WINNING EXECUTION STRATEGIES THAT IMPROVE FINANCIAL PERFORMANCE

© Pradeep Anand, President, Seeta Resources LLC, Sugar Land, Texas
+1 281 265 9301; pradeep@seeta.com; www.seeta.com

The oilfield service and other industries have many exemplary examples of how firms deliver superior year-on-year financial performance consistently. This short article identifies some execution strategies of winners, distilled from experiences in this industry, and drawing analogies from others.

It also provides a unified framework for oilfield service companies to build performance-enhancing execution strategies. This framework can also be useful to industry analysts in identifying long-term winners.

Very simply, the ability of a firm to outperform its competition depends on five major factors. The first four set the strategic direction for success, while the fifth one assures execution excellence. The combination is lethal to competition.

These five success factors are ability to anticipate and take advantage of market trends; ability to capture and protect 'unfair share' of markets; ability to capture premium pricing; prudent creation and introduction of new products; and people, processes and technologies to support execution excellence of these strategies. The figure below provides a visual overview of the framework.

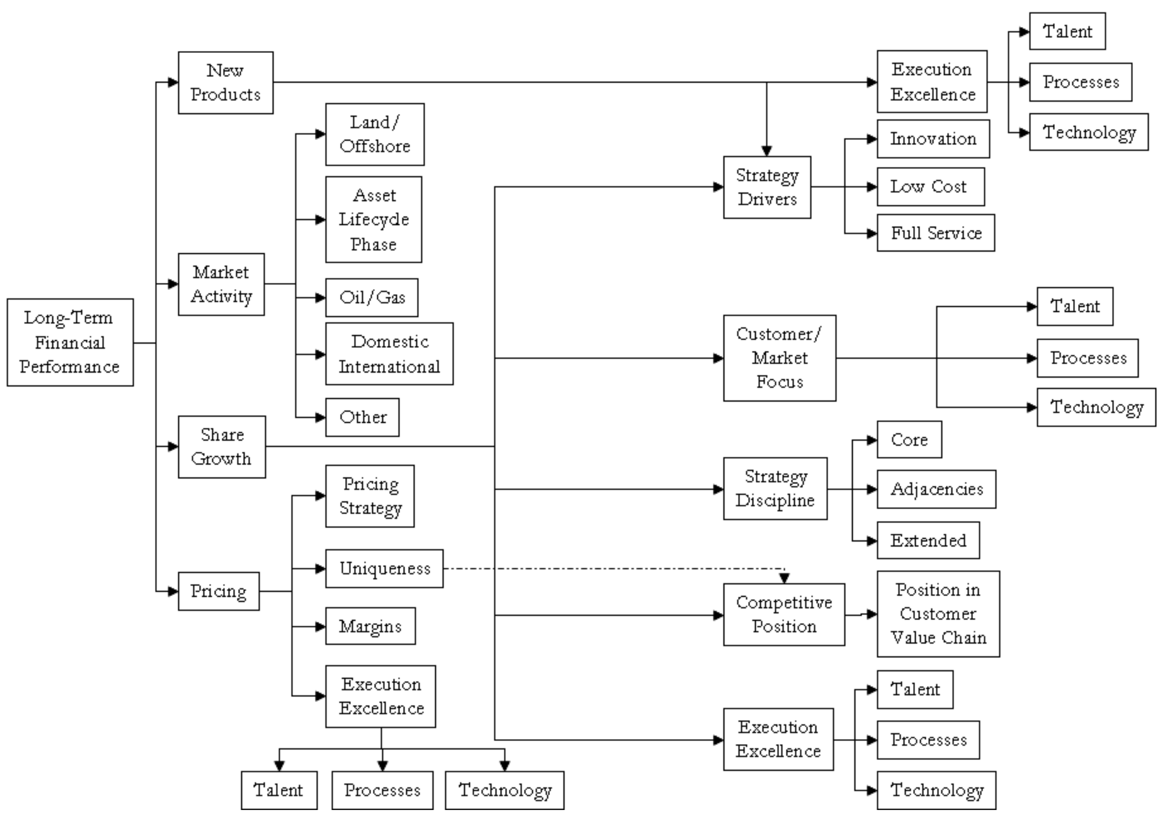

Figure: Long Term Financial Performance and Strategy Issues

WINNING STRATEGIES

Market Trends Winners invest in developing the wherewithal to aggressively spot and exploit prevailing winds in the industry, and expediently adjust to value shifts, declines, and doldrums that encompass the industry in predictable cycles. They have the ability to anticipate and take advantage of market activity trends in different segments of the industry's value chain. In particular, winners have a keen sense of the direction of value migration, and focus product development efforts on where the 'puck will be' rather than being engrossed in its current position.

Market Share Winners focus on velocity, quality, and volume of revenue, to capture and protect more than their 'fair share' of the market. They have a combination of ways to be dominant players in their chosen markets.

For starters, winners are customer-centric (rather than being just product-centric) in their approach to markets. This is a double-edged sword. On one hand this customer-centricity can lead to owning and dominating a market segment, and on the other, this can lead to market myopia.

