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Analysis of the Competitive State and Medium-Term Development Strategy of Mature Industry Companies

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Abstract:

The description of the standard methods of determining the competitive advantage of the company has been given by the authors in the theoretical part of the article.The assessment of the competitive advantage of Exxon Mobil has been carried out on this basis then: the political and legislative conditions under which the company operates have been analyzed. The authors have identified the leading companies in terms of total business value and profitability in the analyzed industry, which hashelped to identify the nearest competitors. The analysis of the current position of Exxon Mobil hasshowed that the company operates in a market where there is aninfluence not onlyon intra-industry competition, but also on an actively changing external macro environment. It has been concluded that the analyzed company is carefully monitoring these factors and adapting its strategy, moving away from the role of just a mining company to the production of high-value products, which allows to faster response to changing consumer demand and equalize the volatility of profits with sharp price hikes in the world energy market.

Keywords: *medium-term development strategy, a mature industry, business efficiency.*

Introduction

Every sector of the economy is subject to an aging curve, where previously high-yielding and booming companies begin to bring a moderate flow of profits and reach a plateau of growth. This process is characterized by a fundamental change in the strategy and approach to maintaining the competitive advantage of the company. It can be said that for mature industries new solutions both in the field of management and innovations in the main line of their production are becoming more important than in new fast-growing areas where the cost of error is lower and corrected by a multiple of profit and market growth.

Description of the subject

A company which operates in one of the most obvious areas of the economy – the extraction of natural resources, namely, the preservation of the competitiveness of Exxon Mobil in a sufficiently Mature oil and gas industryhas been selected for a study. To obtain more specific results, we will take the analysis of the compliance of the company's strategic steps as the subject of the study stated in the documents for investors, and the dynamics of operating and financial activities (obtained by analyzing their consolidated financial statements).

The purpose of this study is to analyze the competitive state and medium-term strategy of one of the companies in the mature industry and identify the effectiveness of its implementation.

The constant shift in demand and the introduction of more energy-efficient production forces companies to change and diversify fasterin this industry. Therefore, we believe that the study of changes in strategy in oil and gas production will be extremely indicative and their dynamics is higher than in other mature industries.

Research methodology

The following methods have been selected to conduct the study: statistics (collection and processing of quantitative data about results of activity), the causal method (identify the relationships between the change in financial indicators and the reallocation of capital cost among the areas of activity of the company), and regulatory analysis (the detection of non-matching values production and capital expenditures with values in the strategy) and the method of scientific abstraction (allowing to divide the object of my study and to analyze the main relationships in "pure" form).

1. Characteristics of standard methods for determining the competitive advantage of the company

While making strategic planning decisions, the first step is to identify the competitive advantage of the company and how it is interdependent on the actions of the external environment and the organization of internal processes. Each company operates at a "macro level" that includes 6 principal components: political factors, economic factors at each level of the company's presence (local, state, global), sociocultural, technological, environmental and legislative/regulatory factors (Bondarenko et al., 2018).

When considering the advantages of the company, it is also necessary to determine in which industry by the degree of maturity it operates.

The peculiarity in the implementation and maintenance of competitive advantage for mature industries is two directions-reducing the number of opportunities to maintain competition and switching the fight against product differentiation to reduce overall costs.

The first is characterized by the following features:

- reduction of possible differentiation advantage as a result of better customer awareness, product standardization and lack of technological change;

- the achieved price advantage is vulnerable to changes in the exchange rate and the emergence of new low-cost foreign competitors, because of the prevalence and repeatability of production technology;

- the highly developed General industrial infrastructure, along with the presence of a powerful distributor, makes the position of firms even more unstable in front of newcomers.

The effectiveness of the second direction lies in the availability of existing companies:

- economies of scale;

- cheap raw materials and intermediate goods;

- low overhead (Ermilova, 2018).

2. Assessing Exxon Mobil's competitive advantage

This study is based on the analysis of the competitive advantage of one of the largest companies in the oil industry, existing on the market for more than a hundred years (activity is conducted since 1870., originally as Standard Oil). Belonging to this industry and the time spent on the market allows us to refer this company to a successful company in a mature industry.

Let's make an approximate PESTEL analysis for Exxon Mobil. For a multinational company

November-December 2019
ISSN: 0193-4120 Page No. 4277 - 4285

operating in several regions of the world, it is customary to do a separate analysis for each of them, but I will try to summarize the key ones, the change of which will most intensively affect both the division and the company.

