



A radical solution for a profound, sustainable impact

Petroplus has just filed for bankruptcy. Until recently, this refiner was the largest independent retailer in Europe. Now, this once prestigious company has become the latest but probably not the last casualty in a refining margins crisis which has plagued the industry over the last three years.

On its roller-coaster journey, Petroplus pursued a decade of M&A operations, developing a portfolio which peaked at 7 production sites, 2 of which have since been shut down in the last two years. This reflects the fast-moving trend on both sides of the Atlantic to shrink unprofitable refining capacity.

The global financial downturn, triggered primarily by the debt crisis of 2008 and the reduced access to credit, became one of the main drivers in a reduced demand for oil products. In addition, new, more efficient and complex refineries coming on stream in the Middle East and India introduced a competitive flow of trade throughout the Mediterranean region, while the drop in supply from countries such as Libya and Syria forced Mediterranean and Southern European refiners to look for alternative, usually more expensive crudes.

Refiners are price takers. Assuming a proper optimization of the crude and product slate, they have little influence on the refining margins. The only real impact they have on profitability is to enhance their operational performance, i.e. to reduce the cost of converting each barrel of oil into finished products.

Stuck in this unenviable position, operational excellence is a life-saving lever for these businesses. Aware that this factor plays a key role in short term profitability, most refineries routinely focus on improvement initiatives, addressing major cost items such as energy, personnel or maintenance. This has a somewhat subtle implication, which at times is very

evident by looking at the trend of Solomon quartiles: if everybody improves slightly, this general „slight improvement“ has no effect on competitive positioning. Continuous and gradual improvement is not radical enough to save refineries which are fighting for survival. The only solution is to implement what is known as a “step change”, this being a fast-acting, deep and non-reversible shift in pace, fueled by a strong sense of urgency spread across all organizational levels, from the site manager to shift operators.

A step change differs intrinsically from traditional enhancement initiatives in its approach, scope and timing and only a sophisticated combination of these three components can lead to a tangible and sustainable outcome.

Do not expect a step change to always be a popular or welcome process for those involved. It can create tensions, generate heated discussions and provoke decisions which are not always unanimous. As the list of requirements below indicates, it demands a dedicated and pro-active commitment from all team players:

- Top priority for management (substantially and on a daily basis, not as catchword)
- Deep process streamlining and re-engineering, not simple cost cutting
- Large scale mobilization and people involvement (including a full-time, highly visible project team)
- Strong bottom-up involvement as change engine: communication, ideas,...
- A clearly communicated, strong sense of urgency and risk to all involved, also at a personal level
- Privilege decisions and actions with respect to coordination, planning, overly detailed analysis: substantial rather than formal approach
- Aggressive, easily understandable and measurable targets

The communication strategy must be as extensive and highly profiled as the project approach:

- Accelerated creation of a “burning platform” (objective, facts driven messages, initiative positioned as “a matter of survival”)
- Communication targeted to the entire organization
- Initial phase: “provocative”, at times “aggressive” communication (remove sense of security to wake up individuals, shift priority from a corporate to a personal level)
- Implementation phase – shift focus to collaboration, team effort and the role of the internal owners of new processes

A step change is implemented comprehensively, across the whole company. In order to rapidly and materially slash the cost base, no major cost item or business process may be left untouched. Secondly, the process must bring about a cultural change in the organization. This can only be effective if the entire corporation is actively involved. For a refinery, this means reassessing the organizational model and sizing (including all work processes and routines underpinning sizing); deeply redesigning all key business processes (from maintenance to quality) and raising awareness and control over energy consumption (behavioral levers can often achieve quick wins with no capital expenditure).

Precise timing complements the right approach and scope. By their very nature, step changes are fast moving processes. Speed equates well with credibility and sense of urgency. If it is a matter of survival, there is no point for postponement and procrastination. Aggressive work plans, tightly monitored and implemented, are a clear and tangible sign of the priority status and help assert positive pressure on people, motivating them to (out)perform. A refinery lives by its mix of daily routines and prompt reaction to unfore-

seen events and while both of these must continue, neither of them are a good reason to delay a step change.

Usually, the design and implementation of this type of approach requires some form of discontinuity, often in a combination of pressure from above. This could involve changes at the corporate executive level, such as a new refinery manager (or other top manager at the site), a different shareholding structure (e.g. sale or JV) or the use of external resources to reinforce the internal project team and bring a fresh outlook and methodology.

Despite its urgency and fast pace, step changes are not easy to implement and will take a certain amount of time. Production sites with the complexity of a refinery generally need 1-2 years to implement step change, depending on size and initial conditions. The effort and attention required, plus the drain on scarce financial resources should not be underestimated. So is it all worth the effort?

I have personally experienced two full cycles of step change, in two very different countries and cultural contexts. In both cases, the results testify to the contribution that such an initiative can have in terms of rapidly improving the financial performance and competitive position of a refinery. Financially, fixed costs can be reduced by 20% in 3 years – actually improving indicators such as mechanical availability or reliability (improved processes cost less and boost performance). In addition, the cultural transformation which accompanies a step change radically strengthens managerial competence and awareness across organizational levels. This injection of human capital may be difficult to evaluate in monetary terms but, in my experience, it represents the highest return on investment.

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Guidelines for a step change program

Strategic questions

- How to create the sense of urgency?
- Which To Be goals?
- Which project design?
- How to break with the past?
- Which milestones to reach goals?
- How to engage the entire organization?
- How to constantly fine tune the approach?

Actors

- Top Management highly involved
- Leverage of change agents
- Sizing of project team adjusted to workloads and requirements
- Cascade involvement of the entire structure, up to operators
- Consequences for those acting as barriers to change
- Organizational implications also in the short term

Project approach

- Processes / solutions redesign / test
- Specific improvements (e.g. contracts) also in the short term
- Leverage of bottom-up inputs (e.g. field people, clients of key processes)
- Leverage of external inputs (e.g. benchmarks, visits)
- Leverage of quick and tangible results
- Rigorous benefits tracking

Communication

- Highly emotional initial meetings (e.g. kick-off)
- Two-way communication (e.g. feedbacks, ideas gathering)
- Visual instruments (e.g. Posters, videos); less PowerPoint
- Project fairs open to everybody
- Strong presence of top management in the field
- Specific tasks / goals

Communication

- Coherence among messages, actions and top management behavior
- Focus, speed, no frenzy
- Clear, respected next steps
- Courage in taking decisions
- Significant incentives / consequences