

Shell company analysis



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Shell operates within the Oil and gas industry sector, mainly involving exploration and production, refining/marketing and supply of petroleum products, manufacturing and marketing of Chemicals.

Overview:

The Royal Dutch Shell group of companies is an Anglo-Dutch group, consisting of The Shell Transport and Trading Company PLC (UK) and Royal Dutch Petroleum Company (Netherlands). These two holding companies own 40 per-cent and 60 per-cent respectively of the following 3 subsidiaries.

Shell Petroleum NV (Netherlands)

Shell Petroleum Company LTD (UK)

Shell Petroleum Inc. (USA)

These companies and their operating subsidiaries are managed by Shell International. Operating subsidiaries are divided into the following divisions:

Exploration & Production

Oil products

Chemicals

Gas & Power

Other smaller divisions include Coal, Hydrogen, Forestry and Renewables.

Shell, over the years has successfully come to be seen as a company seeking to grow and expand very rapidly. And since the withdrawal from the Global

Climate Coalition group in 1998, Shell has tried hard to brand itself as a caring, green company.

Shell at a Glance:

The following figures for the year 2008 summarize Shell and its place on the Global Platform.

Over 140 countries where Shell operates.

102, 000 number of employees.

It accounts for 2% of the world's oil production.

It accounts for 3% of the world's gas production.

3. 2 million Barrels of gas and oil it produces every day.

It has over 45, 000 service stations worldwide.

10 million customers buy its transport fuel each day.

Over 25 refineries and chemical plants.

And in the year 2009, it ranked first in the Fortune 500 list of companies, in terms of revenue generated (\$458. 4 billion).

History and Controversies:

The ' Royal Dutch Company for the Exploitation of Petroleum Wells in the Netherlands East Indies' was the company registered in The Hague in 1890.

The name was abbreviated to ' Royal Dutch Petroleum Company' in the year 1949.

Shell was formed by the brothers Marcus and Sam Samuel as 'The "Shell" Transport and Trading Company, Ltd.' first registered in London in 1897. (Now PLC: public limited company).

The Asiatic Petroleum Company, the first Royal-Dutch/Shell joint venture was established in 1903. And in 1907, Royal-Dutch and Shell merged all of their operations: 60% Royal-Dutch; 40% Shell. Despite merging their interests the companies still operated separately, i. e. one can buy shares in Royal-Dutch or in Shell-Transport, but not in the Group as such.

The Group founded the American Gasoline Company in the year 1912, to sell gasoline along the Pacific Coast and Roxanna Petroleum to buy oil in Oklahoma. US operations have grown ever since so that in 2000, 34 per-cent of earnings from exploration and production and 4 per-cent of earnings from oil product sales were generated in the USA.

Since 1928 the Shell's Chemical division started to grow when Shell Development Company was established to identify chemical products which could be made from refinery by-product gases. One year later, Shell Chemical Company was chartered to manufacture these products.

In 1972 Shell pioneered CO₂ injection, now being branded as a solution to climate change. In 1995, the Shell Learning Centre was opened 40 minutes north of Houston. And as Shell puts it, the training school has been conceived to encourage "out-of-the-box free thinking."

In 1995, Shell was put in spot over its real commitment to free thinking when Nigerian writer Ken Saro Wiwa and eight other Ogoni were hanged, by the

Nigerian authorities “ for speaking out against the environmental damage to the Niger Delta caused by Shell Oil”.

Shell also suffered a blow in 1995 when in April, Greenpeace activists occupied the Brent Spar oil platform. The platform contained tonnes of toxic drilling muds, plus oil residues and radioactive waste. Shell’s cosy relationship with the UK Department of Trade and Industry (DTI) ensured that it got approval for the dumping – indeed the DTI refused to accept written protests from Greenpeace.

After a three year campaign by Greenpeace the Brent Spar was, in November 1998, European countries surrounding the North Sea have set up strict norms on dumping platforms, avoiding a dangerous precedent for the misuse of our seas.

In March of 1997, Shell, Texaco and Saudi Aramco announced, a hugely significant joint venture that would combine their Eastern and Gulf Coast United States refining and marketing businesses.