The company is engaged in production or has already acquired land with oil-bearing formations in the following countries: the USA, Canada, Mexico, Havana, Brazil, Cyprus, Mauritania, Equatorial Guinea, Mozambique, South Africa, Malaysia, Papua New Guinea, Australia. Chemical production is also located in a number of European countries.

We will analyze the political and legislative conditions under which the company operates.

USA, Canada-stable

The weakening of rhetoric about global warming, the country's withdrawal from the Paris agreement to reduce greenhouse gas emissions, the revision of the ban on the production of oil continental plume in Mexico. The company's home market is now extremely convenient, predictable and is a driver of production growth. At the same time, the imposition of sanctions has temporarily limited the possibility of participation in new projects on the territory of the Russian Federation.

Cyprus, Australia. Malaysia – the medium stable

The joint venture agreements for the exploration of the sea coast of Cyprus. Periodic litigation in the field of additional taxation from the government of Australia.

Brazil, Mexico, Havana. South Africa-average

Legal uncertainty in joint venture with Petrobras. Attractive fiscal regime, low input rocks and high-lying deposits, reduction of regulatory norms on the participation of foreigners in production, make this region extremely attractive to all major oil majors (Savel'yeva et al., 2017).

Equatorial Guinea-medium unstable

Despite the long rule of the dictator and the continuing sluggish protest situation, the country is taking a number of steps to liberalize labor law and social freedoms. There is GDP growth overtaking the pace of African countries, so although now the sovereign political index is low it is expected to increase and improve the business environment.

Mauritania is unstable

It is characterized by a strong aggravation of terrorist activities, the introduction of troops of third countries to maintain peace. Possible intensification of the activities of terrorist movements with the subsequent degradation of the political system and the ownership of foreign companies. At the start of production, tax deductions will constitute a significant part of budget revenues and it is expected to strengthen regulation in terms of the tax burden for oil transfer and related structure. Large expenses on protection of property and capital constructions of the company are possible.

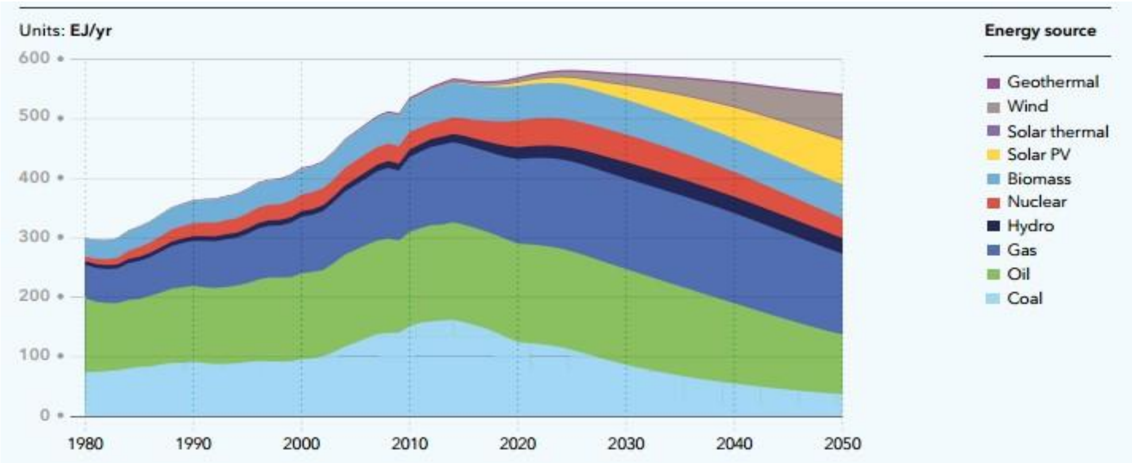
Mozambique-unstable

High levels of corruption, low level of education of the labor force and limited supplies of fresh water. It is below Mauritaniaon the political risk index. It has enough established trade routes to South Africa and part of Europe (food exports). Political instability classic every presidential election in the country, effectively lobbying through military structures rather than government are observed.

Consider economic conditions. The main production assets of the company are raw material enterprises. At the same time, the deviation in oil and gas prices will have a twofold effect on the financial result of the company – a significant increase in prices will be accompanied by an increase in production and monetary valuation of proven reserves, while reducing margins in processing (Samarina et al., 2019). Since energy consumption is closely linked to economic development – the commissioning of new enterprises, the increase in personal consumption

November-December 2019
ISSN: 0193-4120 Page No. 4277 - 4285

of the population, it is important to monitor the world, and especially the growth rates of the economies of new developing countries and China. At this point in time and on the planning horizon until 2025, a steady increase in energy consumption is expected, with a change in the structure of sources (Fig. 1), so it is necessary to build a strategy based on growing demand.



