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From Fuel to Flux: Strategic Challenges Facing Pakistan State Oil in the Dera Ismail Khan Division

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Abstract

Pakistan State Oil (PSO), is the biggest oil marketing company in the country and has a very fair share in augmenting the energy requirements of Pakistan, especially for the agricultural-dominated areas of the country such as Multan and Dera Ismail Khan. Since 2018, two sales officers Tanvir Abbas Khan and Ansar Iqbal have been playing a vital role for PSO for sales in these divisions and they are succeeding consistently. But by 2022, the global increase in oil prices, devaluation of the rupee, competition from other energies, and banned oil received ambitious challenges. Due to these challenges, Tanvir and Ansar considered one of the strategic policies of PSO to adopt new strategies like diversification in the generation of energy, especially renewable energy, never giving up pricing policy, and well-being of the force that sustains its market share.

Keywords: Pakistan State Oil, Energy preference, Diversification

Subject: Strategic Management

Difficulty level: Intermediate

Level: Undergraduate

Learning Objectives

1. Students will examine external factors like global oil prices, devaluation of currencies, newcomers in the energy sector, and smuggled oil will enable students to understand how the sales strategies are affected in a company like PSO, especially in the agricultural zone.
2. This will enable students to assess the suitability of the strategic responses such as diversification into renewable energy, formation of partnerships, and use of innovative prices as well as improving workforce welfare programs as potential solutions about other emergent challenges in the energy sector.

3. Students will be allowed to evaluate the implications of elevating market pressure and competition for work-related employee health and potential ways enhancing workforce mental health may enhance organizational productivity and viability.

Method

Qualitative data gathered from the semi-structured interviews, document reviews, and site observations provided rich information describing the multifaceted nature of challenges that PSO experiences, including changes in energy choices, occupational stress, and strategic actions approach allows for the exploration of PSO's struggle with market competition, including the rise of alternative energy sources, smuggled oil, and workforce stress. Data collection through semi-structured interviews, document analysis, and site visits captured the multidimensional issues PSO faces, such as shifting energy preferences, employee stress, and strategic responses.

Background

Pakistan State Oil (PSO) remains the largest oil marketing company in Pakistan that supplies the country's energy needs and its people (Ahmad and Jha, 2008). This corruption-controlled company was initially founded as a public-sector organization (Malik, 2010). For many years, PSO has controlled Pakistan's energy sector by observing the storage, distribution, and marketing of petroleum items (Qureshi, Shamsi and Arif, 2022). Apart from Karachi HQ, PSO divides it operation area into many divisional offices which play a very important role for providing products and services to Pakistan’s agriculture watershed regions such as Multan and Dera Ismail Khan. PSO dominates in the OMC sector and has the largest market share in the OMC sector of the country. The company deals in motor gasoline (Mogas), high-speed diesel (HSD), furnace oil (FO) jet fuel (JP-1), kerosene, CNG, LPG, petrochemicals and lubricants. This also includes Mogas, HSD JP-1, and furnace oil which are imported on a selling basis depending on the market demands. It boasts of the largest distribution network in the country (Yang *et al.*, 2022). PSO has adopted a strategic approach to ensure that it branches into other areas to exploit any opportunities for the Company while at the same managing risks that may affect it. They include structure development, renewable energy, exploration and production, and technologies (see Table 1).

In 2018 two sales officers named Tanvir Abbas Khan and Ansar Iqbal were posted at PSO one of the divisional offices of PSO at Dera Ismail Khan, divisional headquarters of Khyber Pakthon Kha

(KPK), Pakistan. Their main role was to popularize and boost the sales of Mogas, HSD, and lubricants to the sales outlet registered in the Punjab province. Dera Ismail Khan being an agriculturally dominated area had made huge consumption of fuel for tractors, tubewells, and other agricultural requirements (Sarfraz *et al.*, 2023). Tanvir and Ansar both joined this position with passion and commitment, growing their sales figures year on year however in order to maintain their market dominance. But looking at the energy landscape, the transition did not begin until 2022. There were many problems, like the higher oil price, the devaluation of the rupee in Pakistan, the presence of new rivals in the form of the effective and cheap resource – the alternative energy source, the prevalent competition from the smuggled oil – and their positions started to exert an influence on PSO. This is the story of Tanvir and Ansar, and their tireless efforts to preach perseverance during these trying time to maintain their performance on an ever changing environment and market conditions.

