

Exxonmobile critical success factors essay sample

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ExxonMobile Corporation is the second largest integrated oil company in the world. In 2011 it ranked 3rd in the world's largest companies with a revenue of \$354, 674 million and total profit of \$30460 million.

ExxonMobil has evolved from a regional marketer of kerosene in the U. S. to the largest trader of petroleum and petrochemical enterprise in the world. They are best known by their familiar brand names: Exxon, Esso and Mobil and they supply to more than 40, 000 service stations under this name. They make products that drive modern transportation, power cities, lubricate industry and provide petrochemical building blocks that lead to thousands of consumer goods. The company has 38 oil refineries in 21 countries with a combined refining capacity of 6. 3 million barrels. Its daily production is 3. 921 million barrels of oil equivalent. They employ around 80000 people in locations around the globe.

ExxonMobil's history goes back to the 1870 when John D. Rockefeller and partners formed the Standard Oil Company. By 1878 Standard Oil controlled 95% of the U. S. refining capacity. This had been achieved by giving cut throat competition to the competitors, and by getting secret rebates.

In 1882 Standard Oil Trust was formed. This attracted all the interested groups of oil producers. In 1911 the U. S. Supreme Court finally broke the Standard Oil Trust into 34 different companies. Two new companies were Jersey Standard and Socony, the chief predecessor companies of Exxon and Mobil respectively. Over the years the two companies spread their interests to all over the world

In 1931 Socony merged with Vacuum Oil Company, an industry pioneer founded in 1866 and a growing Standard Oil spin-off in its own right. Socony changed its name to Socony-Vacuum. Socony-Vacuum became Socony Mobil Oil Co. in 1955 and, simply Mobil Oil Corp in 1966.

Mobil Chemical Company's principal products were olefins and aromatics, ethylene glycol and polyethylene. The company produced synthetic lube base stocks and lube additives, propylene packaging films and catalysts. Manufacturing facilities were located in 10 countries.

In 1972 Jersey Standard changed its name to Exxon Corporation as a trademark throughout the United States. Esso trademark was continued to be used in other countries. In 1970 Exxon, Mobil had developed in the Middle East, Africa, Asia, Gulf of Mexico.

Exxon Chemical Company was a major producer and marketer of olefins, aromatics, polyethylene and polypropylene along with products such as elastomers, plasticizers, solvents, process fluids, oxo alcohols and adhesive resins. The company was an industry leader in metallocene catalyst technology to make unique polymers with improved performance. Manufacturing facilities were located in 24 countries.

In 1999, Exxon and Mobil merged together and formed a new company called ExxonMobil Corporation. This was the largest merger in the history. This proved to be a great advantage for them and they became more competitive in the volatile world. The existing Mobil shareholders own about

30 per cent of the new company, while existing Exxon shareholders own about 70 per cent.

This company has a comparative advantage over its competitors due to economies of scale that help in reducing the production costs and also technological advantage that helps in reducing these costs through optimal drilling and pipelines used in transporting their products.

The long established brand name of ExxonMobil gives customers a sense of security while dealing with the company. The company spends a lot on research and development to come up with efficient ways to manage the energy resources and reduce the negative impact on the environment. They are very committed in taking action to reduce greenhouse gas emissions. This includes investing in energy efficiency in their facilities, working with auto and engine makers on programs that could significantly reduce vehicle emissions. The biggest opportunity of this company is the increasing demand of energy by leading economies in the South Asian and South East Asian regions like Vietnam, Malaysia, Korea and Indonesia.

The factors which have lead to the success of ExxonMobil are:

Commitment to technology leadership

Global distribution and strong brand image

Large refinery capacity and financial strength

Vertical integration of business

Cost efficiency and increased profits

Competitive advantage

CRITICAL SUCCESS FACTORS OF EXXONMOBIL:

COMMITMENT TO TECHNOLOGY LEADERSHIP

Technology leadership is another critical factor contributes to the success of Exxon Mobil in the oil and gas industry. Obviously, in this area, the technology leadership is mainly used for exploring, discovering, refining, storing, and transportation oil products. Hence, the ability to find new energy sources in shortest period of time in any condition has been seen as an essential element of any oil companies want to be the market leader. It determines the efficiency, productivity, quality, reliability and high standard products of an oil company like Exxon Mobil.

Commitment to technology innovation helps Exxon Mobil gains first mover advantages over its competitor in this industry. It also helps Exxon Mobil expedites and cuts down the time consuming in discovering oil sources and gas. In Addition, it enables Exxon Mobil explores oil and gas in unconventional areas such as deep sea and tar sands or in very hard conditions. On the other hand, Exxon Mobil is able to reduce costs of production and enhance bringing products into the supply chain from viable oil sources to marketplace quicker than other competitor to meet up energy demands .

