



# Oil Industry Shell Company Business Strategy Analysis

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**Abstract.** Oil is an important basis for the development of national economy. At present, the oil industry of all countries in the world is developing rapidly. At the same time, the operation and management of petroleum companies are also facing new opportunities and challenges. Modern societies consume large amounts of fuel, and the energy industry is an important component of social infrastructure and maintenance in almost all countries. As the global interest in renewable energy and clean technologies increases, international oil companies are actively tackling climate change and vigorously implementing the energy transition. Therefore, based on sorting out the economic environment of oil enterprises and analyzing Shell's financial data, this paper expounds that Shell is realizing energy transformation, accelerating the transformation from an oil and gas company to a comprehensive energy company, and striving to achieve the goal of "net zero" emission by 2050. Meanwhile, it focuses on the fluctuations and comparison of financial data, and deeply analyzes the advantages of Shell's business strategy. It is further expounded that Shell plc has a long-term vision and a sense of anxiety in the strategic layout and can achieve sustainable development while ensuring the company's performance growth.

**Keywords:** Shell Plc, Operating Strategy, Petroleum Industry.

## 1 Introduction

In recent years, international oil prices have fluctuated sharply, and the requirements for low-carbon environmental protection have become increasingly strict. Faced with the dual impact of the novel coronavirus outbreak and the decline in international oil prices, the development of oil companies has brought great difficulties and challenges. In this context, international petroleum companies have actively adjusted their development strategies, adopted measures such as intensifying transformation, optimizing industrial layout, reducing upstream investment, and increasing new energy input to effectively cope with the current severe development situation and lay a foundation for future development [1-4]. As we all know, the development of the petroleum industry is related to the national economy and people's livelihood, whether in People's Daily life, industrial production or transportation, oil has become an indispensable part, but also an important part of the energy security of many countries. [5] Between 1988 and 2015, Shell was the ninth-largest producer of greenhouse gas emissions, measured by

its own emissions and all fossil fuel emissions sold, by 1920 Shell was the largest producer of oil in the world. [6]

Shell is positioned as the world's leading integrated energy company, and in February 2021, Shell released the "Enabling Progress" low-carbon development strategy guided by the "absolute net zero" carbon emission target. In the content of its new strategy, it is clear that its transformation goals are to continue to create value for shareholders, achieve net zero emissions, empower life and respect nature, and focus more on meeting the diversified and personalized needs of customers.

The Middle East oil crises of 1973 and 1979, and the Russia-Ukraine gas crises of 2009 and 2014 can best illustrate the problem of global energy interdependence [7]. Therefore, the business strategy of the world oil giant Royal Dutch Shell is analyzed. Multinational companies like Shell sell products and services all over the world, referring to access to international markets. In 2020, due to the impact of the novel coronavirus pneumonia epidemic, the global economy continues to slump, the oil price is low, and the gross profit of refining and chemical industry declines. By analyzing different data and comparing companies of the same type, we can find that Shell attaches importance to resource reserves and the long-term development of the company. The global asset layout focuses on gas supply, market control and the development of large deepwater projects with advanced technology [3]. Meanwhile, in the analysis of financial data, it is found that the beta value of Shell's assets is less than 1 or even less than 0.5, which is a low-beta company. As a result, Shell is relatively stable, and its share price does not move as much as the market as a whole. We will take various measures to optimize cash flow and asset portfolio, further streamline upstream traditional oil and gas business and downstream business and emphasize the integrated development of refining and chemical industry. Have clear initiative and foresight in asset optimization, considering short-term operation and long-term development. Shell is a global energy and petrochemical company group with 93000 employees and operations in over 70 countries. They use advanced technology and adopt innovative methods to help the world build a sustainable energy future. [8]

## 2 Case Analysis

### 2.1 Macro Environment of Petroleum Companies

**Economic Environment.** The oil industry is a vital part of the global economy and has a huge impact on the world's energy supply. Therefore, analyzing oil companies can provide insight into the global economy and energy markets. The oil industry is affected by the economic cycle and usually does well during periods of economic growth but can face challenges in times of recession. When analyzing the financial situation of oil companies, we can understand the current economic environment as well as the economic benefits of the industry. Large oil companies have rich and most of the production network and distribution channels, and hold global resources and technology, so as to have more advanced technical equipment and professionals, whether in the global scope or in the market competition, can achieve greater economic benefits and take a leading position [9].

