ACS CONSULTING

BEYOND ACCOUNTING

REVISITING THE BUSINESS STRATEGY FUNDAMENTALS

A report prepared for XXXX Middle East L.L.C with an aim to assist with an objective assessment of current positioning, targeted towards enabling re-evaluation and (possible) redirection of the current business strategy.

Report prepared by:

Mohammad Kashif Javaid

ACS Consulting

Disclaimer

ACS

This is a sample strategic business plan evaluation document prepared for methodology demonstration and training purposes only.

The report is based on a real company and a real assignment. However to safeguard confidentiality, all names data and places have been amended.

This facts and figures given in this document should not be used as guidance for actual decision making in the industry this report explores or any other related industry.

Report CONTENTS

ACS

Short Background Summary

Through a slow evolution process over past four decades or so, all major oil companies around the globe increasingly became asset portfolio owners i.e. the execution of operations and support services needed to perform those operations went at arm's length.

During the same time, we witnessed a progressive rise in the presence and scope of oilfield services companies which have established themselves as the heavy lifters of the oil and gas industry by leading both the delivery of operations and the innovation space.

The support provided to the oil industry by these service companies is critical to smooth & efficient operations. Driven by the competitive forces, the service companies often developed unique competences which increases their handle on the technological solutions enabling oil companies to manage much more complex projects than they would have otherwise

As oilfield services companies grow into this space, they typically handle more risk. The distinction between the two sides of the industry remains, although, there also are a few examples of hybrid operating models.

Being part of the same broader industry, the fate of most oilfield service companies is very closely connected to the global oil and gas prices. Although the crude prices have recovered significantly over past one year, in absolute terms the prices are still not at a level to fully ease out the cash flows. The whole industry is still facing significant challenges resulting from the low oil price environment. E&P companies have been pushing the supply chain to aggressively lower costs which in turn is impacting margins. This is hitting the service sector by reducing capacity utilization and lowering rates, to which service companies are trying to respond by various options available.

Without a doubt, this is a challenging global environment. Nonetheless, as the long-term out-look of broader oil & gas industry cannot be underestimated, there will be success stories within the oilfield service sector, provided the players find and follow right success strategies.

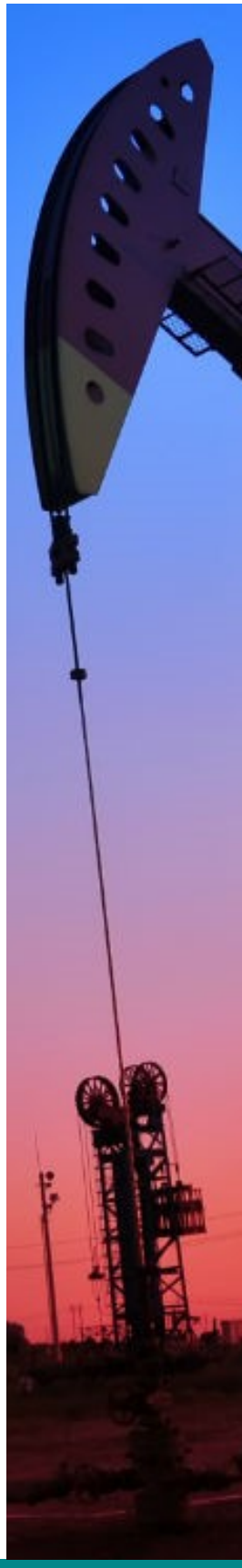
Many industry commentators believe that (broadly speaking) the operators will become more dependent on services companies, as they did in the 1990s during the oil price slump, for technologies solutions to extract oil more cheaply. The key technical challenge will be to optimize technology integration to reduce costs.

Out of mutual necessity, the current mid to low oil price environment may accelerate the trend to new operating models, leading oil services companies and oilfield companies into new partnerships through which risk can be shared and project delivery optimized on a longer term life-of-field basis.

The trend within the sector towards more integrated services to operators will lead to service sector consolidation, as the larger and more dynamic services companies continue to build capabilities and competencies over a wider range of activities.

This report is an attempt to evaluate XXX Middle East as a business case and assist with the formulation of business strategy which attempts to mitigate the risks in the environment whilst leveraging its unique competences to take full advantage of the opportunities which the environment offers.

The intended readers i.e. the senior management (of XXX Middle East) should use this document as a planning stimulating tool with which it should becomes relatively easier to embark on the perpetual journey of keeping the business strategy ahead of challenges.



ACS

Section ONE

Understanding The Industry

A Short History Of OFS Industry Evolution

Historically, the world's biggest oil producers closely guarded their role as operator of their own fields. Possibly convinced they alone could deliver the engineering necessary to extract their oil on time and on budget.

Increasingly, however, over recent decades those producers have been ceding that role, opting in many cases to manage their assets at arm's length, and allowing the world's increasingly sophisticated oilfield services companies to deliver cost- efficient production and, crucially, the oil-field innovation that Big Oil has long assumed it alone could deliver.

The speed and manner in which this has occurred varies somewhat by geographic market. The critical support service companies offer to operations and their handle on technological solutions have enabled national oil companies, integrated majors and independents to manage much more complex operations than they would have otherwise.

The oilfield services sector went through a transformation in the 1980s after many large upstream producers outsourced a considerable amount of their E&P drilling and field operations to smaller, specialized firms. During the 1990s, many producers increased activity in remote and offshore locations as well as more challenging sub-surface environments.

Those business conditions presented the oilfield services sector with the opportunity to become inventors and innovators, finding solutions for the upstream sector's more complex needs. In the 2000s, accelerating global oil demand drove up oil and gas prices to a level at which it became economically viable to experiment with new technologies to penetrate source rock, multi-stage, high-pressure hydraulic fracturing combined with horizontal drilling.

Oilfield services companies partnered with their customers to develop these and related technologies, which gave rise to the unconventional shale revolution. Independent US oil companies focused on North America led the development of shale gas and tight oil resources.

The major integrated oil companies (IOCs) and a number of national oil companies (NOCs) followed their lead, moving into shale production activity to take advantage of its shorter production cycle, capital payback time, and high resource potential.

But IOCs and NOCs still dominate the large-scale conventional and offshore drilling arena, which is appealing to the oilfield services sector as long-term contracts are more prevalent, providing relatively stable revenue streams.

Long-term contracts can function as a type of hedge for oilfield services companies during price downturns. A common theme throughout these periodic transformations has been cost. It was more cost-effective for the upstream sector to transfer certain functions to the oilfield services sector in the 1980s.

Later, the cost of developing highly sophisticated technology became feasible with high oil prices.

The growth of the oilfield services sector is very much a story of innovation and finding solutions to technological and cost challenges faced by operators.

The industrial evolution of the service sector is also characterized by integration of services. Companies strive to offer more services across the value chain.

Schlumberger has the widest provision of services along the whole value chain, but competitors have similar strategies and this was, for example, a driver of the BakerHughes- Halliburton tie up.

The Current Industry Structure

OILFIELD SERVICE INDUSTRY

A Focus On Middle East

Oil & Gas Producers in the G.C.C. and Iraq are a key market for the largest oilfield services companies, especially as those NOCs have come to depend increasingly on service companies for operations over the past two to three decades. New entrants from China, Korea and Canada are gaining market share in a region historically dominated by the established international players.

However, some trends are emerging which point to a greater involvement of indigenous companies. First, local private oilfield services companies are increasingly active in the Gulf.

While such companies had traditionally been simple agents, offering foreign companies the label of 'local content' in exchange for an equity stake, new companies are being created in Oman, Kuwait and Saudi Arabia, with a view to taking an active role in the business.

These local private companies now put up equity to form joint ventures with foreign OFS companies. Some of these companies are listed and operate throughout the region. This trend has no doubt been helped by Saudi Aramco's decision in December 2015 to increase the share of local service companies in projects.

The In-Kingdom Total Value Add (IKTVA) program seeks to double the percentage of locally manufactured energy-related goods and services to 70 percent by 2021 and to raise the export of Saudi-made energy goods and services to 30 percent over the same time frame.

In Iran, the local oilfield services companies sector has prospered since the mid-2000s as US and then international sanctions prevented many international oilfield services companies from entering the market.

There are hundreds of Iranian companies active in the energy sector. According to estimates, most of these are in the chemical, engineering and manufacturing sectors, four to five companies are "small oil companies, carrying out a number of functions," and "20 to 30 are service companies with very particular upstream oil expertise," including offshore and onshore drilling, logging, wireline and cementing.

The big service companies are needed. Cementing services, for instance, are limited by restrictions on imports of chemicals which only a few big names produce. Safety standards are lower too and much of the equipment used is out of date and corroded by time. When (and if) the sanctions end, international service companies are likely to return. But they will (probably) not monopolize the market.

The industry landscape in UAE & Qatar (our focus market segments) is not much different compared to rest of GCC. There are many market players, world-leading, large to small.

Oilfield Services Industry Key Drivers

Oilfield services companies provide the products and services necessary to construct, complete and produce oil and gas wells.

Companies range from giant Schlumberger, whose divisions provide nine out of 10 products and services needed to explore, develop and produce an oil and gas basin, to a single, service company like Geolog, specializing in surface data logging for international and offshore drilling projects.

What makes this diverse group a unique actor in the petroleum sector is its relationship to oil company operators. It could be argued that oilfield services companies are in the first row of a project's pyramid of services and their function is to select and integrate technologies into the project delivery.

The growth of the oilfield services sector is very much a story of innovation and finding solutions to technological and cost challenges faced by operators. It is, in a way, a solutions-driven industry. Companies grow by developing proprietary technologies and know-how that can be applied across particular projects which then become an accepted industry service and way of operating.

Their specialization and repeat use of services allow them to achieve economies of scale on technology development, something oil companies cannot do to the same degree.

The industrial evolution of the service sector is also characterized by integration of services. Companies strive to offer more services across the value chain.

Schlumberger has the widest provision of services along the whole value chain, but many competitors also have similar strategies. (as mentioned earlier as well) this was, for example, a driver of the BakerHughes- Halliburton tie up.

In the NOC market, it has been driven by the customer's preference for 'single company' and 'single contact' solutions.

These drivers are well explained by Waleed Al Hashash, a former Deputy Managing Director at KPC, Chairman of Aref Energy and CEO of Rubban Logistics Kuwait: "*Most NOCs would love to see these (big service company) guys more because they do everything in one contract.*

And this is something good for somebody who is tied up with a long chain of local government tender procedures. So you talk to someone like Schlumberger and they can bring you your breakfast to the derrick, as well as huge equipment under contract. The Schlumberger philosophy is propagating while small companies push to be able to offer more services."

Integration has also been driven by downturns in the industry and the need to reduce costs through economies of scale. In the current low oil price environment, integration is being pushed through mergers and acquisitions. Schlumberger, for instance, acquired Cameron International, bringing with it more products and services that are required through the whole life of the field. Cameron's expertise lies in surface equipment, rig equipment and subsea equipment. Much as the oil majors integrated into the downstream to offset lower profits in the upstream when crude prices fell, oilfield services companies look to be present in different activities in the field life cycle.

According to Spears and Associates, in 2010, 5 percent of a major service company's sales were integrated services. In 2015 the number was 15 percent and in 2020 it will be 25 percent. The industry is moving toward integrated project management handled by service companies and this model favors the major service companies.

OUTSOURCING

A Key Driver For Service Industry

Until the 1960s, the oil majors handled the multiple facets of operations in-house and they conducted in-depth research into drilling, completion and production technologies. In the 1980s, these were then licensed to the oilfield services companies.

Functions such as drilling yielded low margins and diverted the attention of operators and they increasingly outsourced them to specialized companies with a greater ability to drive efficiency. They encouraged the establishment of companies to handle these services, such as drilling, reservoir engineering, procurement, construction, laying down pipes, supporting ongoing production and maintenance.

Since that era, however, oil companies have not maintained the same level of in-house expertise in technology research and development. National oil companies, such as Kuwait Oil Company (KOC) and Saudi Aramco, also outsourced these functions and have focused their resources on overseeing operations.

The NOCs are focusing on the interpretative work, which involves deciding where to drill and how. They are supported in these decisions by international service companies but the final decision rests with the NOCs.

While the final decision on drilling rests with the operator, it is clear that the transfer of much of the execution responsibilities to service companies has meant some operators have less of a granular knowledge of their geology. They are more dependent on external capabilities and experts, particularly when tackling new geological challenges.

