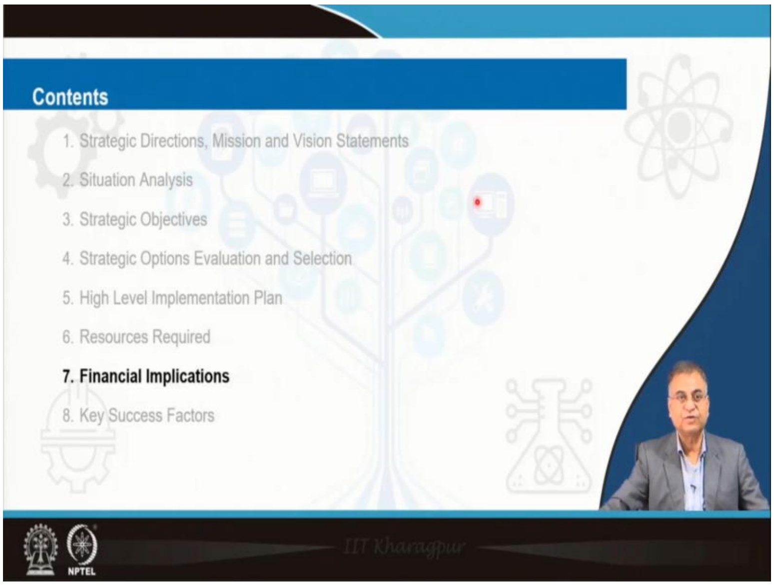

Similarly, we also develop a capital allocation financial plan. If you see, these are the CAPEX and capital expenditure. Delivering the core business production capacity profile will require significant capital expenditure, particularly later in the profile. If you see, these are the Y 0 to Y 20, year 20; these are the patterns that, as per your plan, you have to allocate financial resources.

Say, for the again here also, phase wise you develop. Y 1 to Y 5, what is the capital focus? The focus is field development, gas exploration, heavy oil, and oil exploration. These are the focus areas, and these are your investment requirement. These are required. So, this focus is the focus of resources to ensure the delivery of potential projects. And you can see this in years 5, year 6, year 7; huge investments are required. What is this? This is applied to the stream flood recovery technique, and extensive explorations, new explorations and all, is required.

So, this way, you and this is what expedite production from shared fields. These are the things you have to plan your CAPEX like this. These are very important. These are, more or less, these estimations that are not very accurate, but with your experience and all, it is being done. Accuracy is being shown here. Like, say, the first five years if the accuracy is more. It is plus or minus fifteen per cent.

As you go further and all, we all know the future; if you go further future, your accuracy of estimates comes down. So, the accuracy here is less compared to the nearer one. Anyway, this way, you are allocating your resources. This is very important. Unless you allocate resources, you cannot implement the projects.

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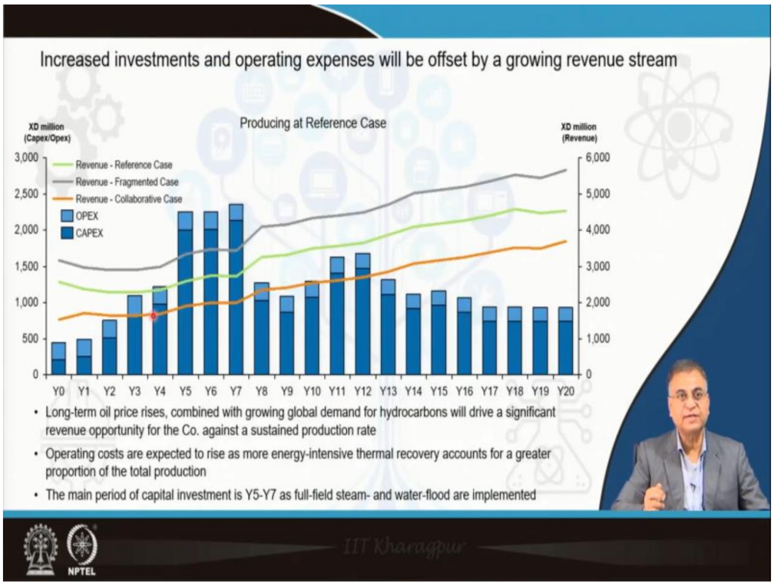

So, based on this, what do you do? You have to find out your revenue stream and how it works. So, these are the financial implications we are finding. A growing revenue stream will offset this increased investment and operating expenses. So, here we have made 3 cases: the base case, reference case and high case.