**Political Risk.** Oil companies often operate in unstable regions and countries, and geopolitical factors can have a significant impact on their business. Understanding these risks can help investors better assess a company's risk exposure. Therefore, companies need to develop targeted strategies to deal with the problems in different countries, through which they can help the company to develop markets, promote products and gain revenue.

**Energy Transition.** As global interest in renewable energy and clean technologies increases, oil companies may need to adjust their business models. Analyzing a company's strategy and investments in response to the energy transition trends provides insight into its long-term prospects. In its "Enabling Progress" strategy, Shell has clearly set out the goal of "net zero" emissions by 2050, accelerating the transformation from an oil and gas company to an integrated energy company. The company has adjusted its business layout to upstream business focusing on oil and gas exploration business, and transformed supporting businesses such as natural gas integration business, chemical products business and future growth business (mainly new energy business), and adopted different implementation plans respectively [10].

**Investment Options As Well As Capital Markets.** Oil companies can be part of a portfolio, especially for those seeking diversification. Through financial analysis, the potential returns and risks of these companies can be assessed to make informed investment decisions. Oil companies typically raise money in the capital markets and issue stocks and bonds. Understanding their financial health and performance is critical for investors and creditors. Under the "Enabling Progress" strategy, Shell will maintain a level of capital expenditure of \$19 billion to \$22 billion in the short term, with specific capital allocation plans to invest about \$8 billion in traditional upstream businesses, \$8 billion to \$9 billion in transformational support businesses, and \$5 billion to \$6 billion in future growth businesses [10].

**Most Oil Companies Operate on A Global Scale.** So their financial position and strategic decisions are influenced by international markets and political events. Financial analysis can reveal the impact of these factors. From 2010 to mid-2019, Shell's revenue regions were mainly concentrated in Asia, Oceania, Africa and Europe

## 2.2 Shell Company Profile

Shell is a British multinational oil and gas company headquartered in London, England. Shell Company was born in 1890, it has developed for more than 100 years. Shell Upstream is primarily responsible for managing upstream operations, including finding and recovering crude oil and gas, as well as operating the upstream and midstream infrastructure needed to get oil and gas to market. The downstream division manages the manufacturing, distribution and marketing activities of Shell's petroleum products and chemicals. Manufacturing and supply include the refining, supply and transportation of

crude oil. Shell is the world's number one supplier of lubricants, providing high-quality lubricants in more than 100 countries and regions around the world, with business coverage in more than 80 countries and regions around the world, a total of about 86,000 employees, and has established more than 44,000 gas stations [7]. All aspects of Shell from job evaluation to salary reward and personnel promotion closely revolve around the company's development strategy, making human resource management a strong support to ensure the landing of the company's strategy.

Shell has traditionally been a highly fragmented global business (particularly downstream) with companies in more than 100 countries, each operating highly independently. Upstream tends to be more centralized, with much of the technical and financial guidance coming from a central office in The Hague. The upstream oil division is also commonly referred to as the "exploration and production" division, and downstream businesses (which now also include chemicals) generate the majority of Shell's global profits. Shell's practice is that these businesses are basically carried out locally and it is best to be managed by local "operating companies" - usually foreigners as middle and senior managers. At the same time, on the basis of detailed management of job evaluation, recruitment, assessment and other work, Shell will scientifically and effectively quantify, evaluate and analyze the value of various relevant elements involving personnel. To truly manage and configure people as a "living resource". In particular, the investment and development of human resources are prioritized over oil and gas resources, which fully reflects the priority concept of talent investment standing one step higher, looking further and taking the first step.

