Recommended LNG Commercialization Strategy to Maintain Business Sustainability in the Global LNG Market: A Case Study of PPTETS

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ABSTRACT

LNG supply and demand growth have steadily increased in the past 12 months, recovering from pandemic-related outages in early 2021. Supported by increased LNG supply and demand, a surge in LNG trading has been seen across the world, and there is no indication of slowing down in the near future. Those situations become the opportunity for an LNG seller who has the potential uncommitted LNG supply to be offered to the buyer. PPTETS (which is not a complete name of the company, but a real Singapore registered company), which is owned 100% by PPTET Ty (which is not a complete name of the company, but a real Japan registered company), which is a joint venture company between Pertamina and various Japanese utility & power companies, is required to anticipate that opportunity. With consideration of the dynamic changes in global LNG market development, PPTETS needs to formulate the company’s business strategy, which is intended to seize future business opportunities.

The main objective of this research is to formulate a PPTETS LNG commercialization business strategy to generate profit and maintain sustainability in the global LNG market. The analysis will consider both primary and secondary data, with underlying theoretical for external factors such as PESTEL analysis and Porter’s Five Forces, while for internal factors analysis will utilize a resource-based view and VRIO. As a synthesis of the company’s internal and external analysis, SWOT analysis and TOWS matrix will then be utilized. Finally, based on the analysis and formulation that has been conducted, it could be concluded that PPTETS has the opportunity and capabilities to maintain its business sustainability by trading in the global LNG market. After considering several findings from both external and internal factors of primary and secondary data, aside from cost focus leadership as a generic competitive strategy, there are 3 (three) specific business strategies recommended to PPTETS in order to generate profit and maintain sustainability, which are (i) collaboration with Pertamina, (ii) developing PPTETS internal procedures, and (iii) further PPTETS’ business development.

Keywords: LNG business, LNG market, LNG supply-demand, LNG trading.

1. INTRODUCTION

Initially, the LNG business is supported by long-term sales and purchase agreements. LNG contracts have become more flexible, have shorter duration options, and have flexibility on the destination. Moreover, the flexible transportation of LNG has supported gas commercialization globally. According to BP’s Energy Outlook (BP, 2022), LNG trade increases emerging Asia’s access to natural gas, supporting economic growth and a shift to lower-carbon fuels. The growing LNG demand and market liquidity have attracted new players to expand their presence in global LNG trading. These include international and national oil companies, commodity traders, and LNG sellers/buyers. Price arbitrage opportunities have led to a...
greater role of middlemen in connecting new and diverse sources of supply and demand. This LNG trading opportunity has led to the commoditization of LNG. Unlike the point-to-point delivery from the liquefaction terminal to the end consumer in the past, LNG can now change hands multiple times or take several routes to reach the market/end user.

PPTETS is a Singapore-registered company owned 100% by PPTET Ty. PPTET Ty is a Japan-registered company and a joint venture between Pertamina and various Japanese utility and power companies. PPTET Ty has a long history of handling LNG cargo delivery from Indonesia to several buyers in Japan, Korea, and Taiwan since 1976. To maintain its LNG business activity, PPTETS was established in 2016, and it is intended mainly to trade LNG in the global LNG market. PPTETS can participate in a particular value chain to generate profit as an LNG trader in the global LNG market. PPTETS business structure for having revenue comes from buying and selling LNG and gaining margin from the discrepancy value of traded volume (positive discrepancy from selling of buying). PPTETS could become an LNG seller when it already has an LNG source and is willing to sell it to potential buyers, and it can be an LNG buyer when PPTETS buys from a potential seller and sells it to the market. As the main volume to be traded, long-term LNG contracts from Pertamina have been secured by PPTETS. On top of that, several minor portions of LNG cargo can be secured on a spot basis and then sold to the global LNG market.

Since its establishment in 2016, PPTETS has experienced dynamic business performance, particularly in gross profit. Financial performance (positive profit) is one of the bottom lines for the company to achieve its goal and can affect its business sustainability. For the first 3 (three) years after its establishment, the company experienced growth positive profit, while in 2019–2020, it experienced negative profit. Those profit dynamics fluctuate widely and can be too much for PPTETS to manage. 2020 was the most negative year for commercial activity, and the situation inflicted severe setbacks on the business. Align with the COVID-19 pandemic recovery in mid-2021, LNG consumption rose. Despite the LNG market strengthening and global economic recovery, PPTETS business performance is improving.

While the current PPTETS financial performance is improving, considering the dynamic changes in global LNG market development, the possibility of the company experiencing a similar problem must be mitigated. Learning from the previous case by understanding the root cause of negative profit, the company’s business strategy needs to be formulated to avoid or mitigate future potential similar occurrences and seize future business opportunities.