Services that were initially low value grew more sophisticated as oil prices fell in the early 1990s and operators required technological innovations to develop oil more cheaply and access new geology. In this cost-cutting era, oil companies decreased their R&D expenditure, while service companies ramped up investment. This led to breakthroughs in 3D seismology and directional drilling.

Today, some oilfield services companies spend more on R&D than oil companies as a share of total revenues. The service companies have incentives to do so: they can effectively sell their technology to multiple customers. Innovation has segmented the industry between service companies focused on developing technology and carrying out execution and oil companies integrating multiple technologies and managing overall risk.

RISK SHARING

i.e. Contribution In Risk Management

Oil companies take on financial risk and are ultimately responsible for the outcome of projects. They manage relations with the host government and communities. And in addition to political and above-ground risks, oil company operators decide where and how to explore (based on geophysical data provided by an oilfield services company and sometimes upon their advice). In this sense, the oil companies' technological skills are largely interpretative.

A challenge for operators today lies in the depletion of conventional, low-cost reserves. They face significantly increased risks when confronting frontier oil and gas or development choices during tertiary recovery. This is because there are only very imperfect analogues on which to base

decisions in frontier petroleum activities.

With uncertainty the risk is greater. Major oil companies need ever greater technical capabilities, as projects grow more complex and costly. They are responsible for selecting and integrating technologies. Their challenge is to optimize and operate the project in its entirety. In order to manage the project integrity they must put in place qualification and validation procedures for all services and vendors.

Pete Nolan, previously with BP and now an adviser to a private exploration company, explained how oilfield services companies and oil companies approach and take responsibility for risk differently.

"The primary difference is the scale of risk and how that risk is underwritten. A private oil company competes when risks (uncertainty and capital exposed to this uncertainty) are very high and it shows its willingness to put very large amounts of its shareholder capital at risk to achieve greater value. The service company competes by promising greater value to the oil company through its investment in technical research and acceptance of performance incentives (and penalties). The service company does not accept huge uncertainties or expose its shareholders' capital to these uncertainties."

But there are hybrid cases emerging, such as Petrofac's Integrated Energy Services division, which offers petroleum risk service contracts. Petrofac estimated some 2,400 small and medium-sized fields could be suitable targets for risk service contracts.

In this model, oil service companies take up-front capital risks in exchange for a financial upside linked to project performance, but do not book reserves or production. This is an interesting model because it builds in the incentives for performance and lessens the burden on the national oil company or host government regulator to carefully monitor performance.

In the current low-price environment, which brings particular pressures on mid-size independent E&P companies, we may see some large service companies move towards using their balance sheet and taking on some production risk from less well financed customers.

The complexity of projects and the ability of companies active in the oil sector vary widely. Naturally, the best marriage is between an operator capable of managing risk, with a strong process focus and technical ability on the one hand, and a service company that is equally capable on the other.

But in an industry where small independent companies have proliferated and national oil companies have secured the majority of proved reserves, the operators of projects are not always sufficiently experienced to handle all technological decisions during operations.

In practice, oil companies have been able to rely increasingly on oil field service companies to share some of the burden of technological decisions and risk management.

A good match in skills and abilities between the operator and the service company is key to the successful outcome of the project.

Positive outcomes are increasingly a function of the competence of the service provider and yet, in a partnership without shared accountability, incentives for the service company to perform are limited to preserving the firm's reputation.

A Short Analysis Of The Last Downturn

The oil and gas industry's capacity for innovation and its ability to adapt during severe, sectoral contractions is the main catalyst for recurring transformation, refined over decades of price cycles. The most recent price collapse in June 2014 marked the beginning of yet another severe industry contraction.

For decades, whenever low oil prices occurred, the consequences were often harsh, paring industry growth with bankruptcies, corporate sales, and layoffs. But this particular price cycle has earned its own distinction—both by the length of time it persisted and by the depth oil prices fell.

The oilfield services sector is as much exposed to the impacts of commodity price volatility as the upstream sector, but generally has a shorter time frame to stabilize cash flow since the sector does not usually hedge prices.

When commodity prices fall, oilfield services sector revenue typically falls more quickly than it does for exploration and production (E&P) operators because producers reduce purchases and renegotiate or cancel short-term supply and service contracts. This can force oilfield services companies to take swift, and often draconian, measures to cut costs and protect cash flow.

Exemplifying the speed and depth of cost cutting by the oilfield services sector, large-scale layoffs began in October 2014, barely three months after crude oil prices started to fall. As of August 2016, the oilfield services sector around the globe (generally speaking) had significantly reduced its headcount across each subsector.

In contrast, E&P operators had only laid off approximately 15 percent (estimated) of their personnel. The upstream sector generally has more options to protect cash flow in the short term by maximizing production and settling commodity hedges. Without similar support, the oilfield services sector was more immediately exposed to the severity of the downturn.

As of June 2016, oil prices had stabilized and breakeven prices for a number of producers had fallen below market prices, setting off a return to rig deployment. Several oilfield services companies reported rising market activity related to increased drilling in the second half of 2016 and re-employment began.

During the downturn, the dominant factors supporting more resilient performance were:

Size

Large and midsize companies fared better than small companies

Geographic diversity

Global dispersion of markets served

Focus

A low number of market segments served

Post Downturn Strategic Options

As the oil and gas markets begin to recover, the oilfield services sector needs to go through another transformation by developing strategies to prosper in the upturn and remain robust through future price cycles. We gained insight into these strategies by

Analyzing the industry structure, its drivers and the lessons learnt from the downturns, we can identify seven types of possible strategies that fall into three categories.

A unifying theme across these strategic choice categories is the recognition by oilfield services companies that sustainable success will likely depend on meeting and anticipating customer needs. This imperative is clearly shown in all the three strategy categories:

1. Oil and gas companies should sustainably lower their cost base, since the lower commodity price environment is expected to continue over the next few years. Oilfield services companies can play a key enabling role in this by designing and offering deep business process improvements in their customers' operations, including services integration, bundling, and smart technology deployment.
2. A focus on internal cost containment within oilfield services companies can enable them to sustain profitability in a lower-price world and continue to offer value to customers.
3. Oilfield services companies seem more motivated to optimize their market, geographical, and contractual portfolios in alignment with core strengths and customer needs in order to remain focused on sustaining profitability through the cycles.

COST CONTAINMENT FOR CUSTOMERS AS A MARKET DIFFERENTIATOR

Strategy 1

Advanced technology to lower customer costs

Strategy 2

Innovative business process efficiencies to lower customer costs

Strategy 3

Integrate value chain offering or bundle offerings to lower customer costs

INTERNAL COST CONTAINMENT INITIATIVES

Strategy 4

Increase internal business process efficiencies to support balance sheet improvements or lower prices for customers

TRADITIONAL BUSINESS MODEL CHANGES OR MARKET STRATEGIES

Strategy 5

Expand or add new market offerings

Strategy 6

Pursue long-term contracts

Strategy 7

Add or expand market offerings to non-energy sectors

ACS

Section TWO

Understanding The Business Environment

The Economic Environment

OIL & GAS INDUSTRY

A General Outlook

Much of the oil and gas industry has survived some very tough years with weak demand and low prices. It has been difficult to make strategic decisions and plan for the future. Whilst the sector is now beginning to emerge from its upheavals, any hopes about the future likely stability must be viewed while remaining mindful of the possible risks.

Although prices appear to be recovering over the past year and half, (Brent crude crossed the US$60 per barrel mark (for a short while in late October) they are still well below $115 per barrel, the post-recession high-water mark reached in March 2011.

As a result, even as companies begin to view new investments in resource development as more attractive, the upstream oil and gas sector must move gingerly. Continuing price improvements will probably be slow, and supply may be constrained by the cutbacks in reserve development projects over the last few years.

The oil price collapse, which began in June 2014, triggered a wave of cost reduction among upstream businesses. Global oil and gas companies slashed capital expenditures by about 40 percent between 2014 and 2016. As part of this cost-cutting campaign, some 400,000 workers were let go, and major projects that did not meet profitability criteria were either canceled or deferred. These steps, combined with efficiency improvements, are beginning to bear fruit for the industry.

A growing number of projects can break even at oil prices in the high $20s. One good example is Statoil's Johan Sverdrup field in the United States North Sea, where the break -even price of development costs has been reduced to around $25 per barrel. That would have been unthinkable a few years ago.

In the near future, the oil price gains of past one year (which are arguably due to a rebalancing of supply and demand fundamentals, partly accelerated by OPEC's decision to cut production) are expected to remain in place.

Brent crude oil price will average at around $52.4 per barrel in 2017 and increase to $54.1 per barrel in 2018 according to the most recent forecast from the U.S. Energy Information Administration's Short-Term Energy Outlook released monthly. EIA revised up its forecast for 2018 by 2.5 dollars per barrel from the previous release.

However, the real price of a barrel of Brent oil - i.e. price adjusted for inflation - will slightly decrease to $50 in 2018 as predicted by OECD in its June's Economic Outlook.

After a modest growth in 2018 though, the nominal price of Brent crude will increase to $53.5 a barrel by 2020, as per IMF's Primary Commodity Prices Projections released in July. So will do the West Texas Intermediate oil prices which are expected to rise to $50.4 by 2020 after a slight drop in 2018.

The average price of Brent, WTI, and Dubai crude oil will continue to rise after 2020 to reach $80 per barrel in 2030 according to the World Bank's commodity forecast.

Oil price forecasts depend on the interaction between supply and demand for oil on international markets. Among the most important supply-side factors are the US shale oil production, US crude oil stocks and OPEC oil supply.

In May this year, OPEC announced that oil production cuts will be extended till March 2018. This, along with decreasing US crude oil inventories, led oil prices up in the second half of 2017. Thus, on September 26, Brent crude price reached US$ 59.8 per barrel which is 16 dollars higher than this year's low of US$44 per barrel in June and 14 dollars higher than a year ago. But the robust recovery of the US shale oil activity, which is expected to continue for rest of 2017, will limit price gains in the future.

OPEC, in its Monthly Oil Market Report, anticipated that world oil demand will increase by 1.3 million barrels per day in 2018 which is just 0.1mb/d higher than the increase in non-OPEC oil supply.

It's possible that we might see a spike in oil prices sometime in the next five to 10 years, if, because of the hiatus of investment in major projects since 2014, the industry finds it difficult to meet increasing demand. The resulting uncertainty would no doubt be welcomed by traders, who have largely avoided the oil market during its price plunge. An uptick in trading activity could in itself drive up oil prices significantly in the three- to five-year time frame. Oil and gas companies will need to ensure that their business models are prepared to manage and benefit from this volatility.

As oil prices recover, can international oil companies (IOCs) hold on to the benefits of cost reduction? Some cost escalation is inevitable. For example, oil-field services (OFS) companies will likely start taking back price concessions they gave IOCs when the market collapsed. This could add as much as 15 percent to the price of producing a barrel of oil, which in turn would allow OFS company operations to get back to break-even levels.

But upstream companies will have to be diligent about containing other expenditure increases, particularly in the supply chain and resource development arenas. That may prove difficult, because the wave of worker layoffs eliminated significant experience, knowledge, and skills. The loss of these capabilities could push development project costs up substantially if they are not carefully monitored. Smart IOCs will embrace new digital initiatives as a means of offsetting expense escalation and furthering the cost and efficiency improvements they have already achieved.

GLOBAL OIL & GAS INDUSTRY

Other Regional Factors

A great deal of the activity in the oil and gas sector is focused on OPEC countries and the U.S., but other regions may also play a key role in the coming years. For instance, in Latin America, the investment environment is improving. Some domestic oil and gas industries are on the upswing, creating jobs. A prime illustration is Mexico, where energy reform is opening the door for nontraditional operators to establish a presence in the country. In the recent deep-water auction in that country, companies successfully bidding for acreage included China's Offshore Oil Corporation, Australia's BHP Billiton, France's Total, American firms Chevron and ExxonMobil, and Japan's Inpex.

Other hydrocarbon hot spots include offshore Egypt, where BP recently acquired a stake in Eni's giant gas field Zohr, and the Caspian Sea, home to Kazakhstan's Kashagan reserves, the world's largest oil-field discovery in the past 30 years, where commercial production resumed at the end of 2016. divested assets from Shell.

QATAR'S ECONOMY

Challenges & General Outlook

Qatar's economy is struggling to regain momentum following Q2's anemic economic growth mostly due to a poor performance in the oil and gas sector. Although the impact of the economic blockade by Saudi Arabia and its allies had a limited impact in Q2, as the embargo was implemented in June, the consequences could be harsher in the first half of next year. Interest rates have increased sharply since the beginning of the crisis, hurting private economic activity. While reserves plummeted in June and July, they recovered in August.