### **2.3 Shell's Business Strategy**

Multinational companies like Shell sell products and services all over the world. Business strategy refers to the marketing theory that enterprises can clearly define their target customers through market segmentation, and then carry out precision marketing on this basis [11]. Organizations must therefore establish solutions to handle problems from many nations, such as agents or distributors. Companies may create markets, sell products, and make money using these tactics.

Shell's strategic goal at the corporate level is to achieve the energy transition, aiming to become net zero emissions by 2050 or earlier. Shell is committed to developing its business where the energy transition is essential and where demand will grow over the next decade, with the aim of advancing the world together by providing more and cleaner energy solutions. With the adjustment of the world's energy structure, Shell has consolidated its position as a leading energy company by providing clean energy such as liquefied natural gas and developing new energy [12].

**Table 1.** Data Analysis

Financial indicator analysis (table 1)		
	Chevron	Shell
Cost of equity:		
Rf	2.22%	2.22%
Rm	10.50%	10.50%
$\beta_E$ (Beta (5Y Monthly))	1.17	0.65
Re	11.907600%	7.60200%
Cost of Debt:		
Rd(YTM)	5.8132%	5.4638%
MV equity(E):	317,040,000,000.0	209,640,000,000.00
MV debt(D):	23,200,000,000.00	84,360,000,000.00
V(E+D)	340,240,000,000.0	294,000,000,000.00
Tax rate(US corporate tax rate)	21%	21%
Leverage(D/V)	6.81871620033%	28.69387755102%
debt-to-equity ratio	7.31768861973%	40.240412135089%
E/V	93.1812837997%	71.306122448980%
WACC	11.40879918175%	6.6592345330612200%
$\beta_A$ (Business Risk)	1.106059016	0.493209171

According to the table 1, first of all, Shell's cost of equity is 7.60%, which is at a low level, and Chevron's cost of equity is 11.91%. The reason is that Shell implemented a \$3 billion share buyback program in three months [13]. It is worth mentioning that due to the downward macroeconomic cycle, the decline in Shell's own profitability, and the large amount of capital invested in its unprofitable renewable energy business in recent years, Shell adjusted its strategic focus, adopted various means to optimize cash flow and asset portfolio, further streamlined upstream traditional oil and gas business and downstream business, and emphasized the integrated development of refining and chemical industry. At the same time, Shell said that while natural gas will remain a high proportion of the company's oil and gas portfolio by the middle of the 21st century(The company plans to increase the share of natural gas in total oil and gas production from 50% today to 75% by 2035), it will strive to increase the production of green energy sources (such as hydrogen, synthetic methane, biomass methane). Natural gas will account for 50% of revenues, with the rest coming from oil and green energy [13]. Efforts will be made to decarbonize key markets and industries, and vigorously promote the commercial application of low-carbon and renewable energy sources such as biofuels and hydrogen energy. Shell is striving to simultaneously promote the commercial application of low-carbon and renewable energy sources such as biofuels and hydrogen. Shell's capital expenditure focus will shift from traditional upstream businesses to future growth businesses. About half of the additional capital spending will go to future growth businesses. Second, Shell has a high leverage ratio (28.69%). Chevron has a WACC of 11.41%. Shell has a lower WACC of 6.66%. The reason is that Shell has more debt funding, and the interest on that debt can offset the required corporate tax rate.

Chevron has a beta of 1.11 and Shell has a beta of 0.49. The company's asset beta coefficient is greater than 1, indicating that the company's asset price volatility is higher than the market average. This means that their share prices may behave more sharply when the market is volatile and are often seen as high-beta companies. Companies with high beta may be more vulnerable to market volatility, and investors need to consider higher systemic risk. Shell's asset beta is less than 1 and even less than 0.5, which is a low-beta company. As a result, Shell is relatively stable and its share price does not move as much as the market as a whole. There are several possible reasons for this. First, due to the energy transition and the impact of the novel coronavirus pandemic, the production plans of some major international oil companies in the next five years have changed dramatically, and there is a major disruption compared with the pre-epidemic situation. Shell prioritized its deepwater oil and gas exploration and development (E&P) and chemical business until June 2019, while transforming its gas integration, chemical and oil business after 2020 is its primary strategic direction [14].