Picture 1. Forecast world primary energy supply by sources

(https://eto.dnvgl.com/2017/download)

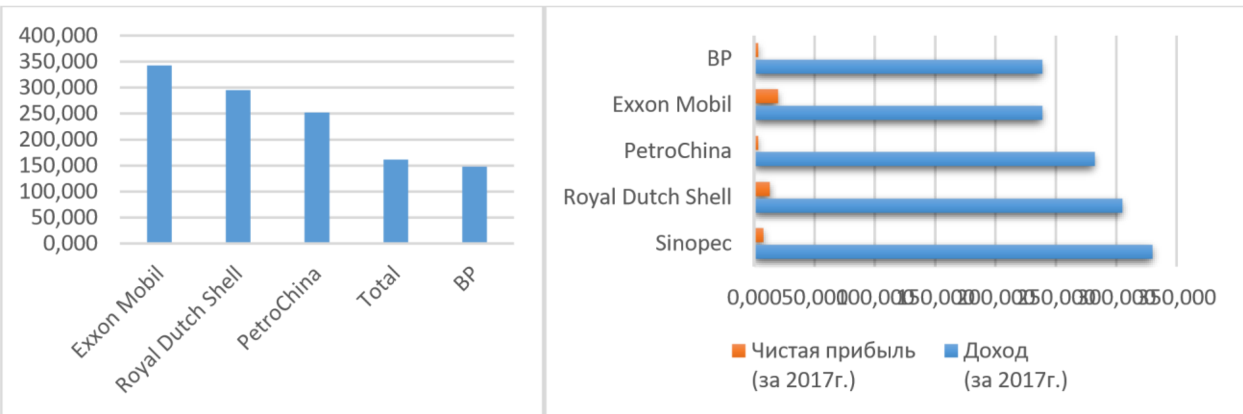
At the same time, closer coordination with other major oil producers and suppliers (OPEC countries), owners of the main logical routes and pipelines is requiredto prevent overstocking of the market and increase the influence of buyersin addition to price factors.

It is necessary to establish existing competitors and the strength of economic agents (Ihnatenko et al., 2019), which can affect Exxon Mobil's operating and financial performance to estimate further competitiveness. To do this, we can use the model of Porter's five forces.

1.Rivalry within the industry

Competition in the oil and gas industry and especially in the production sector is extremely intense. Most of the largest oil producing companies are vertically integrated companies (VINC). The best measure of a company's future potential revenues, operating performance and overall size is its market capitalization.

Picture 2 shows the leading companies in total business value and profitability. This analysis helps to identify the nearest competitors.



Picture 2. The five largest oil companies by level market capitalization and total return

November-December 2019
ISSN: 0193-4120 Page No. 4277 - 4285

(in billions of dollars) USA)

(https://gep.mckinseyenergyinsights.com/)

The principal differences in the strategy of VINC and national oil-producing companies are shown in table 1.

Table 1. The main prerequisites of companies ' strategies

For vertically integrated oil companies	For national oil companies
Access to reserves	Market access
Lobbying in the government	Access to technology
Access to the closed domestic market	Need for experienced staff
Safety of investments and tax rules	Receiving international subsidies
Economically competitive projects and economies of scale	Improve efficiency
Prevention of nationalization	Quality investments in national enterprises
Allocation of risk	Knowledge transfer
Asset diversification	Economic development of the country
Maximization of capitalization	Reducing risk to a level acceptable by the government

2. Comparative analysis of the financial performance of the company and its nearest competitors

Table 2. Business performance metrics for Exxon Mobil and selected competitors (byhttps://corporate.exxonmobil.com/en/company/investors/investor-materials-archive data; https://www.total.com/en/investors/publications-and-regulatedinformation/regulated-information/annual-financial-reports; http://www.petrochina.com.cn/ptr/ndbg/dqbg_list.shtml; https://reports.shell.com/annual-report/