For example, Exxon Mobil has taken advantage on accelerating and low costs production by applying innovative technology. Exxon Mobil used “ Fast Drill Process” is new technology which made an important performance improvement in drilling operation of Exxon Mobil in recent years. This technique ensures the efficiency and speeds up the timing of drilling process. It has resulted performance improvement of Exxon Mobil up to 100 percent . Another example, Horizontal Drilling technique which allows Exxon Mobil explore natural gas in unconventional areas. It enables drilling a thousands of feet vertically follow by drill a thousand feet horizontally along targeted reservoir. It results well bore to contact a larger cross section which increase efficiency of drilling process and productivity rates.

GLOBAL DISTRIBUTION NETWORKS AND STRONG BRAND IMAGE

Global distribution network and well-marketing strategy also play important roles in the the success of ExxonMobil in the oil and gas industry. As far as concern, Oil and gas are commodity products hence it is very important to bring them to the right marketplaces with reasonable price. Building a global distribution networks enhances the capacity and distribution efficiency of ExxonMobil’s products to the market and final customers quicker than other competitor such as Chevron and Shell. It will fulfil the expectation of customers and make them satisfied. It also reduce the cost and increase the profitability of production . As we know, ExxonMobil is the world’s largest oil company which operates in more than 100 countries with over 40, 000 retail service station that enables ExxonMobil to deliver reliable and high quality products to customers around the world.

Next, ExxonMobil is a famous brand which exist in the most marketplace around the world. It is very easy to recognise its brand image at anywhere. In the oil and gas industry, the overwhelming popularity of ExxonMobil is uncontroversial. Almost drivers are the loyal customer of ExxonMobil, simply because of its brand name is widely accepted globally. ExxonMobil has positioned as the leader who provide reliable services, high quality products, competitive pricing. With the right strategy ExxonMobil has built a good relationship with customers along the history. It is hard for ExxonMobil to differentiate itself with other competitors because oils and gas products are commodities hence ExxonMobil better to build a good brand image in the minds set of customers. ExxonMobil has been successful in building a clear image which increases customer loyalty, brand awareness and leads to quicker and repeating purchase decisions by consumers. ExxonMobil has spent huge budget for corporate social responsibility to maintain its brand image generally for large consumer audiences and therefore the result will be effective over a longer period of time.

Corporate social responsibility refers company's activities towards the community and environment which it operates in. Back to April 2010, the image of ExxonMobil has been damaged by the largest Oil Spill in US which killed 11 people and result in leaking oil and gas on the ocean floor about 42 miles off the coast of Louisiana. Focusing on corporate social responsibility helps ExxonMobil solves this problem and maintains reputation as high value brand which care about the peoples, society and the environment. For example, ExxonMobil contributes over \$35 million annually through its foundation to a wide variety of corporate social responsibility in the areas of

health, education, environment, arts, museums, women, minority interest and community services.

It has made great contribution in improving the quantity and quality of malaria grant proposals. Also, Exxon Mobil responds to the global fund's challenge to help improve the unacceptably low rate of malaria grant applications from poor areas such as Africa . ExxonMobil have always tried to be the first to gain access to a market and to grow along with that market by providing jobs, investment and economic opportunities. ExxonMobil provides community members the ability to afford an improved standard of living.

LARGE REFINAERY CAPACITY AND FINANCIAL STRENGTH

Refinery capacity is one major factors contribute to the success of ExxonMobil in the oil and gas industry. Obviously, in this area, the company has refinery capacity is able to produce and manufacture large amount of high quality oil and gas products from its own facilities to meet up the demand of consumers. In contrast, if the firm is unable to provide required output volumes customers will switch directly to other competitor due to the nature of commodity products. According to the case, ExxonMobil has the largest refinery capacity 46 refineries in 26 countries and distillation nearly 2 million barrel daily basic and production efficiency hence it gains competitive advantage over rivalries which ensure the success of ExxonMobil. Large refinery capacity enables ExxonMobil to capture supply and logistics efficiencies and supplier enough oil and gas products to the supply chain which fulfilling the expectations as well as the demands of energy markets. It

also helps ExxonMobil improve feedstock flexibility and lower site-operating costs.

On the other hand, financial strength is another essential factors in the success of ExxonMobil. As far as concern, The oil and gas industry is a very intensive capita business which required heavy investment. To be success an oil firm must invest a lot of money for purchasing fixed assets such as factory, equipment, technology, distribution network, and refineries which cost billion of dollar. Furthermore, exploration of newer oil and gas sources and the ability to setup well production process will take considerable amount of money and time consuming. Hence, an oil firm like ExxonMobil must have a strong financial backing to keep track with demands of marketplace. Financial strength also provides ExxonMobil the ability to provide products to market.

