

# An Analysis of the Global Oil Industry: in Relation to the Implications for Business Managers

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**Abstract---** The recent past form of operations in the oil industry has witnessed attributes such as ambition and vibrancy characterize groups such as stakeholders, government agencies, and community members [1]. Specifically, the oil sector has been affirmed not only to attract the interest of potential shareholders but also formed a sector through which investments have been made towards the realization of economic gains while seeking to conform to the demands for sustainability.

**Keywords---** Business Managers, Global Oil Industry, Market Environment, Oil Sector.

## I. BACKGROUND

THE recent past form of operations in the oil industry has witnessed attributes such as ambition and vibrancy characterize groups such as stakeholders, government agencies, and community members [1]. Specifically, the oil sector has been affirmed not only to attract the interest of potential shareholders but also formed a sector through which investments have been made towards the realization of economic gains while seeking to conform to the demands for sustainability. Given the need to realize higher profit margins and its emergence in the wake of an increase in demand for oil products a relatively dynamic state of operation has been witnessed while striving to increase capacity and profit [2]. Despite these efforts, significant declines in oil prices have formed a major drawback, especially between the years 2014 and 2015 [3]. The drastic changes in the sector imply that industry players such as Total, Chevron, British petroleum, Gulf oil, Getty oil and Company, Japan's Arabian Oil Company, Mobil Corp and Royal Dutch Shell are faced with market strains related to the drop in prices of oil and, thus, should reconsider their marketing plans to ensure they keep abreast with market conditions [4]. The concrete question of interest is what strategic actions should the oil sector undertake to ensure economic stability and sustainability? The aim of this paper is to provide a microeconomic analysis of the oil industry, focusing on some of the strategic business actions that the sector could adopt towards improved performance – amid instability in product price, demand, and supply.

## II. OVERVIEW OF THE GLOBAL OIL MARKET ENVIRONMENT

Every sector operates in a market environment that can either be complementary or pose as threats to the sector. Similarly, due to the fact that supply and demand are elastic, variable costs are less compared to fixed costs, translating into critical challenges regarding possible alterations to the production quantities, with prices majorly affected by geopolitical events that are unpredictable [1]. Besides, the oil market has grown to approximately 14 times larger than the general physical market, relative to the increasing profit volatility. Based on this trend, oil prices tend to fluctuate within a certain price band for long periods – until factors such as political, social, economical and technological forces trigger a significant alteration on the industry's dynamic [2]. It is worth noting that the geopolitical factor and changes in demand, as well as changes in supply pose significant effects, with the latter associated with lasting consequences. Moreover, it is deduced that the steady increase in the price of oil within the last decade has been attributed to increased demand while the slump in price has been due to oversupply [3].

Nevertheless, substitute products and sectors have contributed both positively and negatively towards the oil industry. For instance, dependence on coal and electrical engines have weakened the product demand and translated into reduced profit margins [4]. In a majority of the developed countries witnessing innovations in the motor industry, oil demand has been reported to fall drastically. For instance, sections of populations have been documented to prefer environmentally friendly products that use electricity. For example, electric cereal grinders and electric cars, which

yield substitute products to the oil industry, have gained a wide application due to their capacity to reduce environmental pollution [1]. In addition, complementary products have facilitated the sales of oil products. Specifically, the complementing sectors have created a high demand for the oil industry's products. For example, the transport sector constitutes air and motor devices that depend on oil products to operate. Similarly, companies that rely on oil products (and powered by generators) have contributed positively by increasing the level of demand that has resulted into increased profit margins in the oil sector [2].

#### *In Relation To the Uses of Oil*

Oil has been the backbone of many economies across the world. Many production companies have been relying on oil to run engines that depend on oil to run. Besides, other companies use oil generators to run motors that are produce electricity, which is later used to run heavy rollers, dry grains and serve other intended purposes [3]. Moreover, oil has been a major factor that has been supporting the automobile and the transport industry for many decades. Despite technological advancements that have led to the use of electric engines, the oil industry continues to support about 90 percent of the world's motor industry [4].