	ExxonMobil			RoyalDutchShell			PetroChina			Total		
Indicator	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Profitability ratios												
1. Gross margin	22,40%	20,31%	22,80%	8,82%	6,63%	3,69%	17,04%	18,73%	19,08%	17,58%	18,22%	14,90%
2 Operating margin	8,13%	4,20%	9,29%	7,27%	3,77%	1,49%	3,75%	4,24%	4,76%	6,98%	5,22%	4,29%
3. Net profit margin	8,37%	4,17%	6,90%	4,40%	2,05%	0,83%	1,83%	1,82%	2,44%	4,84%	4,14%	2,89%
4. ROTA	5,86%	2,67%	5,01%	4,29%	1,94%	1,20%	2,46%	2,20%	2,77%	3,69%	2,96%	2,42%
5. ROA	5,69%	2,54%	4,91%	3,30%	1,16%	0,65%	1,53%	1,23%	1,76%	3,42%	2,69%	2,13%
6. ROE	10,20%	4,82%	9,52%	6,81%	2,53%	1,34%	2,66%	2,06%	3,03%	7,28%	6,11%	5,02%
7. ROCE	9,07%	4,13%	8,54%	4,96%	1,76%	1,01%	2,20%	1,64%	2,31%	5,34%	4,29%	3,42%
Liquidity ratio												
1.The current liquidity ratios	0,82	0,87	0,79	1,20	1,17	1,32	0,74	0,85	0,74	1,50	1,33	1,38
2. Net working capital	-10637	-6222	-11353	15637	12744	22410	-22439	-10177	-19598	28243	17832	19261

November-December 2019
ISSN: 0193-4120 Page No. 4277 - 4285

Leverage												
1. The ratio of total debt to assets	0,44	0,47	0,47	0,51	0,54	0,52	0,43	0,43	0,44	0,53	0,56	0,57
2. Ratio of long-term liabilities to equity	0,11	0,14	0,10	0,27	0,31	0,12	0,24	0,27	0,29	0,27	0,30	0,32
3. Ratio of financial leverage	0,79	0,90	0,92	1,06	1,18	0,93	0,74	0,72	0,76	1,13	1,27	1,35
4. The ratio of long-term debt and equity capital	0,13	0,17	0,1	0,37	0,44	0,28	0,32	0,37	0,42	0,36	0,42	0,47
4. The interest coverage ratio	32,07	18,59	71,63	5,49	2,75	2,08	3,37	2,93	3,38	18,64	12,28	10,85
The indicators of activity												
1. Inventory turnover period	33,7	34,4	32,0	65,4	76,4	65,5	31,6	40,8	33,2	42,7	45,4	34,0
2. Inventory turnover	10,8	10,6	11,4	5,6	4,8	5,6	11,6	8,9	11,0	8,6	8,0	10,7
3. Accounts receivable turnover	39,4	38,9	30,2	70,9	86,3	75,1	13,1	13,2	12,8	31,7	29,8	23,5

Consider the competitiveness of Exxon Mobil, comparing it with the identified main competitors: Royal Dutch Shell, Petro China, Total (see table. 2, based on the annual consolidated financial statements of the companies). The indicators are calculated in the classical way according to the formulas of corporate Finance analysis.

Summary

Let's draw conclusions for each of the main groups of indicators.

1. Profitability ratios:

The first two indicators reflect the narrower specifics of conducting, as well as business ownership at first glance, such similar companies in the industry. The share of production and development of fields at all except Shell, prevails before transportation which because of purchases of foreign energy carriers has more than 2 times lower indicators of a margin. PetroChina's minimum net profit margins are determined by state ownership and redistribution of profits earned by the company within the country at other stages of the value chain.

ROTA, ROA, ROE as reflectors of the specific use of assets of anindustry measure the effectiveness of management decisions and the ability to adequately change the strategy and follow the market. For the three private companies have one directional trend to increase, from the reduced level of 2015, when there was strong volatility in the cost of oil. At the same time, we note that Exxon has superior performance here, which is correlated with the rate of diversification of profit sources, which will be discussed further.

ROCE reflects the same picture; private companies are more attractive than the state (PetroChina) and indicates that the entire entrusted capital of ExxonMobil generates 1.5 times higher returns than the nearest competitor.

TEST Engineering & Management

November-December 2019
ISSN: 0193-4120 Page No. 4277 - 4285

2. Liquidity ratio

The ExxonMobil we are considering has a current liquidity ratio of less than one, which means the company may experience financial problems if all debt obligations are submitted for immediate repayment and although the figure is increasing every year, but the sales secured by borrowed capital are still greater than their own. At the same time, we can note that this condition is not typical for the industry and two other private companies have a healthy coefficient value (1.2 and 1.5).

