Energy

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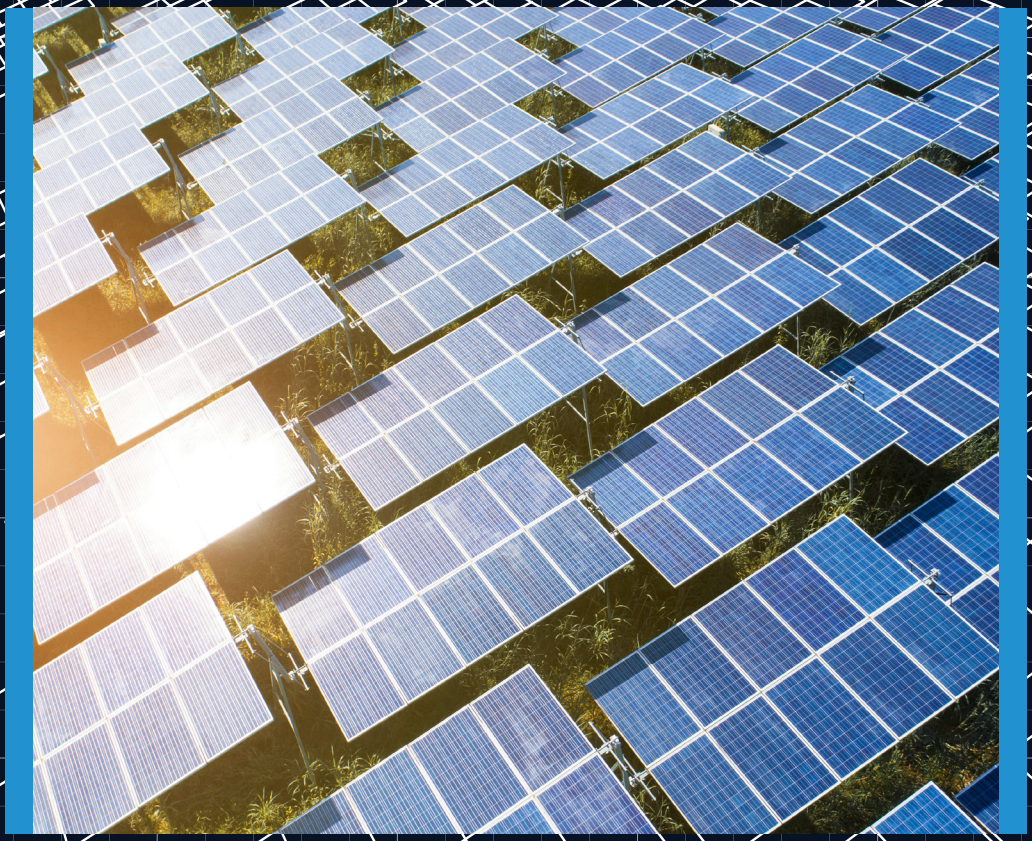

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How energy companies can approach strategy to thrive amid change

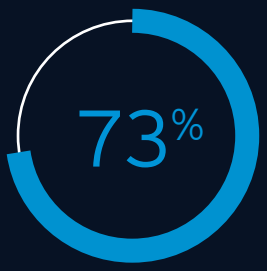
COVID-19 lockdowns, a collapse in industrial activity and global travel bans caused a substantial decrease in demand for natural resources. Oil prices crashed to the lowest levels since 2001, while gas demand has fallen by as much as 20%. The regional power markets are also increasingly at risk of a prolonged decline in demand. This uncertainty has amplified the need for C-suite executives to adjust their long-term strategies.

Energy companies may need to be increasingly agile and may need to review their strategic priorities more frequently. Many energy executives have transformed their core business operations by optimizing their cost structure, redesigning the supply chain and increasing the speed of capital and resource reallocation.

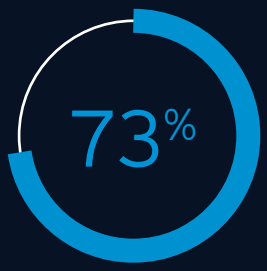
Businesses want to self-disrupt before competitors force a disruption. Executives who oversee strategy are creating new roles, such as Chief Growth Officer, Chief Transformation Officer and Chief Sustainability Officer.

At the same time, strategy now likely needs to focus on all stakeholders – not just shareholders. And competitors may need to be considered as potential partners to thrive in an uncertain future. These forces are changing the way companies formulate and execute strategy. The new EY Realizing Strategy survey of more than 1,000 chief executive officers (CEOs), chief financial officers and other C-suite executives on the future of strategy formulation shows how.

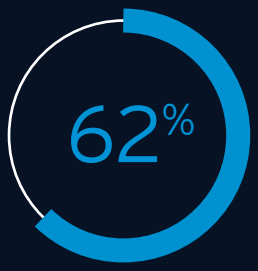
Among the key findings from the energy executives surveyed:



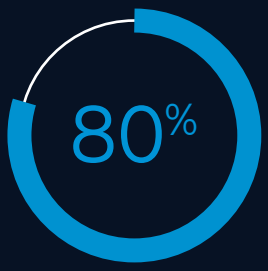
indicate that COVID-19 will impact, or even cause them to pivot, their organizations' medium- to long-term strategy. And 13% say it will cause them to look to new sectors to succeed.



believe that customers are as important as, or more important than, shareholders when formulating strategy. And 70% say the same for environmental and social issues.



believe that the biggest competitive threat in the next three years will come from a company outside their current sector.



who added the roles of chief growth officer, chief transformation officer, chief innovation officer, chief technology officer or chief science officer in the last five years say that those positions substantially influence strategy.