### **III. IN RELATION TO THE OWNERSHIP OF THE INDUSTRY**

In the Middle East state, private and monopolistic ownership have been prevalent. For example, in Bahrain, Oman, Kuwait and Iraq the oil industry ownership consists of state-ownership and oligopoly. Some of the foreign companies in the Middle East include Total, Chevron, British petroleum, Gulf oil, Getty oil and Company, Japan's Arabian Oil Company, Mobil Corp and Royal Dutch Shell. Some of the state owned companies in the Middle East include the Iraq National Company, Bahrain National Oil Company and National Iranian Oil Company, among others. In Europe, the oil industry is run by global oil companies. Some of these companies include the British petroleum Co, Royal Shell, Chevron, Gulf Oil and Shell International Petroleum Company [1]. Nevertheless, the presence of cartels has been prevalent.

### **IV. FOCUSING ON MARKET FAILURES IN THE OIL SECTOR**

The oil industry was not well prepared to handle the operational, technical and organizational demand that would enable it to cope with the increased demand for oil products [2]. Besides, increased demand required a more skilled workforce than the available means. As a result, the increase in production of oil did not cause a relatively proportional increase in capital expenditure (CapEx). For example, the CapEx for an additional barrel of oil has increased by about 11 percent annually – since 1999 [3]. In a study that ranked the oil projects across the world (based on their size), a significant proportion of the cumulative lifetime production

was found to come from projects with prices exceeding 70 U.S dollars per barrel [4]. Therefore, it can be inferred that while the current low-cost assets grow towards abandonment, other projects might succeed. As such, a larger number of high-cost and more complex reserves will make up the average portfolio of most companies in the oil industry [1]. Similarly, due to the nature of the current sustainable market, many projects might receive little profit; especially in companies that have already experienced CapEx – leaving a small room for improvement.

### **V. INSIGHTS GAINED**

When the degree of reduction in the price of Brent from 2015 (-50.46%) is compared to other oil stock indices, large oil companies (-16.26%) have established a higher tolerance on product prices, compared to smaller companies in the industry (-30.10%) [2]. The assets of most integrated oil companies include different types of upstream oil projects – most of which are engaged in cheaper reserves, as well as diversified sectors that include marketing and trading, refining, chemicals, and lubricants. Notably, these factors have reduced the exposure of major oil industry operators by allowing the sector to improve on possible marginal losses exhibited by high-cost reserves – over short terms [3]. Moreover, the effects on major companies should not be underestimated because most companies have risk-averse investors (such as pension funds), compared to independent oil companies. It is also worth noting that assets owned by oil companies range from upstream projects (most of which are operating as low cost reserves) to sectors such as marketing and trading, chemicals, lubricants and refining [4]. From these outcomes, it is evident that major players in the oil industry continue to face both external and internal pressure regarding the need for new approaches to vision articulation and mission implementation at the intra-industry and inter-industry respectively. Imperative to note is that the sector's players projected to exhibit flexibility in their market and supply-related operations might match the changing demands of a current, technology- and globalization-driven world whose demand for dynamism cannot be overemphasized.

### **VI. CONCLUSION AND RECOMMENDATIONS**

The purpose of this paper has been to evaluate the strategic state of the oil sector, especially after the emergence of market dynamics such as fluctuation in prices, emergence of substitute products (such as electrical engines and complementary products), and the changing political, social and economic environment facing the selected sector. An analysis of the oil sector reveals various opportunities and strengths that the sector could exploit to expand its profit margin. Despite this trend, there exist various weaknesses and treats that the sector needs to address to ensure sustainability. The major problem in the oil sector has been the fluctuating oil prices in the market, such as a case in which the first quarter revenue in the year 2015 declined by seven percent. For instance, in North America, revenue at Schlumberger Oil

Service providers reduced by four percent, while the global revenue reduced by seven percent. Therefore, it can be deduced that the prosperity of the oil sector hinges on the risk management measures, perceived to pose a promising effect of realizing a competitive advantage in the marketplace.

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