Due to the reduced value of the current liquidity indicator, it is obvious that net working capital will be negative. This may signal an overtrading situation, i.e. the company is trying to increase sales, profit or market share too quickly, but uses borrowed capital to do so. This signals poor financial management or the pursuit of short-term yield targets for existing owners and stockholders. This is poorly perceived by the capital market and the value of Exxon shares in the long term is reduced in part because of this.

At the same time, it is worth noting the other extreme in Shell and Total, which have excessive working capital stock and insufficiently effective use of available resources, which is confirmed by the low profitability ratios discussed earlier.

3. Leverage

Indicators 2, 3, 4 for our company have a value less than the threshold, this means an increased ability of the company to finance its capital with borrowed funds. At the same time, Exxon Mobil has a significant margin of coverage for newly taken loans and the total debt burden in the company's ownership structure remains not critical. It compensates not optimum values of liquidity and the capital and allows not to carry the company to a risk zone on these indicators.

Comparing with the nearest competitor – Total, we see that its activities according to these indicators, on the contrary, are exposed to the risk of credit leverage. And while the coverage ratio still has a large margin, other debt metrics should be adjusted, which the company does annually.

4. The indicators of activity

According to this group of indicators, it is impossible to identify a certain leader, Petro China obviously uses state resources or other methods of calculation between companies, and classic private ones have certain problems and the turnover of reserves, and, consequently, the increase in the average terms of receivables only grows from year to year.

Conducting a comprehensive analysis of the comparison of business performance indicators, it is interesting to consider the segments of the main activity of our company, how the percentage of sales is distributed among them and how the announced development strategy of Exxon Mobil correlates with the real steps to diversify the sources of profit (table. 3).

Table 3. Distribution of production activities of Exxon Mobil in shares in monetary terms (according to https://corporate.exxonmobil.com/en/company/investors/investor-materials-archive).

	2017		2016		2015	
Estimate area	inside direction	from the general volume	inside direction	from the general volume	inside direction	from the general volume
Income by type of activity (excluding corp. and fin. liabilities), million US dollars	23470		9012		18076	
Production	**56,90%**		**2,17%**		**39,28%**	

November-December 2019
ISSN: 0193-4120 Page No. 4277 - 4285

Inside the USA	49,58%	28,21%	-2117,86%	-46,06%	-15,20%	-5,97%
Outside the USA	50,42%	28,69%	2217,86%	48,24%	115,20%	45,25%
Treatment	**23,85%**		**46,62%**		**36,27%**	
Inside the USA	34,80%	8,30%	26,04%	12,14%	28,99%	10,52%
Outside the USA	65,20%	15,55%	73,96%	34,48%	71,01%	25,76%
Chemicalproduction	**19,25%**		**51,21%**		**24,44%**	
Inside the USA	48,47%	9,33%	40,65%	20,82%	54,01%	13,20%
Outside the USA	51,53%	9,92%	59,35%	30,39%	45,99%	11,24%

There is a preservation of the level of production for three years, while it is worth noting that, although the share in the US is much smaller, it brings almost half of the profits for this entire direction. But diversification into other markets helped to survive periods of high volatility in oil prices, while foreign production capacity offset losses in the US market.

Long-term preservation of the position of production as the main source of income of the company. Declared in the strategy of doubling production in the United States and the overall performance could not be achieved.

There is an increase in the share in both physical and monetary terms in foreign countries, which corresponds to the company's plans to produce more marginal goods and premium fuels for the European market.

Conclusion

Having considered the current position of ExxonMobil, we have been convinced that the company operates in a market where not only intra-industry competition, but also actively changing external macro environment is being strongly influenced. The company closely monitors these factors and adapts its strategy, moving away from the role of just a mining company to the production of high-value products, which allows to faster response to changing consumer demand and equalize the volatility of profits with sharp price spikes in the global energy market.

Although we have proved that the company is able to effectively implement its strategies, and we believe that the initial direction was not radical enough. Even with all the diversification, more than half of the income comes from the production and sale of crude oil in almost one of its home markets. The company needs to look for new profit drivers as the US energy consumption market has already saturated and only further improvements in carrier efficiency are expected (Bondarenko et al., 2018).

Our conclusions coincide with the sentiment of the exchange, which is not ready to increase the market capitalization of an insufficiently rapidly updated company, despite the growing natural and profitable performance indicators.

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