So, in these cases, this is the middle one is the reference case. Then that the red one is the collaborative and the fragmented case, so this is the one side; it is showing what? It shows CAPEX and OPEX requirements. So, these are the thousands of millions, and this is your revenue. You can see revenue will the this is the CAPEX is the lower one and OPEX is operational expenditure is the upper part.

So, what can we see from this graph? Your revenue stream will be very attractive. Long-term oil price rises combined with growing global demand for hydrocarbons will be, will drive a significant revenue opportunity for the company against a sustained production rate. If you can retain those production rates, your revenue stream that scale is doubled here will be attractive.

Then operating costs are expected to rise as more energy-intensive thermal recovery accounts for greater proportions of the total production. So, the main product of capital investment is Y 5 to Y 7. This we can see as it is that stream recovery things go on. Anyway. So, it is an attractive strategic revenue stream; the company should go for it.

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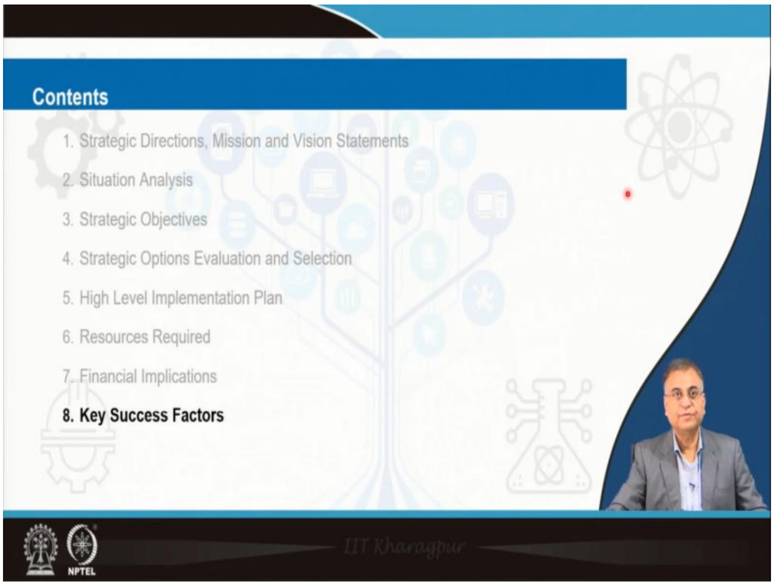

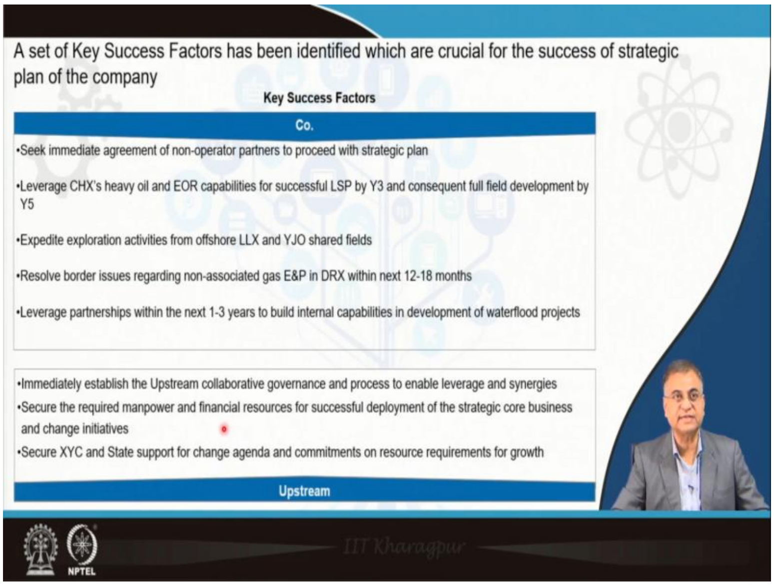

Now, the next last thing you find out is the key success factor. What is this key success factor? It is nothing but a set of KSFs that you have to identify, which are crucial for the success of the strategic plan of the company. We have also talked about in our classes critical success factors. And these are unless you attain these key success factors, this your strategic plan will not be successful. That means these are the prerequisites. For this company, what are these prerequisites?