01 Formulate strategy with more stakeholders in mind

The survey reveals energy executives are somewhat more likely than other executives to consider environmental and social issues (70% vs. 56%), suppliers (69% vs. 54%), and government and regulatory requirements (66% vs. 65%) to be as or more important than shareholders.

Growing public concerns on climate change have magnified its importance and accelerated the pace of corporate investment. The oil and gas companies, as well as energy utilities, have long been challenged by stakeholders and investors on climate change and risk exposure. In power and utilities, with the cost of distributed generation and battery technologies continuing to fall, empowered customers are finding it increasingly feasible to pull the plug on traditional energy companies in favor of generating, storing and selling their own power.

What energy executives may need to do: to effectively compete and innovate, energy companies may need to prioritize and focus on all stakeholders by understanding what drives them and thereby aligning their business models and strategies. Energy companies can consider ramping up investments in innovative technologies to address environmental impacts and modernizing operations using digital technologies. Companies can also collaborate with customers for the management of distributed energy resources and with governments to effectively adapt to regulatory changes.

02 Embrace your changing ecosystem and "co-opetition"

Digital technologies and increased competition from both inside and outside the sector are creating a more distributed, inclusive marketplace. Technology providers, digital giants, auto manufacturers, retailers, aggregators and intermediaries are all vying for energy market share. These players are well-positioned to scale up investments and are already competing across the electricity value chain in areas such as large-scale wind and solar photovoltaic projects, energy storage, electric vehicle charging infrastructure, and connected devices within the home. Further, with evolving customer expectations and availability of smart devices and low-cost renewables, individuals, businesses and communities are exploring ways to optimize consumption, source greener energy and better manage their energy bills.

This indicates that future competition may come from everywhere and anywhere. In the survey, 62% of energy executives indicate that the biggest competitive threat in the next three years will come from a non-traditional competitor. Therefore, energy companies are becoming more open to "co-opetition" to thrive amid a dynamic, ever-changing industry. Almost 95% of executives indicate that they are likely to partner with competitors: 60% of them indicate that they would be most likely to do so to overcome traditional barriers, such as capital requirements, regulatory requirements and supply chain optimization. Meanwhile, 33% indicate that they would do so to enter new markets or create a new market or demand.

What energy executives may need to do: to thrive in an increasingly competitive environment, energy companies may need a dual strategy that focuses on the day-to-day needs of the current business while innovating for the future. Companies may need to understand key capabilities required in the organization and make fundamental changes to their offerings. For instance, utilities can change the way in which they configure and operate their grids to compete commercially. Similarly, oil and gas companies can examine the new value pools and potential synergies. Energy companies can also focus on forming strategic partnerships, joint ventures (JVs) or alliances to deliver advanced energy solutions such as storage and e-mobility solutions.

03 Reassess the C-suite to execute strategy

To effectively formulate and execute a strategy, energy companies are involving a broad group of C-suite executives. The CEO, chief strategy officer and board of directors are traditionally charged with formulating strategy. However, within the past five years, energy companies have established several new roles, including a chief growth officer, chief transformation officer, chief innovation officer, chief technology officer or chief science officer. Over 80% of the executives surveyed cited that these roles have had a moderate to significant impact on corporate strategy.

Meanwhile, with innovation and digitalization being the key factors driving disruption in all the industries, it's not surprising that the chief innovation officer, chief technology officer (CTO), chief information security officer and chief data officer are becoming more involved in developing strategy.

What energy executives may need to do: energy companies can widen the decision-making group to bring in diverse viewpoints and give authority to these new roles to have a material impact on strategy development.

04 Move at the speed of thought

More than 40% of surveyed executives indicate that organizational velocity can be driven by implementing agile practices and increasing the speed of capital allocation. Beyond the traditional capital reallocation approach, executives are also focused on other ways such as building a culture of innovation, engaging in more inorganic transactions and redesigning the supply chain. Energy companies also recognize the need to change core processes to move at the speed of strategy. In fact, 65% of executives indicate that they need to change their entire capital allocation and budgeting processes.

Moreover, building digital capabilities is becoming essential, as energy companies are experiencing disruption at many levels. More than 20% of energy executives plan to further digitize their operations in the next three years. This commitment can enhance operational performance across the value chain, from planning and monitoring operations remotely to automating manual tasks and streamlining processes.

What energy executives may need to do: energy companies can focus on building agile and technologically transformed businesses to survive the pitfalls created by the COVID-19 crisis and long-term pressures of the energy transition. Companies can evaluate new business models (such as alternative energy sources, EVs and microgrids), innovate and develop new solutions. Executives can also focus on which social changes that emerged in response to the pandemic are likely to become permanent, such as reductions in mobility. The disruption from COVID-19 also provides an unprecedented opportunity for energy companies to redesign their supply chains. They may also be required to redesign the capital allocation process to enable swifter capital deployment.

Eight key actions for reimagining and realizing your long-term strategy

1	Understand the totality of your ecosystem to effectively compete and innovate
2	Focus on total stakeholder return to enhance enterprise value
3	Build real-time, dynamic analytics for strategic planning that better preempts disruption
4	Inject agility in your organization's DNA to increase adaptability
5	Create a repertoire of playbooks to boost ROI from all types of partnerships and transactions
6	Rework key processes, such as risk management, internal controls, legal and compliance, to enhance the value from your ecosystem
7	Align the digital strategy with the enterprise strategy to unlock the full potential
8	Redesign the capital allocation process to augment swifter capital redeployment

Conclusion

In the face of substantial market disruption, the energy companies are not without options. Many are weathering the storm by revisiting strategic priorities more frequently and taking a holistic view of their business models. Strategy development may require adjusting core internal processes and bringing together a wider set of executives to develop strategy. Likewise, by focusing on a broader group of stakeholders and collaborating with competitors or those in adjacent subsectors — energy companies can develop an ecosystem of partners for mutual benefit.

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