Regardless of its reserve levels, Qatar could rely on its massive sovereign wealth fund to support the financial sector and the peg with the dollar.

Looking out across the water towards Doha's West Bay, the Qatari capital's glittering skyline is a striking testament to this minuscule country's meteoric economic rise and newfound wealth. Once a sleepy backwater with an economy based on pearling, Qatar has developed at breakneck speed over the last two decades thanks to bountiful supplies of oil and gas, and now boasts the highest GDP per capita in the world. However, take a closer look at Doha's cluster of futuristic skyscrapers and the panorama loses some of its veneer. Many of the buildings remain half-built or in disuse, a reflection of the sharp reversal of fortunes seen in countries right across the Middle East since oil and gas prices plummeted towards the end of 2014 and government revenues dried up as a result.

Hydrocarbons form the bedrock of Qatar's economy. Despite the government's concerted diversification efforts, oil and gas revenues still account for around half of GDP, some 90% of fiscal receipts and the bulk of exports, making the country highly vulnerable to global price swings. After oil and gas prices tanked a few years ago, the Qatari economy followed suit, with growth dropping from 4.4% in 2013 to an estimated 2.6% last year. Over the same period, the large, sustained fiscal surpluses enjoyed in the decade up to 2015 were wiped out in one fell swoop, with the country expected to have registered a sizeable budget deficit last year for the first time in 15 years.

Matters haven't been helped by the recent plateauing of hydrocarbon production, due in large part to a self-imposed moratorium on new projects in the North Field. In addition, 2016 saw elevated public capital expenditure linked to preparations for the 2022 World Cup, causing the country's fiscal position to deteriorate further at a time when other governments across the region were tightening their belts.

However, Qatar has had a softer economic landing than most other oil-exporting nations. Prudent spending in the years leading up to 2015 means the country's breakeven oil price is substantially lower than the GCC average; as a result, despite slipping into the red last year, the country's fiscal deficit is projected to have been the second-lowest among Gulf Cooperation Council (GCC) members, and far below the yawning deficit observed in neighboring Saudi Arabia.

Faced with a new lower-growth paradigm, the Qatari government is in the process of battening down the fiscal hatches, in synchrony with countries across the region. Current expenditure fell sharply in 2016, with widespread redundancies in central government, public administrations and state -owned enterprises such as Qatar Petroleum and Qatar Rail.

At the same time, many projects regarded as non-essential have been mothballed, including the high-profile Al Karaana petrochemicals project. The government has also hiked tariffs on utilities such as water and electricity and allowed gasoline prices to fluctuate freely.

In a true sign of the changing times, Qatar's famously light tax regime will become slightly more burdensome from 2018 onwards, with the introduction of VAT as part of a GCC-wide initiative. The country's colossal sovereign wealth fund, the fruit of over a decade of sound economic management, has cemented confidence in the economy and allowed the government to issue USD 9 billion in bonds last May in order to finance the budget deficit.

Over the next two years, growth should be lifted by moderately higher oil and gas prices, while the new Barzan gas project will boost gas production by 1.4 billion cubic feet per day.

The 2017 budget approved last December signaled the government's intention to continue to pare back government expenses and the public wage bill, and channel available resources towards health, education and capital investment for the 2022 World Cup. Getting ready for the games is proving to be a gargantuan task, with an eye-watering USD 500 million currently being spent weekly on the construction of stadiums, hotels, roads and sewage works.

The country's finance minister has declared that two thirds of projects will be delivered this year and next, which will provide domestic demand with a welcome shot in the arm going forward. Further subsidy cuts and tax rises, coupled with higher commodity prices, should slowly shore up the country's fiscal position, although the fiscal balance is set to remain in the red for the foreseeable future.

Although Qatar's economy looks set to continue to expand at a reasonable pace, things won't all be plain sailing. Energy prices represent one major downside risk.

There is also uncertainty in the LPG market, with fears of a supply glut going forward as new reserves from Australia and the U.S. come on stream, which could threaten Qatar's slice of the market.

Although the baseline scenario is for oil and gas prices to rise in the near term, if recent years have taught us anything it's that trying to predict their evolution is fraught with uncertainty. In addition, monetary normalization in the U.S. will force Qatar to increase interest rates in lockstep with the Federal Reserve in order to preserve the currency peg, which would tighten domestic financial conditions and put a damper on investment and private activity.

If downside risks materialize, contractual obligations to deliver the 2022 World Cup will limit Qatar's ability to rein in capital spending, making the country's fiscal position more vulnerable.

Looking to the medium term, one thing seems abundantly clear: Qatar's economic bonanza is largely over, and the heady days in which the Qatari economy grew at double-digit figures are unlikely to be repeated for the foreseeable future. Most analyst see growth of 3.3% in 2017 and expect it to rise to 3.6% in 2018. Growth over the last few decades has been achieved largely through increasing inputs. The government funneled vast amounts of money into large-scale capital projects while the population ballooned, more than doubling in the last ten years.

At the same time, total factor productivity growth has remained sluggish. With population growth set to taper off rapidly and the government's coffers far barer than before, improving productivity will be vital if

Qatar is to continue to expand at a healthy rate going forward. In order to wean itself off its dependence on oil and develop a knowledge-based economy, progress is needed to improve the business environment, increase human capital and improve the efficiency of public investment.

The government is keenly aware of this fact, and the 2030 National Vision plan provides a blueprint for the type of competitive, diversified economy Qatar yearns to nurture, while the 2017-2022 National Development Plan will continue to elaborate on how this is to be achieved. One prime example of Qatar's diversification efforts is Education City, an attempt to create a pole of educational excellence in the heart of the Middle East.

The project has so far managed to lure several Western universities, including University College London and HEC Paris, to a purpose-built site on the outskirts of Doha, where they will rub shoulders with local institutions.

On a less positive note, Qatar's ranking in the ease of doing business index has worsened continually since 2011, and the country currently languishes in position 83, far behind the UAE, a fellow GCC member; creating a more hospitable business environment will be key in order to attract foreign investment.

UAE ECONOMY

A General Outlook

The International Monetary Fund expects the United Arab Emirates' economic growth to nearly triple next year as the country's largest sheikhdom, Abu Dhabi, benefits from an expected recovery in oil exports.

The U.A.E.'s gross domestic product will expand 3.4 percent in 2018 from 1.3 percent this year, largely on expectations that growth in oil-rich Abu Dhabi will surge to 3.2 percent from 0.3 percent this year, the IMF forecast. Dubai's output will accelerate more moderately, to 3.5 percent from 3.3 percent in 2017, the Washington-based lender estimated.

"The non-oil sector both in Dubai and Abu Dhabi is almost growing at the same speed, around 3 percent," Jihad Azour, head of the IMF's Middle East and Central Asia Department, told reporters in Dubai. The recovery in Abu Dhabi, which holds about 6 percent of the world's proven oil reserves, will be helped by a recovery in oil output next year after the OPEC-led agreement to reduce production caused exports to decline this year.

Abu Dhabi, the largest and wealthiest of the seven emirates that make up the U.A.E., consolidated its companies and state-owned entities as oil revenue dropped. The IMF expects oil prices to average $53 in the next two to three years. Saudi Arabia and Russia have indicated they support extending production cuts through 2018 to shore up prices.

The IMF expects Abu Dhabi's non-oil economy to grow 3.3 percent next year from 3.2 percent in 2017.

A decline in export orders in September appeared to confirm that domestic demand drove economic activity despite the sluggishness of the oil sector, which could face an extension of OPEC production cuts if the market fails to adequately rebalance before year end.

Additional oil production cuts next quarter would almost certainly widen the spending gap in 2018 despite the recent implementation of a broad array of new excise taxes. That said, despite the red ink, the economy's improved health is apparent.

The Political Environment

QATAR'S POLITICAL CHALLENGES

Likely Impact On Economy

As the boycott of Qatar by a Saudi-led bloc of countries approaches its 6th month, experts have warned the increasingly bitter dispute could last into 2018 and beyond.

"If the present trajectory is anything to go by, I expect this crisis to last well into the next year," Christopher Davidson, a Middle East expert at Britain's Durham University, told AFP.

Saudi Arabia, the United Arab Emirates, Bahrain and Egypt cut all ties with Qatar on June 5, accusing it of bankrolling Islamist extremists and being too close to Iran. They closed Qatar's only land border, denying air space to its national airline and suspending maritime links.

According to the rating agency Moody's, Qatar spent almost $40 billion (£30.3 billion) supporting its economy in the first two months of the Saudi-led blockade.

More than three months since sanctions were imposed, "no solution is in sight," Moody's said.

According to the report, Qatar injected $38.5 billion (£29.1 billion), 23% of GDP, into its economy and financial system over June and July — more than 10% of its $340 billion (£457.6 billion) in financial reserves.

The dispute is bad news for all six Gulf Cooperation Council (GCC) countries, the agency said, but Qatar and Bahrain are the most exposed. Qatar is facing socioeconomic challenges related to travel and trade restrictions and Bahrain is most at risk from foreign investors turning away from the region, given its weak government balance sheet.

"The severity of the dispute is unprecedented, which magnifies the uncertainty over the ultimate economic, fiscal and social impact on the GCC as a whole," said Steffen Dyck, Moody's vice president and coauthor of the report. "While we expect the GCC to overcome its divisions, tensions persisting — or even escalating — would be the most credit negative for Qatar and Bahrain."

Saudi Arabia, the UAE, Bahrain, and Egypt broke diplomatic ties with Qatar in June, after accusing it of supporting terrorism. In July, Moody's downgraded Qatar's rating from stable to negative.

Trade, tourism, and banking in Qatar have so far been worst hit by the blockade, and in the first month alone Qatar's imports slumped 40%, compared to last year. A particular concern is the supply of construction materials, needed to build the stadia for the 2022 World Cup. Around 70% is imported from Saudi Arabia and the UAE, according to Moody's.

Although alternative trade arrangements have been made with Turkey and Iran, the report estimated Qatar is now paying ten times more to import food and medicine than before sanctions were imposed.

The restoration of diplomatic ties with Iran could "further complicate" the dispute, Moody's said, since cutting ties with the country was one of the Saudi-led bloc's initial 13 demands. In the short-term, the report said, "we expect tensions to persist, quite possibly to escalate."

Other than possibly creating a crippling uncertainty in the region, the continued political tensions, on a wider level, dampened investor confidence and reduced inflows of foreign direct investment in the region could be a setback for GCC countries' ambitions to diversify their economies away from oil.

UAE POLITICAL STABILITY

Likely Impact On Economy

Benefiting from its political stability in a tumultuous region, the United Arab Emirates (UAE) has shown a certain resilience with regards to the falling oil prices. While economic growth has been declining steadily, reaching 2.3% of GDP in 2016, the situation of each Emirate is very different. The country's GDP is dominated by the economic strength of Abu Dhabi (60%), especially its hydrocarbon production and control over the vast majority of national savings.

Dubai contributes a quarter of the country's GDP and functions as the commercial platform of the Emirates, especially with its well developed port and airport infrastructure. According to some estimates, economic growth of the UAE is expected to close at 2.5% in 2017. In the long term, the country's economy is expected to receive a boost from its hosting of the World Expo 2020.

The healthy banking sector and tourism revenues have helped soften the impact of falling oil prices, which reflects the economic diversification of the UAE (the oil sector represents only 30% of GDP). However, since 2015, the UAE has faced a significant deficit due to the decline in oil revenues. The deficit deepened in 2016, but the rise in oil prices this year has softened this trend in 2017.

In 2016, public spending was directed towards the development of the water and energy sectors, and a major housing program was undertaken. This trend has continued in 2017. In addition, a three-year development plan for 2017-2021 focuses on education and on reducing the pressure on public infrastructure, while the population is growing rapidly. The Government is also trying to limit public expenditure.

To cope with the government deficit, the seven Emirates used their financial reserves and issued bonds on international markets. Financial solidarity between the Emirates is crucial, while the debt ratio of Dubai's parastatal companies is worrisome.

Since 2015, the authorities have initiated a series of measures, such as the reform of energy subsidies, which includes a deregulation of domestic oil prices and an increase in tariffs for electricity and water.

Additional fiscal measures are in the pipeline, such as the introduction of business taxation and the 2018 VAT. The Government of Abu Dhabi, whose revenues were most affected by the low oil prices, has prioritized investment projects, while Dubai is attempting to stimulate activity through investments related to the preparation of Expo 2020 (especially the extension of the urban transport network).