From July 2000 Jeroen van der Veer replaced Maarten van den Bergh as president of Royal-Dutch. In 2001 Phil Watts replaced Sir Mark Moody Stuart as chairman of the board of Shell transport and Trading.

Brand Name Shell:

The Shell brand is one of the most familiar commercial symbols in the world. The current version of the brand was designed by Raymond Loewy and introduced in the year 1971. Known as the “ Pecten”, after the sea shell Pecten maximus, on which the current design is based.

The yellow and red colours relate to the colours of the flag of Spain as Shell built early service stations in the state of California which had strong connections with Spain.

The slash was removed from the name “ Royal Dutch/Shell” in 2004, with moves to merge the two legally separate companies (Royal Dutch and Shell) to the single legal entity (Royal Dutch Shell) which exists today.

Business:

One of the original Seven Sisters, Royal Dutch Shell is the world’s largest private sector oil company by revenue, Europe’s largest energy group and a major player in the petrochemical industry.

Core businesses:

Shell has five core businesses:

Exploration and Production (the “ upstream”)

Gas and power

Refining and Marketing (the “ downstream”)

Chemicals (the “ downstream”)

Trading and Shipping.

Shell is a Vertically Integrated Company.

Shell’s primary business is the management of its oil company. Ensure technical and commercial expertise in all the stages of development, starting

from the initial search for oil (exploration) through its harvesting (production), transportation, refining and finally trading and marketing.

These are the core competencies on which the company was founded.

Similar competencies were required and are employed for natural gas, which has become one of the most important businesses in which Shell is involved, and which contributes a significant proportion of the company's profits.

The vertically integrated business model provides significant economies of scale and a very high barrier to entry, the only downside is that there is no interdependence between different units. Each business now operates on self supporting criteria, without any subsidies from other units of the company.

The petroleum and gas business is increasingly becoming an assembly of independent and globally managed business segments, each of which must be profitable on its own. So here lies a risk of company being divided into various smaller business units.

The downstream, generates a third of Shell's profits worldwide, which now includes the chemical business. It is known for its global network of more than 40, 000 petrol stations and its 47 oil refineries.

Major Projects:

From the world's largest integrated, export oriented oil and gas project to helping to meet Asia's demand for petrochemicals – Shell's major projects show technology and expertise in action.

Athabasca Oil Sands Project – Canada: The Athabasca Oil Sands Project (AOSP) extracts bitumen from oil sands and converts it to synthetic crude oil.

Gumusut-Kakap: Shell's first deepwater opportunity in Malaysia.

Port Arthur Refinery: Expanding to become one of the largest US refineries.

Diversification:

Shell over the years has occasionally sought to diversify away from its core oil, gas and chemicals businesses. These diversifications have included:

Nuclear power (a short-lived and costly joint venture with Gulf Oil in the USA)

Coal (Shell Coal was for a time a significant player in mining and marketing);

metals (Shell acquired the Dutch metals-mining company Billiton in 1970)

Electricity generation (a joint venture with Bechtel called Intergen).

None of these ventures were seen as successful and all have now been divested.

Shell moved into alternative energy in the early 2000s and there is now a “Renewables” business that has made investments in solar power, wind power, hydrogen, and forestry. The forestry business was disposed of in 2003.

In 2006 Shell sold its entire solar business and in 2008, the company withdrew from the London Array which is expected to become the world's largest offshore wind farm.

Shell also is involved in large-scale hydrogen projects. HydrogenForecast.com describes Shell's approach as “ baby steps”, but with an underlying message of “ extreme optimism”.

Management:

On 4 August 2005, the board of directors announced the appointment of Jorma Ollila, then-Chairman and CEO of Nokia, to succeed Aad Jacobs as the company's non-executive Chairman from 1 June 2006. Ollila is the first Shell Chairman to be neither Dutch nor British. Other non-executive directors include Maarten van den Bergh, Wim Kok, Nina Henderson, Lord Kerr, Adelbert van Roxe, and Christine Morin-Postel.

As of 1 July 2009, Peter Voser has served as CEO of Shell. Peter, who is Swiss, is the first non-Dutch, non-British CEO of the company.

Corporate Governance:

Shell has traditionally been a heavily decentralised business worldwide (especially in the downstream) with companies in over 100 countries, each of which operated with a high degree of independence.