Table 1: Categories of Shareholders

Category	Shareholding (%)
Members ‑ Board of Management, Chief Executive Officer and their spouse and minor children	0.00
Associated companies, undertakings and related parties	–
Government of Pakistan	22.47
GOP’s Indirect Holding ‑ PSOCL Employee Empowerment Trust	3.04
NIT and ICP	2.76
Banks, Development Financial Institutions, Non-Banking Financial Institutions	16.76
Insurance companies	8.37
Modarabas and Mutual Funds	11.77
Shareholders holding 10% or more	–
General public ‑ Resident	22.40
General public ‑ Non-resident	0.26
Others	–
Non-resident companies	4.06
Public sector companies & corporations and joint stock companies	3.39
Employee trusts / funds etc.	4.72
Total	**100.00**

Source: Company accounts

Challenges to PSO in Agriculture based Divisions

The two offices of PSO namely Multan and Dera Ismail Khan have always depended on the agricultural sector market for the sale of fuel. The sales of Mogas, diesel, and lubricants had however remained constant due to their usage in operating machinery, irrigation, and other vehicles used within the farming sector. In simpler terms, Tanvir and Ansar's experience in the early years at PSO could be described as gradual career advancement. These two candidates were outstanding in terms of their efficiency in working with sales outlets and in dealing with clients. From the years 2018 to 2021, the pair was always able to meet or beat the goal regarding sales volume, with the goals constantly increasing in increments every year anyway (Khan and Baig, 2024). They received recognition from PSO management due to their willingness to guarantee that fuel supplies are continuous as well as their coordination with local retail dealers. Instead, they ensured that the company fostered long-term beneficial relationships with the customers, thereby ensuring that the organization continued to enjoy its market share in the region. But now in the year 2022, the circumstances are not the same. Global oil prices increased in line with geopolitical factors such as the supply chain in the international market. When the price of crude oil rose, it affected the Pakistani rupee that led to an increased price of imported oil. PSO the company that relied heavily on imported oil absorbed these outrageous prices to their consumers hence the diminishing sales. On the same note, the agricultural sector started implementing the use of an alternative source of energy which is solar energy. The case of farmers who used diesel generators to pump water for irrigation now opted for solar-powered pumping systems for sustainable cost. This transition was most notable in areas such as Dera Ismail Khan where fuel was key to farming productivity. Therefore, fuel sales in these areas started declining steeply, which posed a big problem for Tanvir and Ansar to meet the increased sales targets that PSO expected from them

Early Successes and the Shift in Energy Preferences

During the first years of their term of office Tanvir Abbas Khan and Ansar Iqbal played a key role in PSO's sales development in the Punjab province. They were tasked with promoting two major fuel products: Mogas and HSD, during the review period, agricultural machinery lubricants. These products were very relevant to the agricultural-dominated areas, which used tractors, tube wells, etc, procured from diesel-run engines. Practical interpersonal skills and market knowledge enabled Tanvir and Ansar to develop good working relationships with fuel retailers and dealers. Such a positive strategy in reaching the target made PSO win the heart of the local retailers and therefore was able to sustain a competitive edge (Yousaf, Adeel and Arshad, 2023). They also constantly made sure that they supplied the various PSO products to the sales outlets on time so that the customers continued to be satisfied. These efforts were backed by the recognized brand of PSO that the organization had already cultivated in the energy sector of Pakistan. These two officers again posted very good Returns on Investment in 2019 and 2020 at the same time grappling with higher targets. Thus, the agricultural sector which still depends on traditions and uses traditional types of fuel became a predictable source of sales. Visits to sales outlets they used to accomplish the targeted objectives and at the same time address operational challenges as well as aid retailers to improve on the marketing of PSO products. But their problem started with the onset of solar power and the change in consumer purchases touched the heart of their sales plan by 2022. As solar panels became cheaper and easier to access, farming companies started moving away from using diesel-driven equipment (Asif *et al.*, 2022). Tube wells that were earlier used diesel operated were gradually shifting towards the solar system, which cut down the need for diesel. This shift in technology affected the sales thus after some time Tanvir and Ansar had the hard time of their life of not being able to sell their products.