Although Dubai's debt has been successfully restructured, the threat of a new real estate bubble and overcapacity remains present.

Abu Dhabi is focusing on diversifying its economy and developing alternative energy sources. In 2017, it embarked on launching a fleet of nuclear power plants and massively invested in renewable energies (the 'Masdar' project costing USD 22 billion). Because it is aware of the finite nature of its oil resources, the UAE has launched a policy of economic diversification in order to reduce its dependency on hydrocarbons. Dubai is primarily trying to develop its tourism sector.

Manufacturing activities have seen an unprecedented growth in the last five years, particularly in sectors such as metal processing, furniture, industrial preparation of food stuffs, aluminum production, construction materials, fertilizers, the petrochemical and fiberglass industries.

ACS

Section THREE

A Toolkit For Assessing

XXX Middle East Strategic Positioning

Establish XXX ME's Stakeholders

LET US DEFINE STAKEHOLDERS

A stakeholder is anybody who can affect or is affected by an organization, strategy or project. They can be internal or external and they can be at senior or junior levels.

Or

Stakeholders are people or small groups with the power to respond to, negotiate with, and change the strategic future of the organization.

AS IDENTIFIED BY THE STRATEGIC MANAGEMENT

The below information has been extracted from the strategic planning questionnaire returned by XXX Middle East's Management

A. XXX International SA.

B. Baniyas Oil Filed Supplies L.L.C.

C. Petroleum Mechanical Trading Co.

OTHERS WHICH SHOULD BE CONSIDERED AS PRIMARY STAKEHOLDERS DURING STRATEGIC PLANNING PROCESS

A. Board Of Director's & Senior Management XXX Middle East Qatar.

B. Board Of Director's & Senior Management XXX Middle East Oil filed Supplies L.L.C, Abu-Dhabi, UAE.

C. Key Customers in all geographies covered by both the Middle East operation.

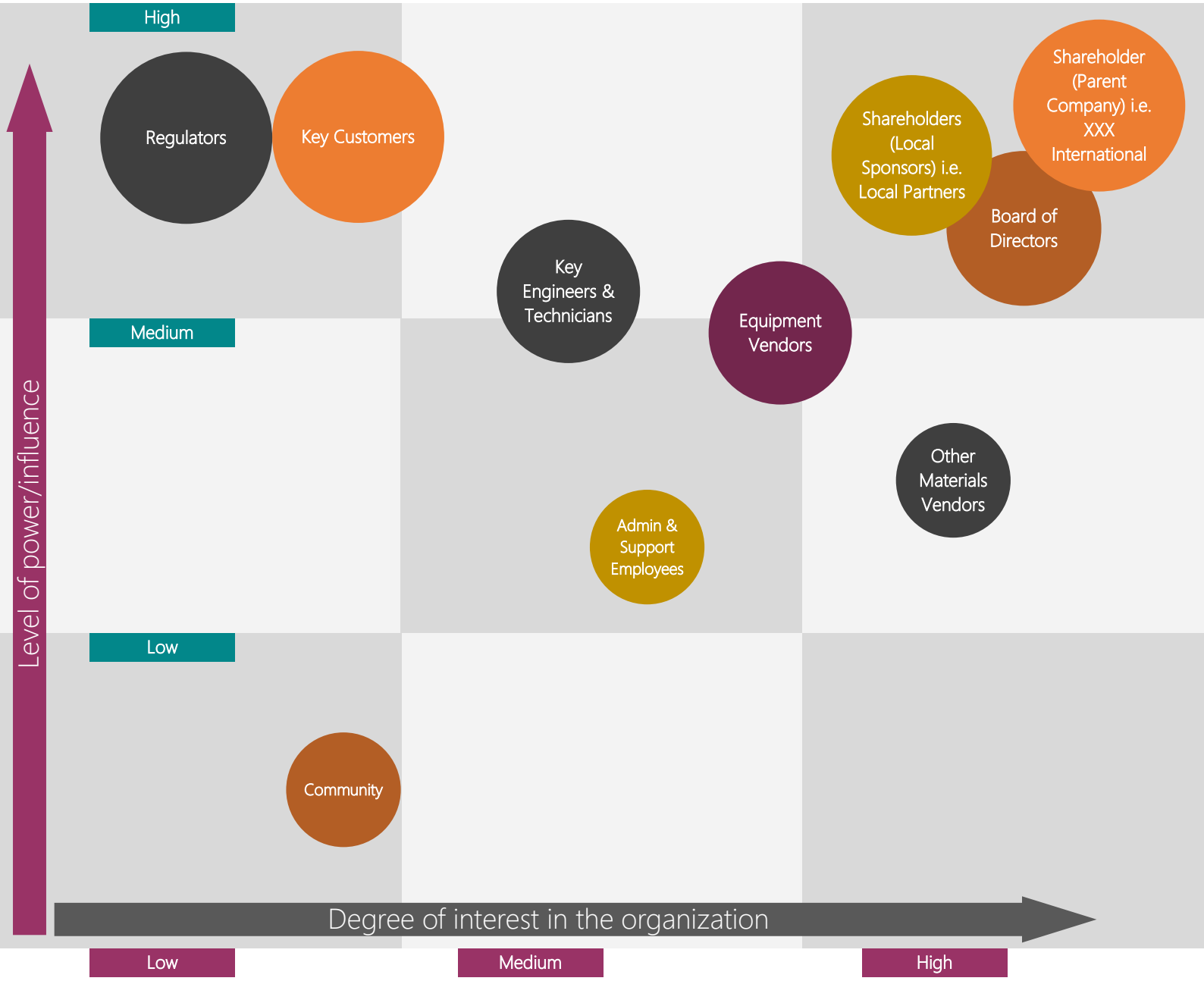
D. Key Vendors, including all the equipment suppliers.

E. Community

F. Regulating Authority

SUGGESTED KEY STAKEHOLDER MAPPING

Whilst engaged in the strategic planning process, the management could amend the below mapping using the guidelines provided.



KEY STAKEHOLDER MAPPING EXPLAINED

Readers are encouraged to reassess and challenge the below assumptions and conclusions drawn.

Parent Shareholder i.e. XXX International

Since (it seems) the Middle East operation is primarily a result of the execution of XXX international's new geographic market penetration (as well as market development) strategy, XXX International is likely to remain the most important stake holder for XXX Middle East.

This position is further strengthened by the fact that the parent (XXX International) continues to provide financial assistance to both the SBUs within its Middle East operations (per the audited financials, QAR 1,975,000 and AED 2,667,000 assistance was provided to XXX Middle East and XXX Middle East Oil Filed Supplies L.L.C respectively, between 2015 to 2016).

Therefore, Strategic planners at XXX Middle East MUST consider the parent's strategic goals as a foundation stone for any SBU strategy which they develop.

The tactical policies could comply more with (what is considered to be) the best practices in the region of operations (Middle East being a very different region compared to most other territories where XXX has operations), however the strategic objectives MUST be in line with parent's strategy.

The strategic management MUST keep the parent fully engaged and informed and MUST make all possible efforts to completely understand and then effectively communicate (to all levels of management) the parent's vision, mission, strategic objectives and value system.

Everyone at the organization should be cognisant to the fact that the going concern of XXX Middle East is fully dependent on the achievement of parent's business strategy.

Local Sponsors (Partners)

The local sponsors enjoy a good degree of power over the operations, not only because they assist to comply with the legal requirement of a majority equity participation by a local individual/entity, but also because of their voting rights (51%).

In addition, both the local entities serving as local sponsors/shareholders seem to belong to the same broader industry. In that sense they add tangible size to the organization, possibly complement the services portfolio and eliminate certain competition out of the market.

The level of interest which the local partners have in the (success of) venture is probably limited to their investment goals, opportunity costs (of not teaming up with XXX) and level of equity participation. It is arguably governed more by their own strategic goals (as much as these could be in line with XXX's strategic goals). This view is further supported by the SBUs balance sheets which does not show any financial assistance participation (beyond capital participation) by the local shareholders.

Whilst the guiding and overriding principle for the venture's strategy formulation should be the parent's strategic business goals, it also has to be aligned (as much as it is possible) with the local shareholder's investment goals.

To avoid conflict and widening of the expectation GAP, the desirable strategy would be to utilize the local shareholder representation on the board of directors to constantly achieve alignment of goals. This could be done through regular meetings of the board with clear pre-planned & detailed agendas.

The Board Of Directors

The board of directors (for both the entities) seem to have equal representation by the parent and local shareholders (basing the opinion on the last set of available audited financials, for the financial year 16). Since it is not clear if any members of the board also hold any shares in the participating entities, it is difficult to gauge the exact degree of their power and influence. Nonetheless, being the key officers of the entity, directors are primarily responsible for the development and effective execution of the corporate & business strategy.

Shareholding in both the ventures is limited to incorporated entities, which (possibly) increases the director's personal exposure to responsibility and liability. This, coupled with the fact that the directors (at-least in one entity possibly) are/could be remunerated, possibly makes them more dependent on the success of the organization than the local shareholders.

As the participating entities seem to have equal representation on both the boards (respectively), it is not very clear if there are any dispute resolution mechanisms in place.

Key Customers

The customers (existing & potential) for XXX's Middle East operations could (possibly) be divided into the following categories;

A. Oil & Gas companies.

B. Oilfield Service Companies engaged in, on-shore and of-shore drilling and related activities.

C. Oilfield Service Companies engaged in other areas of upstream oil & gas development value chain.

D. Oilfield Service Companies engaged in downstream areas of oil & gas development & delivery value chain.

E. Other industrial concerns or infrastructure development companies which could find an efficiency assisting use of XXX capabilities.

By the very nature of the industry that XXX operates in, the fundamental activity which eventually determines the size of possible customer base population is dependent on external factors such as oil and gas prices. i.e. if the oil and gas prices rise, there will be more drilling, development and delivery activity which would in turn (possibly) generate demand for the capabilities (technologies, services, skills) which XXX aims to promote and sell.

Whilst the customer (owing to the limited number and size etc.) will always be a true king in this industry, this power is/could be eroded by the high (possible in certain cases) vendor switching costs. To explain that point further, let us remind ourselves that this is a technology/knowledge driven industry. The long-term success relies on the ability of the service providers to constantly push the technology frontiers and develop innovative & cost efficient solutions. This could mean that for the customers, vendor switching or substitution could not be as simple as it seems apparently (too many service companies). This could raise the switching costs significantly. Hence possible erosion of some power.

Expectations and needs of the customers MUST therefore be an important base for all strategy formulation activities at XXX ME.

Regulators

GCC is a region, notorious for extensive government controls on just about everything. Adverse action of a regulating agency (relevant ministries and statutory bodies like company registrar, special zone operators, central bank etc.) could severely damage the reputation and/or going concern status.

All strategy formulation at XXX Middle East must keep in view the need to mitigate this risk to the lowest possible levels. Detailed policies MUST be developed as well as effectively communicated and implemented for achieving compliance with the requirements of all regulations including safety standards, labour laws, financial reporting standards, environment protection laws, taxation, transfer pricing requirements etc.

Key Engineers & Technicians

In an industry which is technology driven, and in a region where most workforce is made up of expatriates, loosing key technical stall could prove very costly and replacing them could present challenges. All human resource development and retention policies therefore MUST reflect full cognizance to this fact.

A QUICK GUIDE TO STAKEHOLDER MANAGEMENT

Use the below grid to differentiate between your stakeholder groups and then decide the strategy direction accordingly.

POWER

GROUP C

LOW INTEREST AND HIGH POWER

These stakeholders must be kept SATISFIED. An example of stakeholders within this group would be customers

GROUP D

HIGH INTEREST AND HIGH POWER

These stakeholders are the KEY PLAYERS

GROUP A

LOW INTEREST AND LOW POWER

These are the stakeholders which require minimum effort i.e. MONITORING

GROUP B

HIGH INTEREST AND LOW POWER

These stakeholders have high interest which could motivate them to find ways to acquire power. They should therefore be managed effectively and should be kept INFORMED of the strategy

INTEREST

Understanding Five Forces Analysis

PORTER'S FIVE FORCES - UNDERSTANDING COMPETITIVE FORCES TO MAXIMIZE PROFITABILITY

Porter's Five Forces is a simple but powerful tool for understanding the competitiveness of your business environment, and for identifying your strategy's potential profitability. This is useful, because, when you understand the forces in your environment or industry that can affect your profitability, you'll be able to adjust your strategy accordingly. For example, you could take fair advantage of a strong position or improve a weak one, and avoid taking wrong steps in future.