The upstream tended to be far more centralised with much of the technical and financial direction coming from the central offices in The Hague. Nevertheless, there were very large “ exploration and production” companies in a small number of major oil and gas production centres such as the United Kingdom (Shell Expro, a Joint Venture with Exxon), Nigeria, Brunei, and Oman.

The downstream business, which in some countries also included oil refining, generally included a retail petrol station network, lubricants manufacture and marketing, industrial fuel and lubricants sales and a host of other product/market sectors such as LPG and bitumen.

The practice in Shell was that these businesses were essentially local and that they were best managed by local “ operating companies” – often with middle and senior management reinforced by expatriates.

The 1990s was the time to change, and the independence of operating companies around the world was gradually reduced. Today, virtually all of Shell’s operations in various businesses are much more directly managed from London and The Hague. The autonomy of “ operating companies” has been largely removed, as more “ global businesses” have been created.

Financial Performance:

Ranked First in the Fortune 500 list of companies, in terms of revenue generated \$458. 4 billion.

Royal Dutch Shell’s first quarter 2009 earnings, on a current cost of supplies (CCS) basis, were \$3. 3 billion compared to \$7. 8 billion a year ago. Basic CCS earnings per share decreased by 57% versus the same quarter a year ago.

Cash flow from operating activities for the first quarter 2009 was \$7. 6 billion. Net capital investment for the quarter was \$6. 9 billion.

Total cash returned to shareholders in the form of dividends was \$2. 4 billion.

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A first quarter 2009 dividend has been announced of \$0.42 per share, an increase of 5% over the US dollar dividend for the same period in 2008.

Royal Dutch Shell Chief Executive Jeroen van der Veer commented:

“ First quarter 2009 performance was affected by the weaker global economy, with a

challenging Upstream and Downstream business environment. As we announced

previously, our dividend for first quarter 2009 will be \$0.42 per share, an increase of

5%. We continue to make significant investments in the company for future profitability. Industry conditions remain challenging, and our focus is on capital

discipline and costs. We are taking a prudent approach to this downturn, focused on

sustaining a strong position in the energy landscape. Shell people, operational

excellence, good investments and technology are our cornerstones for the future.”

Major Competitors and Market Share (2007):

Marketing Strategy:

Shell is one of the biggest players in the fuel industry, so it's only fair it teams up with the biggest fuel guzzling giants.

Shell and Ferrari:

Shell's expertise in fuel and oil development has helped Ferrari get 12 FIA, (Formula One Drivers' titles and 10 Constructors' titles). The developments and learning are taken directly from the race track and transferred directly to products for every customer's car.

Shell and NASCAR, Shell and Ducati:

Shell's expertise in fuel and oil development has helped NASCAR and Ducati drivers achieve the maximum efficiency from their engines, enable overdrive and considerably reduce accidents caused due to engine failure.

Such partnerships ensure the brand name Shell is maintained and both partners gain from each others legacy.

Research and Development:

Shell employs 30, 000 technical staff in centers across 11 countries.

Shell's capital investment in research and development for the year 2008 was over \$1. 2 Billion, more than any other major oil company. Shell has always been known to diversify; this is visible from the recent past. It has also suffered heavy losses because of such tendencies. However, it realizes the fact that research and development is the need for the day, which will

give it the edge it needs over its competitors and will help brand itself as an Eco friendly corporate citizen.

It is due to its research programs that Shell has managed to lower its Greenhouse emissions by 30% in the year 2008. And it predicts that by the year 2100, Greenhouse emissions could be lowered up to 55%, by capturing and storing CO2 underground.

Conclusion and Recommendations:

Although Shell recorded highest revenues in the year 2009, its profit was far lower when compared to its closest competitor Exxon Mobile. Exxon Mobile also employs staff capacity less than Shell and is still able to reap in more profit figures.

Thus, what we conclude from this is that,

Shell lacks efficiency when comparing its key performance indicators with its competitors.

Shell group should undertake a holistic review of its overall strategy as to how to improve performance so as to avoid the problem of strategic drift.

An effective benchmarking on its close competitors could help to improve performance in the areas of profitability, efficiency and alternative energy.