Apart from capital intensive manufacturing and assets, the industry's accident prone nature requires companies to be prepared taking high level of risk. Without financial stability oil firms cannot recover its business if the investment fails or capital breakdown. ExxonMobil has significant financial stability to execute this successfully comparing to other competitors in the market. ExxonMobil's growing profit is justified by its increasing brand value over decades. Its earning profit is far better than any other rivalries in the industry. Based on financial strength, ExxonMobil can reinvest in technology, innovation and marketing, refinery capacity to enhance the productivity, efficiency manufacturing and gaining economics of scale which result in more profitable in the future.

VERTICAL INTEGRATION OF BUSINESS

Vertical integration of business is investing in other businesses within the same industry which carries out and sustains the core business. This helps the business to gain power and control of the total production, cut down on cost on and in addition to it generates revenue for them.

ExxonMobil have vertically integrated themselves in all businesses which involve oil, exploration, drilling and petrochemical refining. Exxon and Mobil are descendants of The Standard Oil Company. In 1870, the company vertically integrated its business by having possession of a barrel-making plant, dock facilities, convoy of railroad tank cars, warehouses in New York, and land for supplying lumber which is used in producing barrel staves and making them all an important supporting business for the company. Due to this policy of vertical integration, the company made huge profits of \$830 million from 1899 to 1911.

In 1931, Mobil which was earlier known as Socony Mobil Oil Company merged with Vacuum Oil Company and later in 1959 got merged with the Magnolia Petroleum Company which had a market capitalization of \$ 125 million and was a major refiner, marketer and pipeline transporter at that time. All the operations of the company were taken over by Socony, except for its marine transportation in the United States and Canada.

Recently in 2009 the company decided to buy XTO Energy for \$ 31 billion in stock and \$ 10 billion in debt which is a natural gas producer, and this has been the greatest energy mergers in years. This deal would provide the

company with about 45 trillion cubic feet of natural gas throughout the United States and the demand for this will continue rising.

This factor of vertical integration has helped the company to accomplish their goals and take power of every market niche in each respective industry.

COST EFFICIENCY AND INCREASE OF PROFITS

Several businesses don't make enough profit, the reason being they run high on cost. By adopting to cost cutting measures in business operations, a lot of money can be saved, thus increasing profits for the company.

Exxon Corporation's main strategy was to cut cost and remain profitable even during the falling of oil prices in 1980 and 1990. By the year 1996, the company's operating cost was lessened by \$1.3 billion on a yearly basis, making a profit of \$7.51 billion during that year. Their administration philosophy is to make sure that their operations are flawless, improve efficiency and profitability, and make shareholders earn profits too.

For example in one of the Memorandums submitted by ExxonMobil in 2011 on encouraging diminutions in greenhouse gas, the company declared that it believes in a well-designed and revenue-neutral carbon tax emission which would be very cost effective to the company. This along with new technology would help reducing GHG emission causing a decline in cost and an increase in production.

The subsidiary of ExxonMobil in Australia believes that regardless of the climate change, the increasing GHG emissions cause risk to society and disrupts the ecosystem. They adapted to strategies which were sustainable, stable, visible and simple and which helped maximum reduction in gas emissions at the least cost to society and an increased production for the company.

This factor has helped the company earn huge profits year after year and has been featuring on the Fortune 500 list since years and being ranked on the second position in the 2011 list.

COMPETITIVE ADVANTAGE

ExxonMobil has several competitive advantages in their industry. The main key advantage of the company is their obligation and unparalleled commitment towards technology that make the business to learn, develop, create, refine and market the oil and gas resources which are not available to the competitors. It maintains a strong commitment towards technology compared to all other companies in the industry. They derive numerous and outstanding technological discoveries from the amount of research and development done by them. The global network the company has is greater than all the other petroleum companies in the world. They have been consistent in seeking to develop technology that provides them with a competitive edge.

The quality of all its refineries also provides a competitive advantage to the company. The refineries owned by the company are amongst the largest in

every geographical area. They are 50% more than the average industry size. Besides this more than 80% of their refineries are combined with chemical or lubes operations. This combination provides a competitive advantage to the company through improved feedstock elasticity and lower site operating costs.

The employees of the company also provide a valuable competitive edge to the company. The company hires and preserves the most qualified people available and gives them several opportunities for success through strict training and development. The company works in a safe environment which is enhanced by diversity and gives employees a fair treatment and an opportunity to express themselves at all times.

Thus the competitive advantages of ExxonMobil have helped them keep up the title of a leader in all the industries they contribute in. With the other competitive advantages of global functioning company, committed employees, financial strength and a remarkable portfolio of opportunities have helped the company rise as a dreadful competitor in this dynamic marketplace.