Outperforming firms are clear about their main strategic thrust – Innovation, Full Service or Low Cost Operations. Focusing on one is not necessarily to the exclusion of the other two. Most of the outperforming firms show a focus on one of these strategies, with strong support from the other two dimensions.

Among those pursuing the 'innovation' path, the ones that clearly outshine are the ones that have the ability to focus on new products that have two characteristics:

1. Rapid acceptance of their technologies – typically, subsurface 'information technologies', such as E&P analysis software, have faster acceptance than downhole tools that are considered to be substantially riskier to deploy.
2. The ability to create markets with high competitive barriers, so that they can command premium pricing and adequate returns.

Full service companies have a tendency to watch and wait until the technologies have proven themselves elsewhere and then absorb them to have a complete portfolio. It is their acceptable technologies and people, combined with their ability to absorb risk that makes these firms attractive to oil companies.

Low cost suppliers are followers, who focus on operational excellence and enter markets when the cost of entry meets their thresholds. These are price leaders, who are attractive to customers, who are engaged in cost-driven OPEX focused phases of an asset lifecycle. These firms have strong supply chain management systems, and are leaders in global outsourcing.

Winners also have strategy discipline. They focus on their core businesses and step into adjacent businesses in prudent cautious steps. There are many recent examples of firms that have stepped too far out to the detriment of their stockholders. Recovery is slow.

Competitive leadership position is another characteristic for outperforming companies. While oil companies will constantly attempt to blunt any unique edge that a firm may possess, outperforming firms work painfully hard at sharpening this edge in various ways, beyond product excellence, including being heard above 'market noise'.

Pricing In an era where oil companies having transitioned from an engineering-oriented mindset to a purchasing one, winners pay special attention to pricing strategies, tactics, and discipline. They are intensely aware that even a minor percentage increase in price delivers substantially higher increases in operating profits than decreasing costs by the same degree.

Outperforming firms believe in value pricing, tempered by what the market can bear. In other words, winners capture part of the monetary value delivered to its customers, reluctantly balanced by offerings by competitive alternatives.

Often, bad pricing habits, such as relying on price discounts as the only competitive tool to acquire business, can creep and seep into firms. Firms often to succumb to customer pricing pressures, even when there are no alternatives to their services.

Outperforming firms keep a strong vigil and fight the imperceptible yet constant cancerous threat of bad pricing habits, to avoid irreversible financial tailspins. They train their workforce in the discipline of good pricing habits, focusing on competitive value being delivered, and extracting their 'fair' share of that value.

They are also astute at creating pricing strategies that are molded to fit unique local, competitive conditions, to deliver consistently superior margins and earnings.

Most firms face cyclical recessions, with excess capacity in many segments exerting intense pricing pressures. Firms that systematically consolidate this excess capacity segments are well positioned for 'premium pricing' during upturns.

New Products The E&P industry is notorious for delivering poor returns on technology investments. Market acceptance of new technology is glacially slow and, with oil companies encouraging competition, pricing advantages disappear quickly.

In addition, the nadir in business cycles, with its market contraction, stifles and suffocates rapid expansion of new products. Consequently, winners monitor customers' needs closely, and develop and deliver new products and services that meet their financial goals, and add to their competitive edge.

They use a variety of methods to execute profitable 'new product' strategies that fit into their main strategic thrusts. Long-term winners, in this risk-averse industry, focus a majority of their internal development resources on incremental product extensions.

Outperforming firms have prudent acquisition strategies of proven technologies that deliver substantial accretive benefits, and rarely invest early in disruptive technologies.

Execution Excellence Finally, when it comes down to execution excellence, outperforming firms have access to superior talent (numbers as well as expertise), and their workforce mimic the diversity of their markets, seeking talent globally.

In addition, winners invest in determining optimum processes and technologies to empower their employees and support their strategies, so that the right people work on the right details, at the right time, and at the right place.

A winning firm understands the relative contribution of each of these five domains' underlying details to the long-term financial success of the firm. It executes simultaneously on these five interconnected domains by periodically answering these three questions for each domain:

1. **Where are we?** They make pragmatic and objective assessments of their current market position and competitive performance.
2. **Where do we want to go?** Winners set ambitious goals but do not confuse the terms 'ambition' and 'goals'. To create a solid foundation for growth, winning firms have a long-term ambition supported by three intermediate goals: 1. Get Started, 2. Get Better, and 3. Create Market Leadership Position. Each of these intermediate goals has a goal-strategy-capability cycle that, like a helical screw, feeds the next intermediate goal.
3. **How do we get there?** Winners focus on intermediate goals, and see which combination of main and sub-elements of these five areas, can uniquely contribute to accomplishing them, with minimum resources and elapsed time. Once, their intermediate missions are accomplished, they cautiously move up the ladder to achieve their next sets of goals.

Pradeep Anand is the President of Seeta Resources (www.seeta.com), a market growth-oriented consulting firm. He can be reached at pradeep@seeta.com and +1 281 265 9301.