UNDERSTANDING PORTER'S FIVE FORCES

The tool was created by Harvard Business School professor Michael Porter, to analyze an industry's attractiveness and likely profitability. Since its publication in 1979, it has become one of the most popular and highly regarded business strategy tools.

Porter recognized that organizations likely keep a close watch on their rivals, but he encouraged them to look beyond the actions of their competitors and examine what other factors could impact the business environment. He identified five forces that make up the competitive environment, and which can erode your profitability. These are:

1. Competitive Rivalry

This looks at the number and strength of your competitors. How many rivals do you have? Who are they, and how does the quality of their products and services compare with yours?

Where rivalry is intense, companies can attract customers with aggressive price cuts and high-impact marketing campaigns. Also, in markets with lots of rivals, your suppliers and buyers can go elsewhere if they feel that they're not getting a good deal from you.

On the other hand, where competitive rivalry is minimal, and no one else is doing what you do, then you'll likely have tremendous strength and healthy profits.

2. Supplier Power

This is determined by how easy it is for your suppliers to increase their prices. How many potential suppliers do you have? How unique is the product or service that they provide, and how expensive would it be to switch from one supplier to another?

The more you have to choose from, the easier it will be to switch to a cheaper alternative. But the fewer suppliers there are, and the more you need their help, the stronger their position and their ability to charge you more. That can impact your profit.

3. Buyer Power

Here, you ask yourself how easy it is for buyers to drive your prices down. How many buyers are there, and how big are their orders? How much would it cost them to switch from your products and services to those of a rival? Are your buyers strong enough to dictate terms to you?

When you deal with only a few savvy customers, they have more power, but your power increases if you have many customers.

4. Threat of Substitution

This refers to the likelihood of your customers finding a different way of doing what you do. For example, if you supply a unique software product that automates an important process, people may substitute it by doing the process manually or by outsourcing it. A substitution that is easy and cheap to make can weaken your position and threaten your profitability.

5. Threat of New Entry

Your position can be affected by people's ability to enter your market. So, think about how easily this could be done. How easy is it to get a foothold in your industry or market? How much would it cost, and how tightly is your sector regulated?

If it takes little money and effort to enter your market and compete effectively, or if you have little protection for your key technologies, then rivals can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favorable position and take fair advantage of it.

XXX ME - Five Forces Analysis

Competitive Rivalry

There are multiple oil filed service companies in the area of our focus. Oil & Gas Producers in the G.C.C. (which are primarily national companies), are a key market for the largest oilfield services companies. As discussed in detail earlier in the this report, these NOCs have come to depend increasingly on service companies for operations over the past two to three decades. New entrants from China, Korea and Canada are gaining market share in a region historically dominated by the established international players. In addition, there are numerous indigenous companies providing services related to different areas of the oil filed services value chain.

However, whilst the general landscape (oil filed service companies) seems to display moderately high competition, the true picture is a lot more complicated. XXX's evolution as a company is built around its ability to develop new techniques/tools and efficiency enhancing solutions. As a result it has developed a portfolio of services related to the performance of some very specific functions. Most of the tools that it advertises for revenue generation, appear to have been developed for the performance of those services which it promotes.

Therefore, to conduct a useful analysis of the competitive landscape, one has to measure competition (or lack of it) for (the marketability of) each individual service that XXX wants to promote in the Middle East.

According to the senior management, the focus in the GCC has so far been on the promotion of the "Pressurized Habitat". The management also thinks that the competition (for this proprietary welding isolation chamber), in the area of our focus is fairly low.

There is no reason to assume that XXX Middle East, wants to build a business model based only on the promotion of welding isolation chambers (and related services alone). It is therefore of paramount importance that a detailed competition analysis for the entire array of products and services (which XXX intends to promote) is performed periodically. In our recommendation, the board should constitute a permanent team (comprising of two to three personnel) which should review this competition position once every month.

At the cost of repetition, this must be emphasized that in an industry which is knowledge/technology driven, the absolute number of players in the market at any given point in time is not a measure of real competition. To understand the real completion, we have to focus on the industry drivers i.e. the factors which determine success or failure of the industry or in other words the very needs which created this industry and then made it successful. The strongest of these drivers are:

- Cost controlling innovation & efficiency (addressing the low and often volatile hydrocarbon energy prices issues)
- Constant technology development/enhancement for pushing the exploration/development frontiers (addressing increasingly challenging environmental issue)
- Ability to provide a wide range of services related to different areas of up and downstream value chains (one stop shop model)
- Ability to share risk with the developers (through a combination of all above by reducing un-certainty).

2. Supplier Power

Whist analyzing the power of their suppliers, the strategic planners at XXX ME, MUST focus on the following;

- What is the nature of relationship between the vendors/producers of the vital equipment which XXX uses for the execution of the services it promotes?
- Does XXX holds any design patents?
- Is it possible for XXX to use multiple producers (with manufacturing licenses)?

- Are there any long-term contracts in place for the production of XXX tools?
- How easy or otherwise it is for the producer/supplier(s) of XXX products to raise prices?
- If the prices are raised, how easy or difficult it is for XXX to switch supplier?
- How likely it is (on a scale of probability) that XXX will not be able to replace/procure vital equipment on time?
- What are the supply arrangements for the consumable material procured mostly out of Indonesia?
- What is the degree of control which XXX ME or the parent has over the suppliers of consumable materials?
- Is there any volatility in the markets (that XXX procures those materials) which could disrupt supply or unexpectedly raise prices?
- If the supply from one source is disrupted or prices by one supplier are raised, how easy or difficult it is to switch supplier?
- How easy or difficult it is to replace key technical staff?

3. Buyer Power

As was thoroughly discussed under 'Stake Holder Mapping', the buyers or customers in the industry that XXX ME operates, has significant power. This power could be reduced considerably through the achievement of certain success factors discussed earlier (technological solutions hard to imitate, broad and evolving services, long-term contracts) making it costlier for the buyers to switch to other vendors.

4. Threat of Substitution

In an in industry which is primarily driven by innovation and technology, privileged positions based on the possession of proprietary technologies can never be guaranteed for longer periods of time. Every technological breakthrough or development serves a certain need or process. New technologies or new methodologies could always be developed which could promise to serve the same need or process even in a better way. An imaginative example could be taken of XXX's welding isolation chamber. Whilst at present there could be similar processes or products (which serve the same need in a similar way), for instance those promoted by the competitor 'SAFEHOUSE', it is also possible that someone develops a process or technology which eliminates the underlying need i.e. the need to isolate certain areas while industrial grade welding.

When planning, we can not assume that we are the only ones aware of the success factors in this industry. And if we agree that the others are also aware of the same success factors, then we must also assume that investments are being made in achievement of those success factors. These investments and efforts will inevitably result into the development of better technologies, better processes and better solutions than what we have today. Better than what gives us a competitive advantage at present.

5. Threat of New Entry

The threat imposed by new entrants in this industry seems moderately low for a number of reasons which seemingly give rise to significantly high barriers to entry. It is a capital intensive industry i.e. it requires expensive equipment and highly specialized workforce. The sales cycles are long and pressures on working capital could be prohibitive. Commodity (hydrocarbon energy products) prices being the general driver of the industry would normally dictate the expansion or contraction of the industry.

However, the above mentioned barriers would hardly bother the seasoned players to enter new geographical markets.

The entry of XXX itself into the Middle Eastern region is a good example of it. Another dimension to consider is the consolidation trend (mergers and JVs) directed towards the need for integrated services (expand the offerings portfolio) and gaining size. Although, such consolidation activity does not bring any new supply to the market, it does threaten to erode the ability to provide differentiated services by the existing and smaller players.

Another dimension to consider is the expansion trend which is targeted towards gaining the ability for integrated services (Schlumberger model imitation) which does bring additional supply to the market, threatening to drive out those who provide only specialized services.

Guidelines For Attempting SWOT

STRENGTHS, WEAKNESSES, OPPORTUNITIES & THREATS

SWOT Analysis is a useful technique for understanding your Strengths and Weaknesses, and for identifying both the Opportunities open to you and the Threats you face. It helps you carve a sustainable niche in your market.

What makes SWOT particularly powerful is that, with a little thought, it can help you uncover opportunities that you are well-placed to exploit. And by understanding the weaknesses of your business, you can manage and eliminate threats that would otherwise catch you unawares.

More than this, by looking at yourself and your competitors using the SWOT framework, you can start to craft a strategy that helps you distinguish yourself from your competitors, so that you can compete successfully in your market.

The below analysis is certainly not definitive. Rather it has been done to encourage (those with the better knowledge of the business and its environment i.e. its strategic planners) with the use of the tool in the planning process.

POSSIBLE SOURCES OF STRENGTHS

1. Backed By A Parent With Global Presence And Long History

This certainly is a source of strength. The Oilfield Service industry is highly competitive. Contracts are awarded based upon cost and expertise. Being a subsidiary of a global company with proven record in more complex environments (without a doubt) gives an advantage, as it adds to the company's strength to address expertise, technology, cost control, repute, image, liquidity, financial strength and going-concern issues.

2. Proven History/Ability Of Technology/Process/Techniques Development

XXX seems to take pride (and rightly so) in the fact that its very development as a business started off with the development of a unique product i.e. a non-toxic, disposable exothermic heater. Its entire array of services/tools and solutions seem proprietary and (possibly) unique in nature. Not only this (potentially) makes XXX a bit unique among competitors but also adds (tremendously) to the probability of its ability to stay ahead of completion through innovation and creativity.

3. Local Partners

Whilst this point should not be over emphasized (as this could easily be a norm for all major competitors as well), nonetheless, it adds to the strengths, specially because both the local partner entities seem to be operating within the same broader industry.

4. Very Comprehensive Portfolio Of Past/Present Clients/Customers

Proven track record of working with some very prominent names in the oil & gas industry is definitely a very strong source of strength. Although most of these clients/customers were probably served by the group and not just by XXX ME, nonetheless, as the company enjoys a shared repute/perception of expertise possession which makes this a source of strength for XXX ME.

5. Corporate Website

Rather than choosing to build country specific websites, the group has built a corporate site which assists with the size perception and acts as a tool for passing on the perception of shared competencies.

6. Branded And Patented (in Certain Cases) Products And Processes

XXX, Hot Bev'lr, Hot-Chek, Hot-Jnt, etc. All these are (potentially) sources of differentiation and add to the strengths explained under point 2 above.

7. Willingness And Ability To Be Flexible To Accommodate Client's Unique Needs

The above point was identified by the management though strategy evaluation questionnaire. If true, this certainly could be a source of strength.

8. Technologically Ahead Of The Market

Whilst this could be a source of initial frustration (as is evident from a few replies to the questionnaire) and could present some market development challenges, it enables the organization to offer something new to the market. If utilized correctly, this could be a valuable source of strength.

9. Operational Freedom (apparent) Given By The Parent

10. Simple and Non-Complicated Management/Organizational Structure

11. Fiscal Discipline & Restraint (expense control)

12. No Real Gearing

13. Experienced Management Team

14. Well-Placed For Integrating A Much Wider Portfolio Of Services/Products

Guidelines For Attempting SWOT

POSSIBLE SOURCES OF WEAKNESS

1. Part Of A Larger Global Group

Whilst the same factor is a source of certain strengths, it also makes the venture a bit restrictive in its choices. As discussed at length in the stakeholder analysis, the overriding compulsion would always be the fulfilment of the parent's strategic objectives. This could (possibly) limit XXX ME's ability to respond effectively to some unique local opportunities in comparison to the competitors which could be independent local organizations.

This also possibly limits XXX's freedom of creating alliances and JVs as an alternative to mergers to achieve integration.

2. A limited Portfolio Of Services/Solutions

As was explained at length in Section One of this report, the evolution of the oil field service sector is also characterized by integration of services. Companies strive to offer more services across the value chain. Schlumberger probably has the widest provision of services along the whole value chain, but competitors have similar strategies and this is, for example, a driver of many mergers happening within the industry.

In the NOC market, it has been driven by the customer's preference for 'single company' and 'single contact' solutions. These drivers could be explained in the context of nationalized organization's work culture. Most NOCs would love to see these (big service company) guys more because they do everything in one contract. And this is something good for somebody who is tied up with a long chain of local government tender procedures. The reason they like to talk to someone like Schlumberger is their ability to provide a one stop solution, as well as mobilize huge equipment under contract. The Schlumberger philosophy is propagating while small companies push to be able to offer more services.

XXX's management itself describes the aim to 'become a one-stop shop, with the capabilities to provide all services a client may require' as its over-arching vision and strategic business goal. It further states that the organization has attempted some sort of vertical integration by means of engaging sub-contractors to serve some clients specific needs.