2. Literature Review

The increase in LNG supply-demand to support the LNG trading business environment is predicted in many publications, and it will create an opportunity for PPTETS to maintain its current LNG trading as its core business from 2023 onwards. In the 21st century, with the growing awareness about climate change and the role of fossil fuels in the greenhouse effect, the world is looking for cleaner alternatives for energy sources, including the active use of LNG. LNG trade volumes have increased over 3 times in the last 20 years and reached almost 50% of global natural gas trade (Filimonova et al., 2022).

The most common way to make money in LNG trading is by moving cargoes from supplier regions into growing gas markets that lack pipeline connectivity while taking advantage of the regional price arbitrage (Gupta & Pascual, 2020). That statement supports the basic business idea for an LNG trader in creating margin by optimizing price differences across the regions and by understanding price and supply-demand differences among several locations.

Following the AFI framework, business strategy development for PPTETS starts from the analysis stage and will consider both primary and secondary data. In the analysis, an exploration of the external and internal situation of the LNG trading business will be conducted, and PPTETS’ competitive advantage will be examined in order for PPTETS to optimize current business activity and overcome future business challenges. The following framework that will be used to synthesize the company’s internal and external analysis is the SWOT analysis, which the TOWS matrix will follow. SWOT analysis will be used to identify favorable internal and external factors and support business objectives on which PPTETS needs to be focused.

The framework diagram in Fig. 1 will be used in this research:

The conceptual framework of the final project follows the AFI framework. Primary and secondary data collection will be organized to cover external and internal business situations. PESTEL analysis would then be used as a strategic framework to evaluate the business environment, combined with Porter’s Five Forces. Internal analysis to assess the company’s competitive advantage will use a resource-based view and a VRIO analysis framework. After that, the business solution would be formulated using the SWOT and TOWS matrix, followed by Porter’s generic strategic framework. Lastly, an implementation plan would be proposed.

3. Research Methodology

Research methodology is a systematic framework to solve the research problem by using the most feasible methods in conducting the research, particularly in answering the questions in this research objectives. The research method that will be used in this final project is qualitative research. Qualitative research is concerned with the subjective assessment of opinions. Research in such a situation is a function of insights and impressions to generate results either in a non-quantitative form or in a form that is not subjected to rigorous quantitative analysis (Kothari, 2004).

3.1. Research Design

The basic methodology for this research is qualitative and is directed toward solving a business problem by taking a specific PPTETS case study. The problem examination and proposed solutions analysis for this research will be...
formalized for specific cases, taking perspective from commercial interest. An initial step in performing this research is specifying the clear objective of the research, which is to ensure that the data collected is relevant. It is continued with the data collection method. Primary data will be acquired from the interviews, while secondary data will be acquired from existing company data and the latest publications or other research. After compiling all information and required relevant data, further analysis will be made in alignment with the conceptual framework.

3.2. Data Collection Method

In order to obtain objective data, this research will use two types of data sources: primary data and secondary data. Primary data will be generated by conducting direct interviews with stakeholders who are involved directly in the PPTETS’ business process. Secondary data will be organized from existing internal PPTETS recorded data and available external sources, such as publications, accessible books, research, journals, or articles.

3.3. Data Analysis Method

With reference to primary and secondary data, all the information is summarized and organized into relevant categories (coding of data). Briefly, the hierarchy framework that would be used to analyze the data is shown in Fig. 2.

4. Results and Discussion

4.1. Analysis

For the primary data, the interview with PPTETS stakeholders who are directly involved in the business activities was conducted online in January 2023, considering the geographical dispersed, and it is more convenient regarding recording requirements and time management. There are 5 interviewees, which requires around 20 minutes for each interview process. After the primary data is collected, it is combined with some secondary data references. Positive findings are opportunities/strengths/possible improvements for PPTETS in answering business problems and are organized to answer relevant factors, such as manpower, marketing, sales and contract implementation, customer, market, and product.

External analysis is comprehensively conducted using PESTEL analysis and Porter’s Five Forces analysis. The initial internal analysis is being conducted by evaluating PPTETS’ internal resources, which will be further used in VRIO analysis. The evaluation will elaborate further on some information from both primary and secondary data. By doing that, a formulated business strategy is expected to become more appropriate and enhance PPTETS’ chances of gaining a competitive advantage.

4.1.1. Tangible Resources

1. Financial capability: It is a company’s cash/credit line capacity to support its LNG trading activity. This resource is identified to answer possible business problems related to marketing activity. When PPTETS has adequate financial capability, the commercialization process in the LNG trading business activity can be performed.

2. Physical office and its location: PPTETS has a physical office in Singapore where several employees are stationed and have their daily business activities in the office. The office is also equipped with adequate
equipment for daily business activities, particularly for supporting the business administration of LNG sales and the implementation of purchase contracts. The physical office and its location in Singapore are tangible resources for PPTETS, identified to answer several possible causes of business problems, such as customer, sales and contract implementation, and marketing activity.

3. Internal procedures: The current PPTETS business process basically covers LNG trading activities only, as per the current mandate from shareholders. It covers LNG procurement from suppliers until LNG sales to customers. The internal procedure could be classified as a tangible resource for PPTETS as it is written (there is physical evidence). It has been identified to answer several possible causes of business problems, from marketing activity to sales and contract implementation.