Seek immediate agreement from partners to proceed with the strategic plan. So, it is a joint venture. So, a partner's agreement is required. Then leverage your partners' heavy oil and enhanced oil recovery capabilities that have to be implemented. Then expedite exploration activities from offshore, and that joint venture, shared fields, and all those have to be expedited; delay will jeopardise your plan. Then resolve border issues. These are you find out key success factors.

Similarly, the commonality for others is immediately established upstream collaborative governance. So, these are the common those three companies you have collaborative governance for implementing this strategic plan. So, these are the prerequisites you have to satisfy for the success of the plan.

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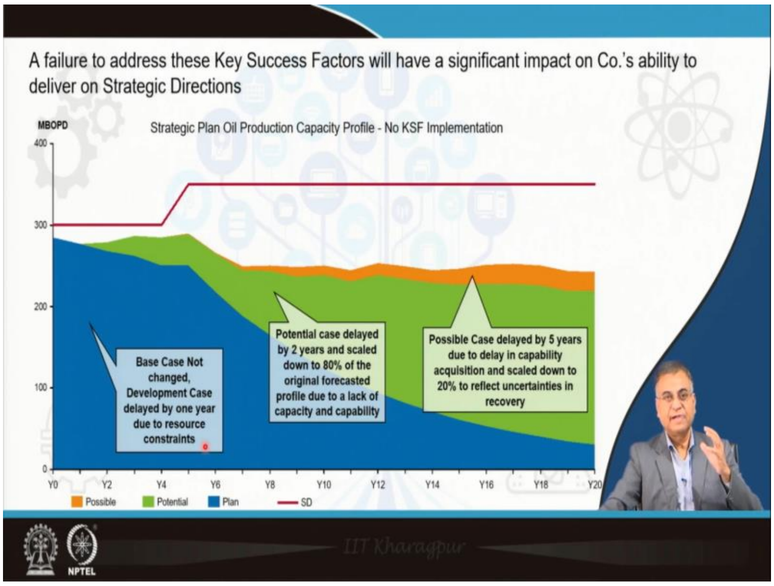

Now, this is a sensitivity test you do. What do you do? A failure to address this key success factor will have a significant impact on the company's ability to deliver strategic directions. These are the strategic directions given. Now, if you are, this these success factors are delayed or not implemented in time, then what happens? You can; this has been a sensitivity test.

Suppose these are the plan. These are the planned fields and all, all of you know, this blue. Say the base case has not changed, and the development case is delayed by one year due to resource constraints. If the development cases are delayed, you will not attain these strategic directions. You will have such gaps. These gaps will be there. And this is the potential one. So, the potential case, if delayed by two years, what we have planned in the strategic plan can scale down to 80 per cent of the original forecasted profile due to for lack of capacity and capabilities. Then it will come down like this.

Then your possible case will be delayed by five years, that is, stream flood and all, due to delay in capability acquisition and scale down to 20 per cent to reflect uncertainty in recovery, then your gap will be the such way. So, this is a sensitivity test sort of thing you can do if projects are delayed, which will affect getting the meeting of the strategic directions. So, these are the basic steps I have shown to make a strategic plan for large organisations.

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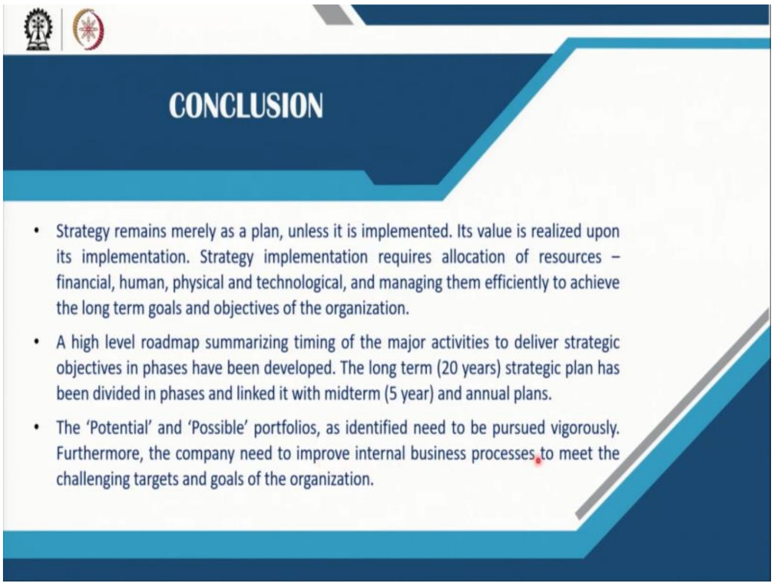

Now, to summarise, what we have learned it here today, this last session is that strategy remains merely as a plan unless it is implemented. Its value is realised upon its implementation. Strategy implementation requires allocations of resources are financial, human resource, physical resource and technological resources. And managing them efficiently to achieve the long-term goals and objectives of the organisation.