3. Smaller Market Share

4. Lack Of A Clear Brand Development/Recognition Strategy (ME)

Although, by nature, this industry is not heavily dependent on aggressive direct marketing activities, XXX Middle East is still a relatively new entrant to this geographical market. The management has itself identified a possible GAP between the extent of XXX's capabilities and what the potential clients perceive of it. This is possibly one major source of the bottom line lethargy. It is not very clear what strategy the organization is deploying to for the recognition and appreciation of its brand in the region of our focus.

5. Lack Of A Clear Marketing/Business Development Strategy (ME)

Expanding on point 4 above, it is important to understand that simply blaming the market for too behind on the technological ladder and the customers too unintelligent or traditional to appreciate the uses of the services/solutions we are capable of providing, is probably not going to get us anywhere. The counter question which the strategic planner has to ask would be "what strategy do we have to change the above facts/perceptions"?

Looking at the organizational structure of the company, it seems hard to figure out who performs the brand development and promotion activities? We could assume that this function is vested with either the managing director or the general manager.

Whilst at a strategic level, this should work just fine, there has to be some trained & dedicated resource who spends his/her time day in and day out evaluating the company's brand positioning and devising tactical plans for effectively bridging the gap between perception and reality.

This role MUST NOT be confused with the direct sales function.

6. Poorly Designed & Displayed Corporate Website

The company's corporate website looks outdated. All imagery and even the company logo used is blurry. Aesthetically it is not very pleasing and text descriptions are not optimum.

It should be remembered that the purpose of a website in this industry is noting but to add value to the company's brand perception. It is not a retail business value chain where we are hoping to drive clientele through the website.

7. Some Confusions In The Organizational Structure

On the face of it, it looks a bit confusing i.e. why the entity with only three technicians (UAE) has six managers/supervisors while the other entity which has about 15 technicians (Qatar) has only four.

Whilst it is perfectly possible that this is a planned anomaly or not an anomaly at all. On the face of it, it feels so and that is why has been pointed out.

8. Thin Accounting & Analysis Team

For a company in its early stages of establishment (XXX Middle East), having one person to perform all accounting could be fine (keeps the cost structure lean). However the organization arguably needs to invest into one Management Accountant who can produce information analysis including competitors analysis and can assist the senior management with strategy formulation and other business planning.

Guidelines For Attempting SWOT

POSSIBLE OPPORTUNITIES

1. An Expanding Market

As was discussed in detail under section one and two of this report, following the slow recovery of the hydrocarbon commodity prices market, the drilling and related activity will likely increase. This will, in turn result into a rise in the demand of services provided by the companies like XXX.

XXX Middle East operates in a region where oil & gas industries still contribute more to the GDP compared to any other sector.

2. A Traditional Market i.e. Lower Down On Technology Usage Ladder

Whilst this could be a growth constraint for service companies which are themselves not tech driven, for ventures like XXX Middle East, this presents sizable opportunities for Market Development.

3. Persistent Mid-Level Commodity Prices

Whilst the hydrocarbon commodity prices market has stabilized over past year and half and have recovered significantly, its persistence on low to low mid levels has made cost efficiency a survival must for both the oil & gas companies and the service companies. Cost efficiency in the long run is achievable only through constant innovation to improve efficiency. This gives rise to a unique opportunity for companies like XXX Middle East which are operating with cutting edge technical skills in a markets with only moderate levels of technological expectations.

Provided the unique competences (advanced technology, well developed proprietary solutions etc.) are promoted and then leveraged properly, there is a good chance that XXX could drive a fair chunk of competition out of the market.

4. Industry Consolidation & Services Integration Trend

Due to the factors explained in detail within this report, the industry will probably continue to go through consolidation. This presents acquisition opportunities for XXX Middle East directed towards achieving more services integration.

5. Possibility Of Finding Technology Usage And A Market Outside The Oil & Gas Value Chain

It should be always possible to develop a market outside of the oil and gas value chain by finding innovative uses of the solutions and skills developed for oil & gas industry. For instance, the welding isolation chambers or the exothermic heating systems could have usages in a wide range of industrial activity.

Opportunities might exist for exploitation of skills and resources already possessed (with suitable configurations) to develop a whole new word of uses and markets

Guidelines For Attempting SWOT

POSSIBLE THREATS

1. A Volatile Industry

Since the oil field service sector is completely dependent on the performance of oil & gas industries, any volatility in the oil & gas sectors is inevitably passed on to the service industry. Almost all of the revenue generated by oilfield service companies comes from contracts with E&P's. Therefore, oilfield service success is largely dependent on capital expenditures by these E&P's, which is determined by the price of oil and natural gas. If the price of oil and natural gas is high, then these companies will increase their capital expenditures, thereby generating more revenue for oilfield services.

Although the long-term outlook of both the connected industries still looks fairly promising, the volatility that we have seen in the past few years is a sufficient evidence of its very cyclical nature.

2. A Politically And Economically Volatile Region

If there is anything that is certain in the GCC's long term political stability, that is its uncertainty. Whilst the uncertain political and resulting economic volatility of the region represents a huge risk for businesses in general, the Oil & Gas industries could probably be assumed to be a bit cushioned against these uncertainties. To support the latter view, one could take the example of Iraq where a complete destruction in a long war did not harm the Oil and Gas industries related opportunities. Anything short of a civil war which makes operations impossible, an impact of regime changes on the oil and gas value chain is likely to be limited.

However, since these economies are heavily dependent on oil & gas developments and exports, a general and continued downturn in the oil and gas industry could result into the breakdown of general economy which could in turn effect every business sector including the oil field service companies.

3. Decrease in Demand Due To Availability of Substitutes

In the context of Oil & Gas market (since it has a direct impact on the performance of field services industry), there probably is no near-term threat of the availability of any material substitute to hydro-carbon products. Although the usage and promotion of alternative fuels will continue to rise as the market for alternatives is there, it will probably displace fossil fuels when (not if) renewable energy technology becomes cheaper and more convenient, it is not likely to happen within our planning horizon i.e. five to ten years.

In the near-term, a more real threat possibly arises from the further development of technologies enabling un-conventional fuel extraction, such as extraction of gas from shale formations. These developments could have an impact on demand out of certain geographies to which Middle East would probably be more prone.

In the context of oil field services industry, the substitution can happen due to a widening technology gap between market players. Those who successfully develop better technologies/processes/techniques to fulfil the fundamental demand drivers, will likely be able to drive the tech obsolete players out of the market.

ACS

Section FOUR

A Toolkit For Assessing

XXX Middle East Strategic Goals & Options

Guidelines For Identifying Strategic Goals

A SIMPLE LIST OF GOALS IS NOT NECESSARILY STRATEGY

Let's say we are all getting together (with other managers and employees) to develop our organization's or unit's strategy. No matter how much discussion and enthusiasm we bring to the task, we are likely to emerge with a list that looks like this:

- Growth
- Superior operational outcomes through efficient work practices
- Becoming competitive in an existing market
- Increasing product sales to take market leadership
- Expanding into other regions
- Optimizing ROI
- Developing a service delivery model that incorporates tactical projects

When we are done, we might scratch your head and reflect: "*I think this looks OK*". It doesn't. It contains what might be called goals, objectives, actions, and vague statements of intent — but alas, no strategies.

So how do we really create strategy, rather than end up with a hodgepodge list the one given above?

STRATEGIC GOALS IDENTIFICATION STEPS

Identify which stakeholders you depend on for success.

It might seem obvious that you'd need to start here. But most managers, even at the world's largest companies, don't take this basic step. Instead, they focus on a narrow set of key performance indicators and wade right into developing solutions that feed those metrics, burrowing deeper and deeper into the details. Very quickly they lose their "helicopter view" and get stuck in fix-it mode. Suggestions come one after another: Engage sales outlets. Devise an advertising program. Attract, retain, and develop capable people. Good stuff, perhaps, but how would you know if you haven't defined a context for success?

Your organization or unit is completely dependent on others outside it for its good fortune. Without the support of stakeholders such as customers, suppliers, employees, and shareholders, for example, you have no organization. But you have to identify those who are key to the long-term survival and prosperity of your organization and then satisfy them.

Recognize what you want from your stakeholders.

Because most management teams don't identify key stakeholders, they don't even get to this point. And those that do often launch right into what they need to do for customers, for employees, and so on, without thinking first about what they want from them.

Why is sorting out the from so important? What an organization wants from each group of key stakeholders translates neatly into its objectives. For instance, sales and revenue growth will come from customers, productivity and innovation from employees, and quality goods and services at the right price from suppliers. What's more, company law requires that boards, CEOs, and senior executives act in the best interests of the company. All decision making should stem from that mandate. Of course, this doesn't preclude looking after customers' and other stakeholders' interests en route.

Recognize what your stakeholders want from you.

When management teams delve too quickly into problem-solving, they make assumptions. They think they already know what's good for their stakeholders. As a result, their companies end up with products and services that don't sell.

When you articulate what key stakeholders want, you're defining what we call "strategic factors." (They're not the same as "critical success factors" — a term you might already use. Those are generated by your management team, whereas strategic factors come from your stakeholders.) Strategic factors bring an external perspective. They are those few things that you must excel at if you are to achieve a competitive advantage and, simultaneously, meet your corporate objectives.

Here's a list of strategic factors from a company that manages a port and aims to attract as many ship operators as possible:

- Port capability (suitability for a ship's size and freight)
- Freight availability (to pick up on the return leg)
- Congestion (speed of unloading and turnaround time in the port)
- Location (which affects "steaming time," or time between destinations)
- Price (port charges for docking and remaining moored)

Note how these are defined from a stakeholder's point of view, not from management's. If you're not sure of them (that's the norm), interview your stakeholders to better understand their stories and needs.

XXX ME, Possible Strategic Goals

AS IDENDITIED BY SENIOR MANAGEMENT

Through the strategy evaluation questionnaire, the management identified at-least two strategic objectives:

1. Global operations.

("Our head office, XXX International has been in full support of us since we established the branch both in Qatar and UAE. HHI's goal is to provide XXX Services in all possible areas around the globe. Aside from just making money out of business, they aim to be operating worldwide".)

2. The ability to become one stop shop for provision of all the services within the focus value chain (Services Integration)

("XXX aims to be a one-stop shop. Where we provide all the services a client may require")

OTHER POSSIBLE STRATEGIC GOALS

1. Successfully develop a market for unique capabilities which at present are assumed to have a forward technological gap with the focus market.
2. Become a market leader in terms of monetary market share.

FURTHER GUIDELINES FOR ESTABLISHING STRATEGIC GOALS

Strategic goals can never come from an external consultant (like ACS). Whilst we can assist with the training process, strategic goals has to be developed by the management itself. A summery of important steps is produced below;

First and foremost, establish who your stakeholders are. Then map these stakeholders and decide which stakeholder's wishes would be reflected in your strategy formulation the most and which the least. Then go through the three steps process given in detail on the preceding pages i.e. Identify which stakeholders you depend on for success?, Recognize what you want from your stakeholders? and finally Recognize what your stakeholders want from you?

Summarize what the most critical stakeholders would want the business to achieve. Break it down into measurable targets and you have your suggestions for strategic goals.

Guidelines For Developing Strategic Options

WHAT ARE STRATEGIC OPTIONS?

For most businesses, when their market share is either small to medium, broadly speaking, there are only three generic strategic options and each requires careful and considered attention in order to get the strategy right.

Setting strategic goals is a difficult challenge for many managers. Knowing what strategic options you have available and the implications of choosing between them is a dilemma facing businesses from all industries. For small to mid-sized firms (e.g. those with fewer than 200 employees) there are really only three generic strategic options available.

The first of these options is what we call "stasis" or business as usual. While it might appear to be a do nothing strategy at first glance it is actually a very challenging environment for a manager or business owner. The research suggests that small firms that chose this strategic option are not passive. The majority of these firms are well managed and had recently experienced a steady period of growth before choosing to consolidate. For business owners, who chose stasis for a secure or comfortable lifestyle, there is still no room for complacency. Attention needs to be given to improving the efficiency of the business to boost profitability through enhanced processes. It is a fairly inward looking strategy, but not an idle one.

The second option is exit, which can take one of two forms. The first is the abandonment of the business and closure, while the second is the transfer of ownership or control to a new management team. The abandonment of a business is not always a disaster. A number of business owners simply wind up their operations in an orderly manner and move on.

