HOW OHANA TURNED AROUND KENOLKOBIL

He took over the company when oil prices were plummeting and profits had dipped. This is how he turned it around...

By TULLAH STEPHEN

The year 2012 was one of KenolKobil's darkest moments since the company started doing business in Kenya back in 1959, trading as Kenya Oil Company Ltd (Kenol). Then, Kenol was what is now referred to in the oil industry as a reseller; with its operations in Sagana mainly serving the Mt. Kenya region. On the other hand, Kobil Petroleum Ltd (Kobil) was established following acquisition of Mobil which exited Kenya in 1984. In 2009, Kenol and Kobil officially become KenolKobil, now the leading indigenous Oil marketer in Kenya with subsidiaries in Uganda, Tanzania, Zambia, Rwanda, Zambia, Ethiopia and Burundi and trading presence in Mozambique, Zimbabwe and Congo DR.

In 2012, the marketer of oil and other associated products posted a KSh 6.2 billion loss. That year, international oil prices also reduced sharply from around USD127 to lows of around USD77 per barrel. The Energy Regulatory Commission (ERC) consequently reduced fuel prices, which left marketers with huge expensive stock forcing them to sell fuel at a loss.

Furthermore, the value of the shilling against the dollar also dropped significantly during this period. Companies such as KenolKobil that had borrowed to fund their oil purchases were thus faced with high forex losses and interest rates on borrowings. Financial instruments such as hedging contracts also faced significant losses. During this time, a planned takeover by Puma also failed.

"It was tough. The company was in a bad situation and needed radical reforms to get back on track," says KenolKobil Group Managing Director David Ohana. Mr. Ohana was appointed the Group Managing Director in 2012 after the company entered into what he terms as a "rough patch." "It was tough for me. I had been working for the company for a number of years. My time was up but I was offered an opportunity to stay and rebuild the company as the Group MD."

Mr Ohana's decision to take up the role was not an easy one. The company was in a 'bloodcurdling' situation. However, he gathered courage and took the job and what followed next was perhaps the hardest part. In a bid to manage costs and reduce debt, the firm had to undergo a rigorous restructuring process.

According to Mr Ohana, KenolKobil's restructuring process focused on five major areas; corporate restructuring, reducing financing and operating expenses, and staff rationalisation. The firm reduced its direct workforce from 570 to 350. The layoffs, according to Mr Ohana, saved the company up to 25 per cent of its operational costs. They then renegotiated their financing terms and suspended any new uptake of loans, while settling existing ones with a focus on USD loans first.

The results of this rigorous process were visible several months later. In 2013, KenolKobil reported a 299 per cent jump in its half-year profits with operating costs falling by 22 per cent. In 2014, the company realised a full year profit of Kshs 1.1 Billion and recently announced 2015 half year profit of Kshs 918 Million, almost what was made in the full year 2014. Evidently, the spate of good results has continued, underlining the company's apt recovery strategy.

"Our aim has been to focus on profit optimisation in all business segments and increase sales volumes," reveals Ohana. He adds that good inventory management led to an eight per cent increase in volumes despite increased competition.

Even as KenolKobil posts impressive results, some international oil marketers have left in the last few years. Reduced profit margins, increased competition and official price caps have presented a challenging business environment. Mr Ohana, who has been in Kenya for more than 14 years, says the key to surviving in the Kenyan market is offering products tailor made for the Kenyan market. "That is where most oil marketers go wrong. Companies should realise that different markets operate differently. A strategy that works somewhere does not necessarily work elsewhere. KenolKobil understands what Kenyans want and that is what we have always provided."

KenolKobil currently controls 13.9 percent market share compared to 20.8 percent it commanded before 2012 according to Petroleum Institute of East Africa. However, Mr Ohana is not perturbed by rankings. He says his focus is to continue building his team even as the company shifts focus from low to high margin businesses. "Retail segments are less profitable as compared to wholesale business that has large bulk buyers."

The company is also focusing on its liquid petroleum gas (LPG) business, lubricants products and plans to venture into real estate as part of the non-fuels business development. "LPG in the Kenyan market has huge potential driven by an expanding middle class and high energy costs. It is a major focus for us and we have invested in filling plants in Rwanda, Uganda, and Zambia." We have also partnered with BPSA as the authorised marketer of Castrol Lubricants in Kenya.

"Overall, priority is to strengthen existing business and develop new business both in Kenya and the subsidiaries, which have now matured and are making significant contributions towards the bottom line," said Mr Ohana noting that Rwanda & Burundi are some of the best performing regional markets. KenolKobil concentrates on expansion in countries where returns on investment are high and where the regulatory environment is favourable.

Though oil prices continue to slump in 2015, Ohana remains buoyant that it will not be the same case as 2012. In fact, he views the drop as an advantage. "This will increase fuel consumption and thus boost retail volumes to support our retail growth. This will be complemented by an increased investment in non-fuel business lines within the retail network."

Simply put, Kenol Kobil is on the right track.

David Ohana: Kenol Kobil's Managing Director