4.1.2. Intangible Resources

i) Employee: It is related to their knowledge and experience working in the LNG business, which is a current core business of PPTETS. This resource has been identified to answer possible causes of business problems, particularly related to the manpower category.

ii) Company reputation: It is identified as an intangible resource to answer possible causes of business problems, particularly related to the marketing category. A company’s reputation is important in supporting its relationship with all related stakeholders and gaining trust. This reputation is assumed from counterpart perception and their willingness to cooperate with PPTETS. It also considers PPTETS’ history in managing the LNG business.

iii) Company culture: It is identified as an intangible resource to answer the possible causes of business problems, particularly related to employees and marketing categories. As a subsidiary of PPTET Ty, a joint venture company between Pertamina and various Japanese utility and power companies, PPTETS has a culture that refers to its ultimate shareholder. While there is trust and integrity among the employees, teamwork and eagerness to grow (willingness to adapt and learn new business dynamics) are also becoming employee cultures.

After evaluating PPTETS’s internal key resources and capabilities, the VRIO framework is used through four lenses to determine the company’s competitive advantage level (see Table I for a summary).

Based on the above VRIO framework analysis, PPTETS has two sustainable competitive advantages, which are employee and company reputation. In addition, the internal procedure is a temporary competitive resource for PPTETS. While a temporary advantage may provide an advantage for a short period, a sustainable competitive advantage resource is one that can persist over many periods, and it is difficult for other companies to imitate the resource or substitute it with an alternative approach.

4.2. Business Solution

4.2.1. SWOT Analysis

SWOT analysis of PPTETS’ internal and external factors in doing global LNG trading business is summarized in Table II.

4.2.2. TOWS Matrix

A brief TOWS matrix is briefly presented in Table III. Following several possible causes of the PPTETS business problem that have been identified, appropriate alternative strategies could be minimized by matching with the above TWOS matrix. The mentioned alternative strategy is developed in Table IV, which shows the pair of possible problems that cause category and alternative business strategies to be recommended.

4.2.3. Generic Competitive Strategy

For the case of PPTETS, when considering an LNG trading business with a narrow competitive scope, the applicable strategy is using focus. The focus of strategy involves concentrating efforts on customers with unique

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<th>TABLE I: PPTETS VRIO FRAMEWORK ANALYSIS</th>
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<td><strong>Resources</strong></td>
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<td><strong>Tangible</strong></td>
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needs or wants. Hence, PPTETS can select a segment or group of segments in the industry and tailor its strategy to serve them to the exclusion of others.

Further, considering the TOWS matrix, where there is a concern for increasing revenue and company cost optimization, the nature of LNG product, which is relatively complex to differentiate it from other manufacturer products, the suggested appropriate generic strategy is cost focus.

4.3. Implementation Plan and Justification

Besides the cost focus that is proposed to be a generic competitive strategy for PPTETS, the order of priorities is made with consideration to the expected impact of the specific strategy on PPTETS and the difficulty of each strategy. The recommended priority of each strategy is as follows:

1. Collaboration with Pertamina, with consideration that it will have an immediate impact on PPTETS business performance.
2. Internal procedure development, with consideration that currently, it will mainly be needed to anticipate further PPTETS’ business opportunity, and the impact will not be immediate to PPTETS business performance.
3. Business development, considering that this strategy will impact future PPTETS business performance and can be performed after having internal procedures.

A timeline of the above strategies is given in Table V.
5. Conclusion and Recommendations

From primary and secondary data analysis, it is found that global LNG trading is still growing and allowing PPTETS. Moreover, it is becoming more dynamic and liquid, with more global transactions across regions. The fluctuation in LNG prices is allowing PPTETS to generate more profit. Porter’s Five Forces analysis shows that the recent LNG trading industry has low buyer power, the threat of substitutes, and the threat of entry. Those situations benefit PPTETS in generating enough revenue to support its business sustainability and allow further business development.

From the VRIO analysis, PPTETS has strengths that could be explored to anticipate the opportunity. As an LNG trader, PPTETS has a good reputation and proven record for operational excellence and flexibility to prioritize customer satisfaction. Having a successful business story handling LNG business becomes the main attribute for PPTETS to have this internal capability. In performing LNG trading, PPTETS is an agile organization that adapts to market development. In terms of employee capabilities, despite having experienced employees, it is also supported by several secondees coming from Pertamina, who already have experience and capabilities in managing LNG business.

Finally, based on the analysis and formulation conducted, it could be concluded that PPTETS has the opportunity and capabilities to maintain its business sustainability by trading in the global LNG market. In addition, several findings could support the PPTETS business, which has considered both external and internal factors from primary and secondary data. From the analysis, several business strategies could be proposed to be implemented by PPTETS, such as collaboration with Pertamina, developing PPTETS internal procedures, and further developing PPTETS’ business development.

Conflict of Interest

The authors declare that they do not have any conflict of interest.

References