Then a high-level roadmap summarising the timing of the major activities to deliver strategic objectives in phases has been developed. The long-term strategic plan has been divided into phases and linked with the midterm plan and annual plans of the organisations. The potential and possible portfolios, as identified, need to be pursued vigorously. Furthermore, the company need to improve internal business processes to meet the challenging targets and goal of the organisation, we have seen this.

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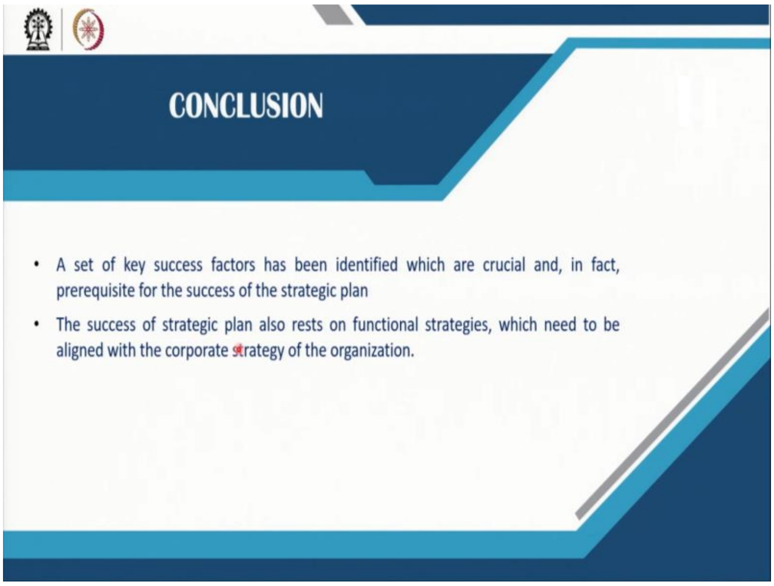

Further, we have found a set of key success factors has been identified, which are crucial and, in fact, a prerequisite for the success of the strategic plan. Then the success of the strategic plan also rests on functional strategies, which need to be aligned with the corporate strategy of the organisation. So, in these conclusions' slides, we have covered all the functional areas and work the different prerequisites, key success factors and other requirements in a strategic plan. You should follow all these key steps to formulate a strategic plan.

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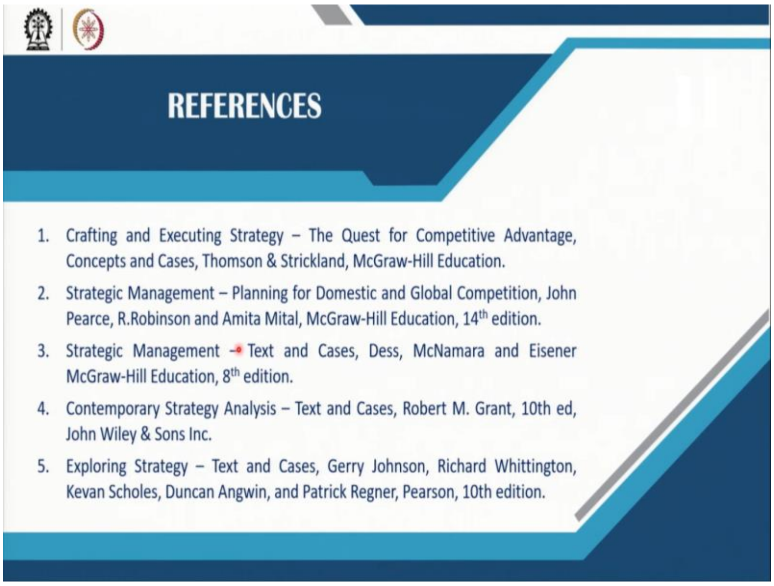

Now, coming to the references, these are the books we have already discussed. It would be best if you went through this. So, we are coming to a close. So, thank you very much for attending the class and the strategic course management for competitive advantage. We have done the entire gamut of this strategic management to gain a sustainable competitive advantage. We have also shown you how to develop a strategic plan for a large enterprise. And you can apply this in your sector and own company. So, thank you very much for attending the course.