RECCOMENDATIONS:

To maintain its position as the leading energy producer, ExxonMobil must be willing to take

on the world's toughest energy challenges. It must focus on sharpening its operational excellence. To achieve sustainable competitive advantage, ExxonMobil must invest in technological innovation that will help the

company distance itself from its competition. The following paragraphs provide a description of the recommendations which ExxonMobil can undertake.

1. INCREASE INVESTMENTS IN OIL EXPLORATION, PRODUCTION AND REFINING.

ExxonMobil should step up its investment in conventional oil from proven fields and new oil plays which will help increase the near-term revenue.

ExxonMobil has nearly 2.1 million net acres in the Gulf. The company also discovered a large oil reserve at the Hadrian complex.

These would be good opportunities to invest. ExxonMobil should expand activities on the basin where the company was successful in the past – e. g. Indonesia, Gulf of Mexico, and Angola, Africa. ExxonMobil recently discovered new basins in the Black Sea where it now holds nearly 6.3 million net acres. ExxonMobil should step up investments in these attractive opportunities to have a moderate risk profile. This would be a key determinant of implementation of technology and expertise to discover and develop oil in unproven fields.

2. EXPAND CHEMICAL OPERATIONS INTERNATIONALLY. TARGET EMERGING MARKETS.

ExxonMobil has a very good opportunity to use its marketing and geographical presence to introduce its product development strategy to emerging markets. This recommendation would help the company improve both the cost drivers and value drivers.

3. FOCUS ON INCREASING WHOLESALE SALE AND RETRENCHING RETAIL SALE

With over 26, 000 service stations and 600, 000 commercial customers in the retail operation, the retail outlet is one of the big cost components in the Downstream business. There is an opportunity to increase the wholesale customer base through longterm contracts. By implementing this, the company can sell products quickly to increase inventory turnover.

ExxonMobil can also save costs through reducing its retail stores through divesting retail gasoline stations in strategically less significant locations, avoid renewing leases and transfer.

4. INVEST IN NATURAL GAS EXPLORATION AND PRODUCTION

Natural gas is a preferred source compared to coal or oil because of its increasing awareness and focus on the environment. Natural gas prices are still too low for ExxonMobil to make an aggressive investment that could prove highly profitable. For the price of natural gas to increase, the demand for and adoption of natural gas needs to increase. But the investment in natural gas now would prove profitable in the long term.

5. INVEST IN UNCONVENTIONAL OIL AND GAS PLAYS

ExxonMobil should make a long-term commitment towards unconventional plays. Chevron has been successful in unconventional energy by taking necessary and calculated risks, as evident from its recent oil finds in Wafra3. There is an opportunity for ExxonMobil to establish a commanding position

by acting early, but cannot wait so long to do so that Chevron is able to build a significant advantage.

Execution Strategy: To successfully execute this recommendation and operate profitably, ExxonMobil must secure an attractive position early through its technological prowess and then achieve economical cost of production and yield through its operational excellence. Investing in only exploration and production is not enough, as the infrastructure and technology needed to transport and process heavy crude and unconventional gas is much different. This might require the company to reshape certain value chain activities with newer technology and efficiency processes. impacts due to this recommendation.) This may also require the company to locate or relocate processing plants closer to production activities as heavy crude transportation has been a contentious issue, as evident from a Wall Street Journal article titled “ Oil-Sands Pipeline Fuels

Organizational Impact: ExxonMobil is a company with long-term vision, and is much more conservative than its competitors, as evident from the type of risks that Chevron assumes (e. g. early mover in Russian oil fields and early mover to Wafra) versus the type for risk that ExxonMobil avoids. Executing this recommendation would require the company to take calculated risks which in turn would require leadership commitment and an organizational and cultural mind shift. **Implementation approach:** Since unconventional play is risky due to geological, operational and technological unknowns, ExxonMobil should seek joint ventures where possible. This would help

balance the conservative internal culture and the need to take a measured risk to be competitively strong.

Financial Impact: ExxonMobil has the financial strength and strong management discipline on its side to make this happen. By carrying out this recommendation, ExxonMobil stands to improve its reserve replacement ratio, which would influence the overall valuation of the company.

6. INVEST IN RENEWABLE ENERGY SOURCES

The growth in renewable energy is projected to be the fastest among various energy sources but is not likely to be profitable. ExxonMobil must make an incremental and meaningful investment in this keeping in mind the corporate social responsibility and shareholder interest entrepreneurial ventures and academic research. This will also help ExxonMobil stay competitive and would have a technological innovation in the company.

7. IMPROVE ETHICAL OPERATING STANDARDS

ExxonMobil's continuing investment in educating, monitoring and strictly enforcing ethical, anti-corruption and other operating standards would improve the company's operational and financial strength.

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