Second, Shell, a rapidly transforming energy company committed to building a more low-carbon and environmentally friendly business portfolio, has significantly lowered its production forecast, and oil and gas production has peaked early and will remain negative for some time to come. Shell's focus will gradually shift to the renewable energy and power market, the main business is the development of natural gas power generation and renewable energy power generation, the company plans to reach an annual average of 2-3 billion US dollars in power business from 2021 to 2025 and expects to gradually divest traditional upstream business through asset sales and natural reduction [15]. Shell announced a 30 to 40 percent reduction in upstream costs, reducing its oil and gas production by 1 to 2 percent a year and 40 percent by 2050. In order to achieve Shell's goal of zero emissions by 2025, Shell's transformation plan will capture the core business from the traditional business in a simpler and more effective way, adjust the scale according to the company's needs, and innovate the company's future business model [14].

Finally, in terms of the difference in the degree of energy transition, Chevron believes that oil and gas will remain the most important component of the energy system in the next few decades, and will continue to maintain a business investment of more than 75%, oil and gas production will remain at more than 3% per year, and firmly implement the "Big Oil" model based on oil and gas [16]. Shell is concerned about whether oil and gas can meet energy consumption demand in the future, and believes that the world needs more low-carbon energy, to create a "big energy" model, that is, to expand the energy sector including oil and gas, covering natural gas power generation and renewable energy investment. As a result, Shell can reduce its sensitivity to fluctuations in energy prices, as renewable energy prices are generally more stable. This can lead to a decline in the company's asset beta as its business becomes less correlated to energy price fluctuations. In contrast, Shell searches for oil and gas in about 50 different nations, refines oil in 34 different nations, and sells oil in more than 150 different nations. Turbulence in one place won't have much impact on the rest of the company. Shell's portfolio is relatively diversified. Chevron plans to spend the majority of its annual investment budget in the Americas through 2023, with Chevron allocating 70 percent of its investment budget to fields in the United States, Argentina and Canada,

and ExxonMobil allocating 70 percent to fields in the Permian Basin, Guyana and Brazil, as well as liquefied natural gas (LNG) projects around the world. This focus on the Western Hemisphere is expected to continue for years as Exxon and Chevron prioritize improving shareholder returns and cutting costly long-range drilling projects. Chevron is divesting from Southeast Asia, West Africa, Russia and parts of Latin America, marking an era of downsizing after decades of global expansion. The diversified investment layout reduces the company's asset beta coefficient and reduces operational risks. As a result, Shell's share price is less volatile than Chevron's.

### 3 Conclusion

Through the analysis and comparison of the current economic environment and financial data of the oil industry, we can find that Shell is constantly accelerating the pace of energy transformation in pursuit of low-carbon sustainable development, which will have a potential impact on oil trade, and also bring opportunities to the new energy transportation market. In 2022, the major oil and gas companies, including Shell, [17]. reported sharp rises in interim revenues and profits. In fact, this rise in profit for Shell was so sharp, that 2022 was the company's best year, as Shell recorded double the profits from 2021, and the highest profit in its entire history [18]. In an environment of global energy demand, Shell offers excellent opportunities to enter emerging markets. At the same time, in the evaluation and recruitment management of talents, Shell will scientifically and effectively quantify, evaluate, and analyze the value of all relevant elements involved in personnel, and truly manage and allocate people as a "living resource". In this report, Shell's business and sales strategy is analyzed, hoping to make a critical analysis by comparing different data, and hope that Shell can achieve its goals in the gradual development and progress.

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