

Cisco Systems and PanCanadian Petroleum

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—Don Winn, Managing Director e-Enterprise, PanCanadian Petroleum Limited

Background

In little more than 25 years, PanCanadian Petroleum Limited has grown into one of the most dynamic exploration and production companies in Canada's oil and natural gas industry. Although only a quarter century old, the company's roots go back more than a century.

In the late 1860s, the Government of Canada was anxious to establish its authority across the breadth of the continent and ward off intrusion by the United States. In 1871, Canada's first Prime Minister, John A. Macdonald, promised the West Coast colony of British Columbia that Canada would build a transcontinental railway from Ontario and Quebec to the Pacific Ocean in return for joining the Confederation.

EXECUTIVE SUMMARY

BACKGROUND: In little more than 25 years, PanCanadian Petroleum Limited has grown into one of the most dynamic companies in Canada's oil and natural gas industry. With 1,700 employees conducting exploration and production across Canada, the Gulf of Mexico, the UK, Australia, and Africa, the company generated revenues of \$7.2 billion in 2000.

CHALLENGE: In the early 1990's, PanCanadian realized competitors were moving into the Internet age and determined to set a course for their own future. In 1993, the company began making choices about a network infrastructure and became a customer of Cisco Systems, Inc.

SOLUTION: Cisco conducted a Net Readiness Assessment for PanCanadian to identify areas of focus for building a successful e-business model. With top management backing, a nine-person team began conducting "imagineering" workshops to build awareness and gather ideas for architecting PanCanadian's e-business model.

RESULTS: Although PanCanadian is in the early stages of its e-business strategy the Enterprise Team is building a framework for results focused on key areas such as procurement, supply chain management, services, and customer interactions. The long-term goal is to reduce costs, increase efficiencies, and accelerate revenue generation.

Construction of the Canadian Pacific Railway (CPR) was a founding event in both the formation of Canada and the history of PanCanadian Petroleum Limited. In 1881 the federal government agreed to pay for the railway, in part by granting the CPR surface and mineral title to 25 million acres of land.

The land, considered of little value at the time, yielded an unbelievable surprise when CPR crew drilling for water struck natural gas instead.

In 1947, a huge oil discovery near Edmonton, Alberta touched off Canada's modern oil era. In the following decade, the CPR gave leases to oil companies and in return received rents, reservation fees and production royalties. As the value of oil increased, the CPR decided it was time to

become an active participant in the petroleum industry. In 1958, it created Canadian Pacific Oil and Gas Company (CPOG) to hold its mineral rights and undertake an aggressive oil exploration and production program.

CPOG drilled its first well in May 1958. By 1963, it had carried out the largest drilling program of any company in Alberta. In 1964, CPOG invested in Central-Del Rio Oils, an aggressive company with a large production base.

On December 31, 1971, the companies merged into PanCanadian Petroleum Limited—a name suggested in an employee contest. The newly created PanCanadian formed the largest independent Canadian-owned producer of crude oil and natural gas in Canada.

Today, PanCanadian is comprised of some 1,700 employees and is one of Canada's largest producers and marketers of crude oil, natural gas, and natural gas liquids. With exploration and production activities across Canada as well as in the Gulf of Mexico, the United Kingdom, Australia, and Africa, the company generated revenues of \$7.2 billion in 2000.

Challenge

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"We knew the Internet provided enormous opportunities as a tool, but we felt the real thinking had to go into capturing the imagination of the corporation," said Don Winn, Managing Director e-Enterprise "We wanted to position PanCanadian to leverage the full value proposition of the Internet.

"The first challenge was all the 'noise' out there," he continued. "We are a very traditional business that's been quite successful. The flameout of some of the dotcoms creates a lot of cynicism about the value of e-business.

"The second challenge is creating awareness that this is not about technology," he added. "This is about rethinking your business."

In early 2000, PanCanadian decided to accelerate the pace of technological innovation and turned to Cisco for help. "We talked with Cisco about how they've Internet-enabled their own enterprise," said Barbara Freeman, e-Architect. "We formed an e-business group in the fall of 2000 and began discussions about how we could leverage the relationship."