This can be forced on them by adverse economic conditions, or a personal decision to give up the business and to do something else with their time. For business owners who are planning to exit by transfer of ownership or control there is a need to get the business ready for trade sale, or to groom a successor. Whatever exit strategy is chosen there is much work to do. The business must be prepared for sale, succession or orderly wind up. This may involve valuations of the firm, systems and team building, training successors and tidying up the balance sheet.

The final option is growth. To grow a business requires attention to either a new product or service that can be sold to existing customers, or moving into new markets with existing products and services. In some cases it might involve trying to launch new products in new markets. Each of these strategic directions will impose different levels of risk and possible return. The more change that the business has to face the higher the risk is likely to be. Taking a new product to a new market is potentially a big risk as it moves the business into unknown territory on both product and market levels. Setting a growth strategy needs careful planning with a robust business model and tight controls over cash flow and operations.

Whatever strategic option you choose will require careful planning and a good deal of effort. Growth is not always the most desirable option and exit should be an orderly process. Even stasis is an option that will keep you busy as you tidy up the books, tighten up the operations and ensure that you can sleep soundly knowing that everything is under control.

In summary each of the three options requires attention to the following:

The Growth Option: focus on innovation, new products or new markets, setting a clear vision for the future, strengthening your balance sheet and working capital, enhancing your strategic networks and stress testing your business model.

The Stasis Option: fine tune your business, review efficiency and contribution margins of existing products and services, tidy up the balance sheet and boost profitability, strengthen your existing customer and supplier relationships and look for ways to enhance loyalty across the supply chain.

The Exit Option: focus on valuation and building systems and teams, tidy up the balance sheet and trim away waste through efficient financial control and reporting, groom a successor.

Analysing XXX's Strategic Options

REMINDER OF XXX'S PUBLICIZED MISSION STATEMENTS

Products and Services Mission

To operate XXX in a manner that allows our products and services to surpass the normal expectations for development of products and services in the Oil and Gas Industries. By focusing on our customers as the primary concern of our Company, XXX will continue to maintain its position as the Industry Standard by which all others are compared.

Economic Mission

To operate XXX in a sustainable financial manner which will ensure profitable growth, increasing value of the company and expanding opportunities for the professional development and growth of our employees. XXX's profit is the responsibility of all.

Social Mission

To operate XXX in a manner that actively recognizes the important role that business plays in society, as well as the environment, by establishing innovative ways to improve the quality of life of our employees and employees of our Customers and Partners. XXX will live up to our societal responsibility by ensuring we are an economic, intellectual and social asset to each country and community we operate in. We motivate and trust our employees to do the right thing and to make a difference.

LET US ANALYSE THE POSSIBLE STRATEGIC OPTIONS FOR XXX MIDDLE EAST

Having reminded ourselves of the business's mission statement and with some understanding of the possible strategic objectives up our sleeves, we can not attempt to analyse the three broad options that seem available, directed towards finding a strategic fit.

The Exit Option

Unless all other strategies fail, this is not a real option for now. XXX ME is still relatively a new entrant into the market place (GCC). The entity in Qatar not only broke even but also generated a decent reported net profit during the third year of its operations in the country (basing it on the information available through its audited financials available till December 31, 2016).

Although no information about its financial and operational performance during 2017 is available to us, basing the opinion on FY 16 numbers and the emerging trend, both the entities (Qatar and UAE) seem to have shown results which could be considered fairly within the normal parameters for newly established successful businesses.

There are no environmental threats which would spell a doom and the organization seems to have some solid backing of its parent reducing any cash flows risk to an acceptably low level.

Unless therefore, the development and growth strategy fails in the medium run, or some other factors force the parent to take a divestment decision, we can simply ignore the Exit Option for our analysis.

Statis or Status-qo Option

As discussed briefly above, the venture has just broken even (possibly only in one geography). The achievement of possible strategic objectives is still nowhere in sight. If the current operational or financial results perpetuate, (considering December 2016 numbers as current for the sake of simplicity of the argument), in order to sustain the going concern of the venture, the parent will have to perpetually support the venture. Which is obviously not a sustainable situation.

In order for us to get any closer to our possible strategic objectives, we must move forward in a number of way. We can therefore also ignore the statis option as an option not suitable or sustainable for us and move on.

The Growth Option

For the achievement of XXX ME's possible strategic options, multidimensional growth seems it's only feasible strategic option.

If the venture were to keep an alignment with the group's stated corporate missions, XXX Middle East (refereeing to both the companies in GCC as XXX Middle East) needs to devise and then effectively implement a growth strategy.

This is our broad strategic choice.

This growth will have to be multidimensional and will pose multidimensional challenges. With a detailed look at the apparent challenges/threats as well as opportunities in the environment and with an analysis of it (XXX) strengths & weaknesses, we can quickly decide on the question of feasibility i.e. we know that grown is a suitable strategy (it suits our strategic goals) but is it also a feasible strategy (does our strategic position allows us to successfully implement that strategy)?

In the following pages, we shall now endeavor to find more detailed answers to the questions of feasibility and will try to identity major building block of our chosen strategy.

Further Analysing The Strategic Choices

MAJOR FOCUS AREAS OF XXX ME'S GROWTH STRATEGY

Market Development & Penetration For Existing Portfolio Of Competences.

It has been identified, that so far, the revenue generation has been confined to a narrow set of services (majority of revenue presumably has been generated through the promotion of welding isolation chambers) out of a much wider portfolio which the venture is capable of.

Whilst the venture will need to integrate a much wider portfolio of services in order to fulfil one of its strategic objectives, as a first step promotional activities will have to be focused on the group existing set of competences. In order to do so, following are the components of recommended plan:

A. Dissect the target market (market need, competition, technological readiness and maximum price the market is able to pay for a service) and develop a detailed analysis of the suitability & feasibility of marketing each of XXX's unique competences/services (from Habitat to Hydraulic Nut Splitters and From XXX Exothermic Heater to Mud Saver)

B. Isolate those services which are deemed to be target market ready.

C. Isolate those services/products which serve an underlying need which does not exist in the target market.

D. Isolate those service where either there is a huge technological gap (market is not technology ready yet) or where it is not deemed economical to promote a specific service in the target market.

E. From the ones isolated in point C above, further isolate those which you think will be very hard to be marketed or which will be very un-economical to promote.

F. Also isolate those for which the Middle East venture does not possess the threshold competences (equipment, trained manpower and deployment financing)

G. With a process of elimination through point A to F above, compile a fresh list of products/services you would wish to promote in the target market.

H. Develop a clear marketing plan for each.

I. Develop a marketing budget. Also amend the overall financial and operational budgets accordingly.

J. Begin implementing the marketing plan developed in point H above.

A Growth Oriented And Clearly Focused Marketing Strategy.

Within the strategy evaluation questionnaire, it has been identified by the management itself that they believe, their target market is not fully aware of their competencies and the benefits their services can bring to their operations. In the management's own words:

"We can consider ourselves a small player at the moment. Our target market has not been much knowledgeable of the service the we provide."

And

"Too new technology for traditional market "

Putting it frankly, in the fourth year of its operations, the above facts (if true) should be a matter of concern (if not worry). One can draw only two possible conclusions i.e. either the services are not suitable for the target market or these simply have not been promoted correctly/sufficiently. There can not be any other explanation.

The venture management needs to develop an effective (if not aggressive) marketing strategy to fill the gaps identified above.

The marketing strategy could combine both conventional and non conventional channels and whilst it will certainly have a cost implication, the opportunity cost of inaction (i.e. continuing to assume that a traditional market should not be and would not be appreciative of solution higher on the technology ladder) will presumably be multiple times more expansive. It is most likely to convert the venture into a marketing failure.

Continued Focus On Differentiation As A Chief Source Of Competitiveness.

The group's mission statement spells it out for the venture i.e. *"To operate XXX in a manner that allows our products and services to surpass the normal expectations for development of products and services in the Oil and Gas Industries"*.

Unless there is a fundamental shift in the group's mission, XXX (very apparently) can not pursue any of the cost based competition strategy. As it sees itself, the fundamental cornerstone of XXX past success (in other regions of the world) seems to be its ability to differentiate on technology/knowledge by developing products and services which surpass the industry expectation.

REMINDING OURSELVES OF GENERIC COMPETITIVE STRATEGIES (WAYS OF COMPETING)

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

Cost Leadership

In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. if a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

Differentiation

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price.

Focus

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others.

The focus strategy has two variants.

(a) In cost focus a firm seeks a cost advantage in its target segment, while in (b) differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments.

CONTINUING XXX ME STRATEGIC CHOICES ANALYSIS

In the short to mid run, XXX could follow a variant of differentiation focus strategy. This should also assist with the selection out of the existing services which are deemed suitable for promotion in the target market without harming the fundamental mission objective i.e. the perception of a benchmark for development of products and services in the Oil and Gas Industries.

In the mid to long run, as it successfully achieves integration of more services across the value chain, the focus would automatically become broader.

Benchmark Against The Market Leader And Develop An Integration Plan

Identity a suitable benchmark within the industry and through an exhaustive process of benchmarking, identity and document the gaps between;

A. The benchmark's and XXX's capabilities (The capabilities which the benchmark possesses but XXX does not)

B. The market capacity and the benchmark's capabilities (The services which the market would like to see integrated i.e. provided by the same vendor, and even the benchmark is not capable to provide).

Next, develop a wish-list of capabilities that you would want XXX to develop and possess in the mid to long run.

Evaluate each individual capability in your wish-list and for enablement feasibility and enablement cost. Whilst calculating enablement cost, consider options like development from scratch or acquisition.

Once you have estimated the enablement costs (for each additional capability), consider the feasibility i.e. will the venture be able to mobilize the resources required? What will be the reaction of the key stakeholders? What will be the competitions reaction etc.

As you decide on the feasibility questions, the next step is to estimate expected contribution which the additional products/ services are likely to generate. This will (should you finally decide to enable the chosen capability) also feed into your overall financial and operational budgets as well.

Plan and then begin to implement your integration strategy as per the chosen course of action i.e. internal development or acquisition.

Expand Or Add New Service Offerings

With the successful implementation of the above strategy focus, expand the services offering by converting additionally acquired capabilities into additional markets/revenue streams.

Define, Communicate & Deliver

For a business like XXX, the services are clearly defined sub-systems with distinct boundaries. We can not expect and assume that there is a gap between the clear definition of services. Given the company's history and its success in many areas around the globe, we can only assume that there are no gaps either in the delivery part. The venture seems to have full financial backing of its parent, so one can safely assume that the same support is also available on the technological issues. Further, XXX as a group, has a very successful history of expanding around the globe, so it must have very well-defined processes in place for ensuring human resource and technical capabilities development at the new ventures.

The only areas where presumably a gap exists is 'communicate'. As has been discussed in detail earlier, the promotional strategy seems to be needing a detailed revisit.

OTHER (LONG-TERM) FOCUS AREAS OF XXX ME'S GROWTH STRATEGY

Focus On Technology Development Directed Towards Lowering Customer Costs

Even when following a focused differentiation strategy, the downward external pressures (commodity prices) on the margins within the entire value chain make this competence a must for survival. With XXX's unique position (developer of industry standards), this should give an added and sustainable (hard to imitate) competitive advantage. Also see the below two focus suggestions.

Innovate Business Process Efficiencies To Lower Customer Costs

Integrate Value Chain Offering Or Bundle Offerings To Lower Customer Costs

Pursue Long-Term Contracts

Add Or Expand Market Offerings To Non-Energy Sectors

Refer to point 5 on page 28 of this report.

ACS

Section FIVE

A Toolkit For Performing

XXX Middle East Financial Analysis

Guidelines For Performing Financial Analysis

16 FINANCIAL RATIOS FOR ANALYZING A COMPANY'S STRENGTHS AND WEAKNESSES

Ratio Analysis

Over the years, investors and analysts have developed numerous analytical tools, concepts and techniques to compare the relative strengths and weaknesses of companies. These tools, concepts and techniques form the basis of fundamental analysis.

Ratio analysis is a tool that was developed to perform quantitative analysis on numbers found on financial statements. Ratios help link the three financial statements together and offer figures that are comparable between companies and across industries and sectors. Ratio analysis is one of the most widely used fundamental analysis techniques.

However, financial ratios vary across different industries and sectors and comparisons between completely different types of companies are often not valid. In addition, it is important to analyze trends in company ratios instead of solely emphasizing a single period's figures.

What is a ratio? It's a mathematical expression relating one number to another, often providing a relative comparison. Financial ratios are no different—they form a basis of comparison between figures found on financial statements. As with all types of fundamental analysis, it is often most useful to compare the financial ratios of a firm to those of other companies.