Competition from Smuggled Oil and Private Competitors

This was made worse by the coming into the market of cheap smuggled oil from Iran through the border towns such as Queta and then Dera Ismail Khan. This illicit oil was sold at far much cheaper prices as compared to what PSO was able to offer, thus making the illicit oil very popular particularly with farmers, a category of consumer who specifically value a cheap source of fuel. Tanvir and Ansar received a very hard time as they tried to rival smuggled oil and private oil companies' aggressive lower price strategies. These small and private competitors were making heavy discounts to the retailers leading them astray from PSO's products. The rural clients and other buyers who previously bought farm products turned to these new entrants because of the perceived lower prices and better margins of gain. Nevertheless, Tanvir and Ansar continue making efforts to maintain the customer base. They went more frequent to sale outlets, provided marketing assistance and collaborated to come up with sales strategies. Yet wither away they are, under the hammer of increasing fuel costs, stiff competition from the smuggled oil and the solar energy gaining more grounds in the market.

Table 2: PSO Statistics of Financial Year 2023

(Amounts in Rs. million unless otherwise stated)						
Particulars	**9MFY24**	**9MFY23**	**YoY (%)**	**3QFY24**	**3QFY23**	**YoY (%)**
Net sales	2,670,758	2,516,953	6%	843,487	811,689	4%
Cost of products sold	2,590,864	2,458,727	5%	818,813	765,025	7%

Gross profit	**79,894**	**58,226**	**37%**	**24,673**	**46,665**	**-47%**
Other income	13,290	11,545	15%	2,181	1,938	13%
Operating costs						
└ Distribution & marketing	13,707	10,399	32%	4,982	4,444	12%
└ Administrative expense	4,436	3,825	16%	1,410	1,027	37%
└ Provision on impairment of financial assets	871	478	82%	11	211	-95%
└ Other expense	2,879	2,045	41%	307	2,009	-85%
Profit from operations	**71,291**	**53,023**	**34%**	**20,144**	**40,911**	**-51%**
Finance cost	40,408	25,143	61%	15,039	12,682	19%
Share of profit/(loss) of associates	1,064	-1,012	–	294	1,486	-80%
Profit before tax	**31,946**	**26,868**	**19%**	**5,399**	**26,743**	**-80%**
Taxation	18,549	16,583	12%	248	13,096	–
Profit after tax	**13,397**	**10,285**	**30%**	**5,647**	**13,647**	**-59%**
Earnings per share (Rs.)	28.54	21.91	30%	12.03	29.07	-59%
Gross margin (%)	2.99%	2.31%	–	2.93%	5.75%	–
Operating margin (%)	2.67%	2.11%	–	2.39%	5.04%	–
Net margin (%)	0.50%	0.41%	–	0.67%	1.68%	–

Source: Pakistan Stock Exchange (PSX)

Workforce Impact and Mental Health Challenges

The increase in the pressure present in the market started to affect the workforce of PSO at an alarming rate, especially the field employees such as Tanvir and Ansar. Work pressure from demanding sales targets (see Exhibit-4) and imminent competition entailed working for long hours and frequent visits to the field. Both Tanvir and Ansar, once energetic and ambitious started feeling the heat of being held responsible for the company's future. Since 2024 faced with the constant decrease in sales the headquarters of PSO located in Karachi intensify pressure on divisional offices. Reports that can be turned in weekly were due and the challenge was to make a change.. This environment causes fast-paced work that forces stress on the team. Like many of their counterparts, Tanvir and Ansar were overwhelmed with the harrowing non-stop work pressure. They started developing some psychological issues and the stress startd showing in their families. There were increasing reports on other possible compulsory turnover policies predicted within PSO by the year 2024 (Khan, Naseer and Shahzad, 2022), which only escalated the workforce stress levels. It then worsened already existing pressures mainly about job security, thus making many employees feel insecure about their future (Khan and Baig, 2024). It was not so long ago that the work situation was stable and prosperous, and economic and social instability transformed stable jobs into a stressful environment for Tanvir and Ansar.