The mission of this nine-person, cross-functional Enterprise Team is to create a roadmap for PanCanadian's e-business future. "It's a unique group that includes people from an energy business background, others from a technology background, and some from a business process, business design analysis background," Winn said. "Our idea was to recruit people who know the business, know the technology, and understand that a lot of this is about transforming business process and creating a value proposition."

Solution

Cisco urged PanCanadian to begin with a Net Readiness Assessment, a tool developed by Cisco that helps customers evaluate their organizational ability to migrate to an Internet business model and exploit the opportunities of e-business. It measures four key drivers that Cisco has consistently found to predict success in this transition: Leadership, Governance, Competencies, and Technology.

"It's very comprehensive and well architected," Winn said. "We liked it because it was a strategic look and a holistic perspective. It helped that it was backed up by the book (*Net Ready* by Amir Hartman and John Sifonis), which helped us penetrate the thought process across the organization."

The survey was administered over the Web and received a 70% response rate. Cisco analyzed the results of 136 respondents from various levels in the company and reported back to PanCanadian.

"We held two sessions," Freeman said. "A summary with all the survey participants and a debrief with our senior management committee. From there, we got the go-ahead to look across our 40 business units and formulate an e-business plan."



With top management backing, the Enterprise Team began meeting with each of the 40 business areas, conducting workshops they called “imagineering” sessions to build awareness and gather ideas.

“We’re making it both fun and profitable,” Winn said. “We’ve created a T-shirt with a logo and the phrase: ‘E-magine a New PanCanadian.’ You get a shirt when you come up with an idea. Then, we’ve set up a governance board to review submissions. For the top ten ideas, we’re giving each contributor \$1,000 net to demonstrate the value we place on their involvement.”

The Enterprise Team is using ideas contributed to architect PanCanadian’s e-business model.

“We’re following the concept of ‘I’ before ‘E,’” Winn said. “First what infrastructure do we need as a foundation, and then what are the e-business components that will become the building blocks of the overall strategy.”

To gain further insights on proven uses of technology, the Enterprise Team traveled to Cisco headquarters in San Jose to participate in a two-day strategy session. They met with Cisco experts like Brad Wright, the creator of Cisco’s highly effective internal and external Web infrastructure, Jeff Howard, an energy solutions consultant, and Barbara Siverts, a supply chain professional.

“Our people want us to make things real for them, to provide examples so they can build on them,” Winn said. “Gaining knowledge about Cisco’s lessons learned and best practices is invaluable.

“For example, Brad asked whether we have our expense accounting online and we said yes, absolutely. However, when he showed us what Cisco means by having expense accounts online with the capability to process and reimburse employees within three days, we realized we had an online template but that there’s a much higher level of automation possible.”

Results

The Enterprise Team is preparing a roadmap of the PanCanadian e-Business initiatives.

“Because the energy sector is such a commodity driven, capital intensive environment, technology is important for us on several fronts,” Winn said. “One is from a procurement perspective, because we have very

convoluted and complicated supply management chains. There are six or seven major players in Calgary and we’re working together to examine whether it makes sense to create a digital marketplace.

“Another focus area is acquisitions and divestitures. We’re rewarded for the efficiency of our capital and how well we use assets, so plays in that space are tremendously important to us. Then there’s trading, both single commodity and multiple commodity trading, which is vital.

“Services is another strategic area,” Winn added. “Given that margins are narrow, how do we make ourselves the easiest, most complete energy provider so that customers increasingly feel there’s a lot of value in doing business with us?”

Both the Enterprise Team and PanCanadian’s senior executives want to move quickly but cautiously, building on early wins in HR applications and e-learning.

“We’re starting from the inside out,” Winn said. “First, we want to build awareness about the potential of the Internet. We’re doing that by capturing ideas on ways to reduce costs, increase efficiencies or enter new businesses. Then we’ll map ideas across the exploration and production value chain. Finally, we’ll look toward commercializing some of our endeavors to build revenue.”

In a marketplace characterized by the consolidation of major players, decreasing margins, and deregulation, PanCanadian is looking to remain one of the leaders by focusing on critical success factors.

“On the upstream side, it’s about logistics, procurement, supply chain management, and making transactions more frictionless,” Winn said. “In the downstream, it’s more about engaging customers effectively and creating a seamless environment that gives them all the information they need.

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