Dynamic Market Response:
A Business Model Approach for Responding to Market Change

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Rapidly changing market dynamics have caused many Oil & Gas firms to transform their operating models to become more open to change, drive better customer value, enhance financial performance, and maintain their competitive position. A Dynamic Market Response (DMR) approach offers an integrated methodology to making operating models more nimble and able to adapt quickly to market changes.

**Improve flexibility while maintaining control**

Oil & Gas firms modify or redesign operating models for many reasons, including entry into new markets, changing market conditions, regulatory scrutiny, and mergers and acquisitions. KPMG’s 2014 Energy Industry Outlook Survey found that 30% of the executives surveyed expected to increase spending on business model transformation during 2015. The DMR approach provides the flexibility organizations need to respond quickly to change while maintaining necessary governance and controls. This approach integrates organizational design with continual improvement in processes and technology to better align operations with strategy and core objectives. It allows companies to capitalize on efficiencies, improve returns, and accelerate decision-making abilities.

For companies without a DMR approach, acting in anticipation of industry change can be a slow and burdensome process, resulting in missed opportunities and increased risk. Companies that take the time to understand the alternative models and implement them correctly will typically realize a number of benefits. Some of the most common benefits are better coordination across functions, optimization of the cost structure, remediation of process gaps, efficiencies from asset optimization and automation, more support for strategic objectives, improved competitive position, and greater shareholder value.

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Designing a dynamic model to match the firm’s strategy

Designing and implementing a dynamic business model can be challenging. Six steps can help address that challenge: (1) Define Requirements, (2) Communicate the Plan, (3) Design the Structure, (4) Align Policies to Strategy (5) Implement the Model, and (6) Continuous Improvement.

Define the organization’s requirements: Using the DMR approach starts with an evaluation of business models that align with the organization’s goals and objectives. Each type of model comes with both benefits and risks that organizations must consider. Organizations that can strike the right balance between benefits and risks are more effective in achieving strategic goals and growth potential.

The DMR approach considers five elements: Governance and Controls, Organization and People, Processes, Data and Reporting, and IT systems. These elements are customized to meet the individual needs of the business environment and the level of complexity the business requires. For example, some organizations may consider a new system implementation to eliminate complex and tedious processes, thereby freeing up staff to focus on more value-added tasks. Other organizations may seek more robust processes for integrating new trading activities into the business. Regardless of the objective, changes to the operating model must be fully integrated into these five elements.

Obtaining management buy-in for change requires a well thought out plan for implementation, including the expected outcomes of the new model. It should adequately incorporate scenario analysis of past market impacts on an organization and analyze how the organization, including governance and oversight, would have performed during periods of market volatility, process breakdowns, and exception management events. Analysis of potential outcomes during those same periods under the new model should also be reviewed. The business case for change needs approval from senior management, internal champions for the project are critical for buy-in from the board of directors.

Communicate the plan through the organization: Changing the culture in an organization is often the most difficult task. A well-articulated strategy that is communicated to the entire organization from leadership to daily operations, is key to a successful implementation. Staff buy-in is critical since they play a vital role in development of the operating model, and have in-depth knowledge and experience with the firm’s people and processes. Numerous studies have shown that many organizations fail to make this communication and cultural change a priority.3

In order to maximize staff buy-in, the strategy, design, and implementation phases must be communicated throughout the organization. Effective communication through town halls, live meetings, and workshops allow for interactive sessions with staff as well as the opportunity to clarify the message.

immediately and address concerns through Q&A sessions. Additionally, key representatives throughout the organization can act as proponents for the change and help manage staff expectations. The transformation process carries the risk that staff members could challenge the change and impact morale. This slows progress and can ultimately lead to a model that does not fully function as intended.

**Design the structure:** The structure of the model must match corporate strategy and culture. Organizational infrastructure needs to have the ability to drive consistent and controlled commercial growth and allow for future scalability. It must be able to adapt to evolving markets and remain flexible to react to change. A comparative analysis with leading practices within the organization’s peer group can help identify model types to consider emulating. This can also help to identify weaknesses in the model where change may be warranted.

A robust assessment of the current state helps to highlight where processes interfere with one another and where inefficiencies exist. Independent staff interviews, customer surveys, and other key stakeholder communications provide a more complete understanding of where the operating model can improve. Identifying and establishing an effective infrastructure will enable the organization to identify opportunities for growth and correct any inconsistencies with stated objectives. Lastly, the model must support management’s ability to make timely decisions.

The ability to create efficiencies and value for the firm and its customers drives the decision to modify or overhaul existing operating models. As you consider the design phase, it is important to understand your internal and external customers. What does value mean to them? How does your product or service contribute to their business? How will your product or service contribute to their business after the implementation of your new model? Keeping the customer’s value drivers in mind throughout the process is a major key to success.

**Align policies with strategy:** Driving maximum value from the model requires not only appropriate design but also efficient collaboration between business functions, governance structures, and platform elements. The organization and people must be fully aligned and staff must have a clear understanding of the new policies and processes. The policies must provide for an appropriate governance and control structure with the necessary principles and procedures to enable the company to operate and execute against its strategy. The processes must tie to IT systems appropriately, the data and reporting must be produced and distributed in a timely manner, and management must be able to use relevant real-time information to make decisions quickly.

**Implement the model:** When implementing the model, you must consider the key areas affecting all strategic implementations: people, assets, budget, and time. A successful implementation typically requires a team with cross-functional knowledge, capable of aligning assets and processes with corporate strategy, experienced in driving organizational change, and with proven project management capabilities. This team should have the ability to communicate well with senior leadership, and anticipate and prepare for project challenges.

Companies should allow an adequate amount of budget and time to make the implementation successful; setting initial expectations with key decision-makers and senior management is vital to a successful transition to a business model capable of dynamic business response. Basic tasks such as policy and process redesign, training development, and department reorganizations are relatively easy to deliver on a specified timeline and budget. More complex tasks such as a system selection and implementation, business approval for newly designed reports, user acceptance testing, and business unit sign-offs can quickly impact schedule and budget. This is often due to the many opportunities for delays related to IT technical matters or decision-making roadblocks throughout the business.

A DMR-based implementation should also include an operational excellence program to monitor the model for continuous improvement and to overcome challenges. An operational excellence program is the framework by which metrics drive business change and help to improve upon a company’s ability to deliver against its strategy. These programs measure business model performance across multiple areas to help leadership better understand where operational problems are hampering the commercial strategy and what process changes can help increase economic value. Continuous improvement effects should become evident in bottom line metrics over time. The benefits of continuous improvement can include increased revenues at comparable or lower risk levels, improved margins, and increased organizational flexibility. Other benefits include improved cost structures, improved operational efficiencies, increased scalability, better performance metrics, and better use of data for real-time decision-making.⁴

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How KPMG can help

KPMG has experience across the energy value chain helping clients adjust to volatile market conditions and designing operating models that better adjust to change. Our approach is tailored to companies of various size and complexity. Central to our approach is the realization that operating models are unique to each organization and must be designed with corporate strategy and objectives in mind. KPMG works with each organization to design a unique model that can generate results quickly and evolve and adapt over time as the business and market changes.

KPMG can bring the full resources of the firm to capture the entire suite of business needs including expertise in business transformation, people and change, technology and systems, risk management, regulatory, strategy, accounting, tax, and finance.