Table 3. PSO Sale Targets for Dera Ismail Khan Division

PMG FY-25 (Monthly Sales)													
Areas	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Total**
B1	3512	5533	4985	4876	3458	3940	3861	4397	4429	4827	3471	3741	54,862
B2	4280	4571	3488	3894	3785	3630	2957	3983	3745	3180	3623	5784	48,740
B3	3088	4053	3480	2844	3478	3900	3887	3843	4718	4384	5473	4926	51,474
B4	2746	2992	3053	2949	2843	3432	3175	3034	3209	2895	2972	4008	37,306
B5	2648	3534	2945	2578	2934	2651	2774	3124	3293	2769	3011	3604	37,315
DIR	2209	2575	2198	1996	2431	2083	2209	2115	2194	1989	2123	2305	26,417
HSD FY-25 (Monthly Sales)													
B1	6465	7281	8199	6181	7234	6525	5989	5037	5475	4572	8308	6453	72,718
B2	6948	8482	5898	6875	8140	6291	5659	4862	4930	4457	8074	4524	78,156
B3	6346	7663	8494	5733	8790	7604	4885	5488	4693	4221	7745	4573	78,201
B4	5692	6096	4021	5894	7725	5651	4795	4815	5168	4600	6935	5034	67,426
B5	4988	4503	3983	3769	6489	4815	4242	3495	3389	3206	5911	4801	52,492
DIR	2997	3487	2365	2876	3943	3013	2428	2349	2276	2047	1844	2419	33,329
Retail Lubricants FY-25													
B1	7.6	7.1	7.2	11.6	12.0	10.7	7.1	9.4	11.7	15.3	13.5	11.7	129.7
B2	4.8	9.2	9.4	15.0	16.0	15.2	7.1	11.8	14.4	17.7	14.9	15.8	167.4
B3	6.0	8.4	8.6	10.6	16.0	15.3	9.5	14.2	16.1	18.9	15.3	17.3	171.5
B4	4.8	5.2	8.4	15.0	15.0	15.2	6.3	11.6	12.8	16.5	16.4	15.7	142.7
B5	4.6	8.0	8.4	15.0	15.0	15.0	6.8	11.8	14.3	18.5	14.5	17.4	148.3
DIR	2.4	4.0	4.2	7.1	7.1	7.7	3.9	5.9	6.8	8.5	7.9	7.9	73.4

Source: PSO Dera Ismail Khan Office

Navigating the Changing Landscape – Strategies for the Future

The gross profit of the PSO skyrocketed mainly due to a substantial enhancement in inventories because of rising oil prices. Other income was up by 32 per cent yoy due to a higher interest received on overdue amounts. In FY22, PSO's operating profits increased more than 183 percent every year due to other income and top-line and gross profits. In the context of increased retail selling, the gross profit line of PSO also exhibited a staggering jump of nearly three bends in FY 22, much of which is attributable to the volumetric sales and realized inventory changes, revival of consumption/demand of petroleum products, inflationary price hikes, higher other income and expanded market share. (See Exhibit 2 & 3).

Table 4. PSO Statistics of Financial Year 2023

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Net margin (%)	0.50%	0.41%	–	0.67%	1.68%	–

Source: Pakistan Stock Exchange (PSX)

Towards the halfway mark of the calendar year 2023, the gasoline sales model for PSO increasingly became unviable, such as Dera Ismail Khan, where solar energy appeared to be becoming popular. In search of solutions, Tanvir and Ansar started finding out other strategies to overcome the existing problem and make PSO a successful company again (see Figure 1). They are going for Diversification into Alternative Energy. Of the strategies they discussed, one was to

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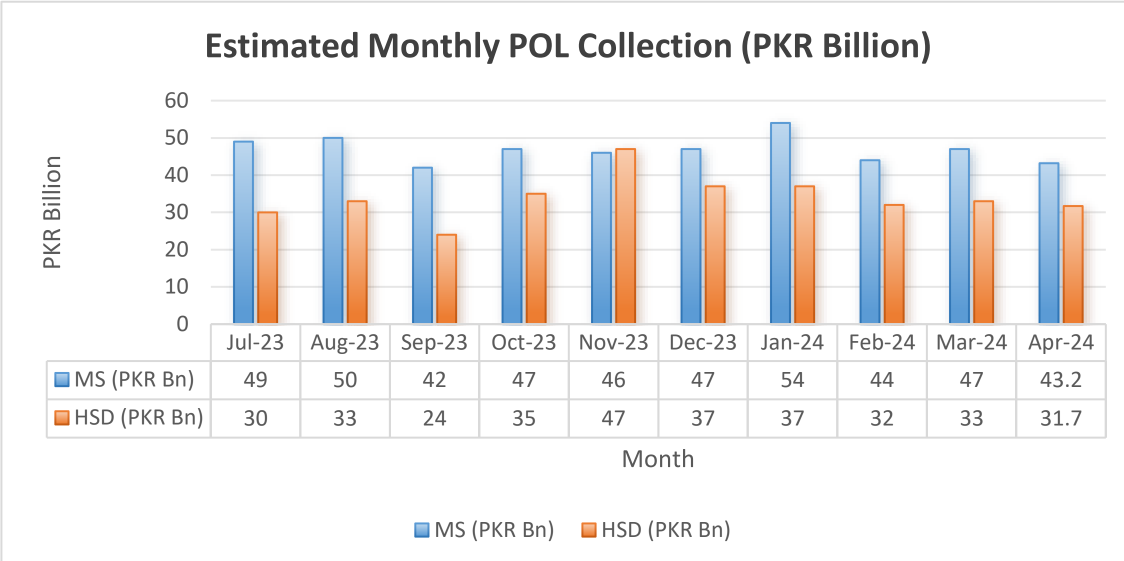
expand PSO's portfolio to cover renewable power products.



