
Masters in
BUSINESS ADMINISTRATION

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Foreword

This project work is intended to provide an overview of the main internal and external factors that influence the profitability of a Company conducting business in the oil downstream in Italy as a vertically-integrated refiner and marketer of petroleum products.

As the profitability of a downstream business depends to a large extent upon the ability of the Company to maximize the margin it captures at each stage of the integrated value chain, this document walks the reader through each stage of the downstream value chain in more detail and describes how those business fundamentals relate to each other.

By design, this study does not go into great detail on the wholesale business sector, as the main focus of this project work is the analysis of the refining and the retail business sectors, though it does also provide a basic knowledge regarding this topic.

An additional but complementary objective of this project work is to present a case study on the implementation of a Performance management tool in an oil downstream company.

The project work is structured in three chapters as follows.

Chapter 1: *Refining economics*, will examine some of the factors that drive refinery economics, and it will also provide information on Italy's refining system as well as on the inland demand of petroleum products.

Chapter 2: *Retail economics*, will provide information on the Italian fuel retail industry, this chapter will focus upon pump pricing model and dynamics as a popular and relevant "window" on the petroleum marketing sector.

Chapter 3: *Performance management dashboard*, will discuss key design principles and features of a KPIs analysis tool conceived with the objective of enabling C-level management to monitor the performance of a Group of companies engaged in the full spectrum of oil downstream business.

Pisa, July 2011.

1. REFINING ECONOMICS

OUTLINE: 1.1. Introduction; 1.2. Crude slate; 1.3. Refinery configuration; 1.4 Product slate; 1.5. Refining margins assessment: an illustrative example.

1.1 Introduction

The downstream petroleum industry is a complex and often misunderstood business. The term downstream refers to all aspects of refining and marketing of petroleum products. It includes petroleum refining, product distribution systems and the marketing and retailing of petroleum products to businesses and individual consumers.

The petroleum.....

1.2 Crude slate

Crude oil is the primary input into the petroleum refining industry. Within the scope of this project work, it is probably sufficient to say that different types of crude oil yield a different mix of products depending on the crude.....

2. RETAIL ECONOMICS

OUTLINE: 2.1. Marketing sector overview; 2.2 Italian retail network; 2.3. Retail outlets: Ownership and operating structures; 2.4 Automotive fuels pricing; 2.5. Retail margins assessment: an illustrative example.

2.1 Marketing sector overview

Once the refiner has completed its work, the finished product (gasoline, for example) is sold/transferred at the current rack or transfer price, and is then transported to the ultimate end-use consumer. Unlike crude oil, which is mostly consumed by only one kind of final user, refined petroleum products are ultimately sold to a variety of users in the transportation, residential, industrial and commercial sectors of the economy. As the product leaves.....

2.2. Italian retail network

There are about 22,500 retail outlets in Italy. The breakdown of the retail fuels network by brand is the network are small, roadside kiosk based outlets with just one or two pumps. Although retailers are of only.....

2.3. Retail outlets: Ownership and operating structures

There are two main stakeholders involved in the marketing of retail automotive fuel: the supplier, who holds initial title to the refined petroleum as it leaves the rack point, and usually owns the brand na.....

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Appendices

APPENDIX 1.

APPENDIX 2.

APPENDIX 3.

APPENDIX 4.