Financial ratios fall into several categories. For the purpose of this report, the commonly used ratios are grouped into four categories: activity, liquidity, solvency and profitability.

ACTIVITY RATIOS

Activity ratios are used to measure how efficiently a company utilizes its assets. The ratios provide investors with an idea of the overall operational performance of a firm.

The activity ratios are "turnover" ratios that relate an income statement line item to a balance sheet line item. The income statement measures performance over a specified period, whereas the balance sheet presents data as of one point in time. To make the items comparable for use in activity ratios, an average figure is calculated for the balance sheet data using the beginning and ending reported numbers for the period (quarter or year).

The activity ratios measure the rate at which the company is turning over its assets or liabilities. In other words, they present how many times per year inventory is replenished or receivables are collected.

Inventory turnover

Inventory turnover is calculated by dividing cost of goods sold by average inventory. A higher turnover than the industry average means that inventory is sold at a faster rate, signaling inventory management effectiveness. Additionally, a high inventory turnover rate means less company resources are tied up in inventory. However, there are usually two sides to the story of any ratio. An unusually high inventory turnover rate can be a sign that a company's inventory is too lean, and the firm may be unable to keep up with any increased demand. Furthermore, inventory turnover is very industry-specific. In an industry where inventory gets stale quickly, you should seek out companies with high inventory turnover.

Going forward, a decrease in inventory or an increase in cost of goods sold will increase the ratio, signaling improved inventory efficiency (selling the same amount of goods while holding less inventory or selling more goods while holding the same amount of inventory).

Receivables turnover

The receivables turnover ratio is calculated by dividing net revenue by average receivables. This ratio is a measure of how quickly and efficiently a company collects on its outstanding bills. The receivables turnover indicates how many times per period the company collects and turns into cash its customers' accounts receivable.

Once again, a high turnover compared to that of peers means that cash is collected more quickly for use in the company, but be sure to analyze the turnover ratio in relation to the firm's competitors. A very high receivables turnover ratio can also mean that a company's credit policy is too stringent, causing the firm to miss out on sales opportunities. Alternatively, a low or declining turnover can signal that customers are struggling to pay their bills.

Payables turnover

Payables turnover measures how quickly a company pays off the money owed to suppliers. The ratio is calculated by dividing purchases (on credit) by average payables.

A high number compared to the industry average indicates that the firm is paying off creditors quickly, and vice versa. An unusually high ratio may suggest that a firm is not utilizing the credit extended to them, or it could be the result of the company taking advantage of early payment discounts. A low payables turnover ratio could indicate that a company is having trouble paying off its bills or that it is taking advantage of lenient supplier credit policies.

Be sure to analyze trends in the payables turnover ratio, as a change in a single period can be caused by timing issues such as the firm acquiring additional inventory for a large purchase or to gear up for a high sales season. Also understand that industry norms can vary dramatically.

Asset turnover

Asset turnover measures how efficiently a company uses its total assets to generate revenues. The formula to calculate this ratio is simply net revenues divided by average total assets.

A low asset turnover ratio may mean that the firm is inefficient in its use of its assets or that it is operating in a capital-intensive environment. Additionally, it may point to a strategic choice by management to use a more capital-intensive (as opposed to a more labor-intensive) approach.

LIQUIDITY RATIOS

Liquidity ratios are some of the most widely used ratios, perhaps next to profitability ratios. They are especially important to creditors. These ratios measure a firm's ability to meet its short-term obligations.

The level of liquidity needed varies from industry to industry. Certain industries are more cash-intensive than others. For example, grocery stores will need more cash to buy inventory constantly than software firms, so the liquidity ratios of companies in these two industries are not comparable to each other. It is also important to note a company's trend in liquidity ratios over time.

Current ratio

The current ratio measures a company's current assets against its current liabilities. The current ratio indicates if the company can pay off its short-term liabilities in an emergency by liquidating its current assets. Current assets are found at the top of the balance sheet and include line items such as cash and cash equivalents, accounts receivable and inventory, among others.

A low current ratio indicates that a firm may have a hard time paying their current liabilities in the short run and deserves further investigation. A current ratio under 1.00x, for example, means that even if the company liquidates all of its current assets, it would still be unable to cover its current liabilities.

A high ratio indicates a high level of liquidity and less chance of a cash squeeze. A current ratio that is too high, however, may indicate that the company is carrying too much inventory, allowing accounts receivables to balloon with lax payment collection standards or simply holding too much in cash. Although these issues will not typically lead to insolvency, they will inevitably hurt the company's bottom line.

Quick ratio

The quick ratio is a liquidity ratio that is more stringent than the current ratio. This ratio compares the cash, short-term marketable securities and accounts receivable to current liabilities. The thought behind the quick ratio is that certain line items, such as prepaid expenses, have already been paid out for future use and cannot be quickly and easily converted back to cash for liquidity purposes.

The major line item excluded in the quick ratio is inventory, which can make up a large portion of current assets but may not easily be converted to cash. During times of stress, high inventories across all companies in the industry may make selling inventory difficult. In addition, if company stockpiles are overly specialized or nearly obsolete, they may be worth significantly less to a potential buyer. Consider Apple Inc. (AAPL), for example, which is known to use specialized parts for its products. If the company needed to quickly liquidate inventory, the stockpiles it is carrying may be worth a great deal less than the inventory figure it carries on its accounting books.

Cash ratio

The most conservative liquidity ratio is the cash ratio, which is calculated as simply cash and short-term marketable securities divided by current liabilities. Cash and short-term marketable securities represent the most liquid assets of a firm. Short-term marketable securities include short-term highly liquid assets such as publicly traded stocks, bonds and options held for less than one year. During normal market conditions, these securities can easily be liquidated on an exchange.

Although this ratio is generally considered the most conservative and very reliable, it is possible that even short-term marketable securities can experience a significant drop in prices during market crises.

SOLVENCY RATIOS

Solvency ratios measure a company's ability to meet its longer-term obligations. Analysis of solvency ratios provides insight on a company's capital structure as well as the level of financial leverage a firm is using.

Some solvency ratios allow investors to see whether a firm has adequate cash flows to consistently pay interest payments and other fixed charges. If a company does not have enough cash flows, the firm is most likely overburdened with debt and bondholders may force the company into default.

Debt-to-assets ratio

The debt-to-assets ratio is the most basic solvency ratio, measuring the percentage of a company's total assets that is financed by debt. The ratio is calculated by dividing total liabilities by total assets.

A high number means the firm is using a larger amount of financial leverage, which increases its financial risk in the form of fixed interest payments.

Debt-to-capital ratio

The debt-to-capital ratio is very similar, measuring the amount of a company's total capital (liabilities plus equity) that is provided by debt (interesting bearing notes and short- and long-term debt). Once again, a high ratio means high financial leverage and risk. Although financial leverage creates additional financial risk by increased fixed interest payments, the main benefit to using debt is that it does not dilute ownership. In theory, earnings are split among fewer owners, creating higher earnings per share. However, the increased financial risk of higher leverage may hold the company to stricter debt covenants. These covenants could restrict the company's growth opportunities and ability to pay or raise dividends.

Debt-to-equity ratio

The debt-to-equity ratio measures the amount of debt capital a firm uses compared to the amount of equity capital it uses. A ratio of 1.00x indicates that the firm uses the same amount of debt as equity and means that creditors have claim to all assets, leaving nothing for shareholders in the event of a theoretical liquidation.

Interest coverage ratio

The interest coverage ratio, also known as times interest earned, measures a company's cash flows generated compared to its interest payments. The ratio is calculated by dividing EBIT (earnings before interest and taxes) by interest payments.

With interest coverage ratios, it's important to analyze them during good and lean years. Most companies will show solid interest coverage during strong economic cycles, but interest coverage may deteriorate quickly during economic downturns.

PROFITABILITY RATIOS

Profitability ratios are arguably the most widely used ratios in investment analysis. These ratios include the ubiquitous "margin" ratios, such as gross, operating and net profit margins. These ratios measure the firm's ability to earn an adequate return. When analyzing a company's margins, it is always prudent to compare them against those of the industry and its close competitors.

Margins will vary among industries. Companies operating in industries where products are mostly "commodities" (products easily replicated by other firms) will typically have low margins. Industries that offer unique products with high barriers to entry generally have high margins. In addition, companies may hold key competitive advantages leading to increased margins.

Gross profit margin

Gross profit margin is simply gross income (revenue less cost of goods sold) divided by net revenue. The ratio reflects pricing decisions and product costs. The 50% gross margin for the company in our example shows that 50% of revenues generated by the firm are used to pay for the cost of goods sold.

For most firms, gross profit margin will suffer as competition increases. If a company has a higher gross profit margin than is typical of its industry, it likely holds a competitive advantage in quality, perception or branding, enabling the firm to charge more for its products. Alternatively, the firm may also hold a competitive advantage in product costs due to efficient production techniques or economies of scale. Keep in mind that if a company is a first mover and has high enough margins, competitors will look for ways to enter the marketplace, which typically forces margins downward.

Operating profit margin

Operating profit margin is calculated by dividing operating income (gross income less operating expenses) by net revenue.

Operating margin examines the relationship between sales and management-controlled costs. Increasing operating margin is generally seen as a good sign, but investors should simply be looking for strong, consistent operating margins.

Net profit margin

Net profit margin compares a company's net income to its net revenue. This ratio is calculated by dividing net income, or a company's bottom line, by net revenue. It measures a firm's ability to translate sales into earnings for shareholders. Once again, investors should look for companies with strong and consistent net profit margins.

ROA and ROE

Two other profitability ratios are also widely used—return on assets (ROA) and return on equity (ROE).

Return on assets is calculated as net income divided by total assets. It is a measure of how efficiently a firm utilizes its assets. A high ratio means that the company is able to efficiently generate earnings using its assets. As a variation, some analysts like to calculate return on assets from pretax and pre-interest earnings using EBIT divided by total assets.

While return on assets measures net income, which is return to equity holders, against total assets, which can be financed by debt and equity, return on equity measures net income less preferred dividends against total stockholder's equity. This ratio measures the level of income attributed to shareholders against the investment that shareholders put into the firm. It takes into account the amount of debt, or financial leverage, a firm uses. Financial leverage magnifies the impact of earnings on ROE in both good and bad years. If there are large discrepancies between the return on assets and return on equity, the firm may be incorporating a large amount of debt. In that case, it is prudent to closely examine the liquidity and solvency ratios.

Activity Ratios

Inventory turnover	=	cost of goods sold ÷ average inventory
Receivables turnover	=	net revenue ÷ average receivables
Payables turnover	=	purchases ÷ average payables
Asset turnover	=	net revenues ÷ average total assets

Liquidity Ratios

Current ratio	=	current assets ÷ current liabilities
Quick ratio	=	(cash + short-term marketable securities + accounts receivable) ÷ current liabilities
Cash ratio	=	(cash + short-term marketable securities) ÷ current liabilities

Solvency Ratios

Debt-to-assets ratio	=	total liabilities ÷ total assets
Debt-to-capital ratio	=	total debt* ÷ (total debt* + total shareholder's equity)
Debt-to-equity ratio	=	total debt* ÷ total shareholder's equity
Interest coverage ratio	=	earnings before interest and taxes* ÷ interest payments

Profitability Ratios

Gross profit margin	=	gross income ÷ net revenue
Operating profit margin	=	operating income ÷ net revenue
Net profit margin	=	net income ÷ net revenue
Return on assets (ROA)	=	net income ÷ total assets
Return on equity (ROE)	=	net income ÷ total stockholder's equity

About ACS Training Company

ACS Training Company provides truly world-class business, financial & technology training for individuals seeking career growth as well as corporate businesses aiming for staff skills development

ACS Consulting Services

- Strategy Advice
- CFO Consulting
- Business Planning
- Financial Analysis & Financial Modeling
- Corporate Training.

About ACS Consulting

ACS Consulting is a firm of management consultants.

With a keen focus on helping businesses with development and implementation of winning strategies, ACS enables effective management of enterprise value chains that connect an enterprise's purpose to its business strategy, organizational capability, resource architecture and management systems.

Leveraging decades of collective experience of its founding consultants, ACS Consulting possesses truly world-class capabilities that reflect in its service delivery quality.

ACS consulting provides strategy development advice & support, creates professional business plans to assist businesses with converting vague business ideas into actionable roadmaps and assists with FP&A as well as corporate development initiatives through next-generation financial modeling for any complexity of M&A or planning & forecasting scenarios.