The agricultural sector had already felt the benefits and flexibility of solar energy and if PSO can get its foot in the door of this market then some of its lost customers could be won back. Solar technology presents PSO an opportunity to extend its portfolio of products from regular fuel to meet the needs of the changing market in the agricultural sector. Collaborative Partnerships Another approach called for considering the possibility of establishing partnership relations with private rivals or local agents. If PSO entered a joint specialization, it could have a more effective distribution channel and appropriately set prices that would help to prevent and resist a large number of smuggled oil. It can also harness cooperation with locals to regain the supremacy of the firm in the market, as the given case of PSO indicates. Innovative Pricing Strategies To neutralize the aggression of private competitors and the temptation of smuggling oil, Tanvir and Ansar suggested the use of more flexible prices. Providing the agricultural customers with rebates or discounts could make the PSO keep its customer base, at the same time, the retailers, loyal to it. Efforts for Workforce Health of employees. It was noted that the PSO workforce is under excessive pressure and, therefore, Tanvir and Ansar called for effective and efficient implementation of the workforce welfare programs. Qualified psychological help, the possibility to work in the morning, night or rotate, and better communication of employers about employment prospects could reduce pressure on workers and increase organizational efficiency.

Difficulty level for Students

The key concern threatening PSO is decreased sales in agricultural areas, such as Dera Ismail Khan and Multan, for several reasons: price inflation, the depreciation of the rupee, and competition with renewable resources like solar energy. Tanvir Abbas Khan and Ansar Iqbal two sales officers at PSO are facing difficulties in achieving their sales figures due to these challenges. Many of the farms that used to use diesel and other fuels for their tractors and irrigation systems have been transitioning to the use of solar power that does not require an import of traditional fuel products. Furthermore, there is smuggled oil from Iran which is much cheaper than that of PSO causing more customers to shift to it. What seemed to be a promising experience at the early stages of implementation, working for PSO has become stressful to the two employees as they mentioned the relentless pressure from headquarters to deliver on the targets affirms their mental and job insecurity. This is a complex problem that the students must solve from the perspective of the PSO company in order to bring it back to its former market position and implement the following solutions: diversification in the field of alternative energy sources, cooperation with private competitors, innovative approaches to the pricing policy, and the issue of workers' well-being. The difficulty is to synchronize this ever-evolving environment with the best of the company's interest.

Protagonist's Dilemma.

In the case of PSO, crisis is one related to how it can continue keeping hold in the market in face of dual threat of smuggled oil as well as increases in private retailers' sales. The dilemma for PSO lies in its inability to maintain monopoly position in increasingly splintered market because PSO is Pakistan's largest oil marketing company. This threat is even greater because there are large volumes of cheap, poor quality smuggled oil that are flooding Baluchistan and other border areas with Iran. Because smuggled oil is much cheaper, this also poses the risk of market loss for PSO, particularly in rural areas where customers may be much more price-oriented than quality-orientated. Besides that, the pressure that PSO is facing currently is also attributed to the increase of private retailers, who offer deeper discounts.

The hero had to measure to what extent PSO can bring down the price without compromising the quality of the product and corporate reputation. Should it lower the prices and reduce margin profits or invest in initiatives like supply chain transparency and educating consumers that through stronger governmental interventions, smuggling will come down? That even calls for a decision on diversifying into renewable energy or establishing strategic contacts with the smaller competing firms, making the decision a very complicated affair. The dilemma that the protagonist faces is the balancing of extraneous forces while staying true to the long-term goals desired by PSO pertaining to sustainability, profitability, and leadership in the market. The implications of this decision would largely affect the future of PSO because the very reaction of the company to these challenges will enable it to maintain consumer trust, move with the alterations in the market, and be able to compete with increasing rivals.

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