Taris

Drilling the World

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Taris Case Study

Backstory

As a manufacturer and supplier of steel pipe products, Taris is the leader in world production of seamless steel pipe, carrying 20 percent of the world trade in seamless steel pipe and 30 percent of world trade in oil country tubular goods (OCTG). At manufacturing facilities, located in Argentina, Brazil, USA, Italy, Mexico and Chile, annual production exceeds three million tons of seamless pipe and 850,000 tons of welded pipe. Taris engineers collaborate with customers in research and development to create pipe and tubular products that tolerate the requirements of unique utilization situations. With offices in more than 20 countries. Taris facilitates a streamlined procurement process, offering project and supply chain management from product design and manufacturing through product handling, inventory, and distribution anywhere in the world. Taris customers include multinational companies in the oil and gas, automotive, and mechanical industries. In South America Taris is the primary supplier of welded steel pipes used for gas pipelines.

The company was founded in 1905 and is headquartered in Argentina. Taris currently has 19,223 employees around the world focused primarily on manufacturing and design assistance.

In January 2020, Taris acquired Hard Steel, a North American manufacturer of seamless and welded steel pipes and other products, with facilities located mainly in the midwestern and northeastern regions of the United States.

Hard Steel has an essential product present in every moment of daily lives. From small hairpins to wind towers, from household appliances to large vessels, from infrastructure projects to the pillars of houses, from lighter and more economical vehicles to child's bicycles.

Through Hard Steel’s acquisition, Taris have secured a steel shop in Koppel, Pennsylvania, which is the first steel shop in the United States and provides vertical integration through domestic production of a significant part of the steel bar needs in the United States.

With this acquisition, Taris total sales is improved by $800M. While aggressive, this new line and expansion into European markets are expected to increase revenue to $10B in three years.

Business Model

The company sells pipes through an exclusive international dealer network (Argentina, Chile, Brazil, Colombia, Mexico and USA). Its profits are minimal from pipes sales with the bulk of profits coming from replacement and maintenance parts over the long life (40+ years in service) of the piping and rigs. Currently Taris Net Profit Margin is 1.7% - a full 3.3% below the goal the CEO has challenged the organization to achieve in 24 months or less.

While historically Taris has focused on Latin America markets they have completed planning for expansion into European markets. They already started a small operation in Italy and plan to include Germany, France and the UK over the next 36 – 60 months, based on European market drivers.

One of Taris's competitive advantages is end-to-end service. The planning of critical resources (supplies, production capacity and logistics) and the comprehensive management of orders is key to ensure the promise of service. Taris faces lack of coordination during Demand and Supply (S&OP) planning, significant errors in mathematical forecasts and lack of real-time information throughout the entire supply chain.

Multiple executives at Taris are very intrigued by the business possibilities and opportunities that a broader adoption of cloud computing across the enterprise may provide. They have based their interest upon recent conversations and interactions with peers. There is some usage of cloud software within the overall company but it is not a standard. While there is a very basic understanding of some economic benefits in disparate areas, some anecdotal examples have caught the attention of specific individuals. However, there is curiosity and interest about how a broader adoption of cloud computing can help support the overall business goals and strategies. The leadership team is unsure of who in the technology marketplace is the right vendor(s) given their stated direction.

Executives are also concerned about a trend over the last several years concerning the owners of the facilities finding other, lower cost alternatives for parts and maintenance items (by-passing the dealers and Taris). This has strained the dealer relationships and the dealers are asking Taris to help them retain the higher margin repair maintenance revenue stream. If dealer relationships are not addressed in the near term, this trend will negatively impact indirect revenues of 80% and significantly challenge their ability to roll out a unified dealer experience initiative.

Executives expect revenue from their direct revenue stream to large multi-nationals to continue to increase year-over-year, although the percentage of revenue overall will decrease given their entrance into the SMB and consumer market with Hard Steels.

For their newly launched Hard Steels line, the company will sell direct to SMB and consumer via digital, call center, and an ecommerce channel as well as through existing distributor relationships that are mainly specialty equipment outlets. Taris is also aggressively analyzing other channels such as big box home goods retailers. Executives believe this move into the consumer and SMB space will translate into new lines of business and potential to leverage relationships across their B2B and B2C business. While not stated publicly, senior executives are confident they will double existing Hard Steels sales to $1.6 billion in 36 months.

Taris management is focused on optimizing the employee resources across the organization in support of their identified growth and revenue strategies. This includes potential optimizations of the Hard Steels operations and HR staff and a stated intent to recruit, train, and deploy up to 130 new digital sales representatives. This project is slated to be completed within the next 18 months and supports Taris expansion into the consumer markets.

Taris also plan to hire 30 inside sales representatives to drive strategic sales while pushing non-strategic leads to dealers. Overall, Taris needs to improve performance of their National sales reps to increase the number of dealers and service locations for Hard Steels.

To secure the existing sources of raw material and energy inputs, and to gain access to new sources of low-cost inputs which can help the company to maintain or reduce the cost of manufacturing their core products and, in the future, reduce the carbon emissions intensity of their operations over the long term, Taris purchases most of their supplies through centralized procurement area. This area offers an integral procurement solution, supplier sourcing activities; category organized purchasing; suppliers' performance administration; and inventory management. The company aim to achieve a vertically integrated value chain for the production.

Key Financials from Oracle Company Profile Tool (Value Navigator)
*** Currency: USD in millions**

Key Indicators*	2021	2020	2019	1-yr Growth Rate
Total Sales	45.462	38.537	47.011	18%
Operating Income	4.406	1.093	3.785	303,10%
Net Income	754	-67	2.512	1025,40%
Total Assets	76.962	74.704	76.962	3%
Capital Expenditure	2.336	2.928	3.261	-20,20%

Margins	2021	2020	2019	2018
Gross Margin	30,30%	25%	27,40%	25,10%
Operating Margin	9,70%	2,80%	8,10%	6%
Profit Margin	1,70%	-0,20%	5,30%	4,40%

	Taris	Peer Average	Vallourec	TMK
1 Year Revenue Growth (%)	18	18,8	27,1	10,4
Revenue / Employee ($)	700.062	394.654	308.058	481.250
Gross Profit Margin (%)	30,3	34,7	41,5	27,9
Operating Profit Margin (%)	9,7	15,4	21,3	9,5
Net Profit Margin (%)	1,7	10,9	14,3	7,4
SGA Expenses / Revenues (%)	11,4	14,2	17,3	11,2
Asset Turnover	0,6	0,8	1	0,5
Days Sales Outstanding (DSO)	53,9	54,8	66,1	43,5
Days In Inventory (DII)	107,3	76,6	90,3	63
Days Payables Outstanding (DPO)	63,9	51,7	63	40,4

Key Performance Indicator	Baseline Value ($M)	KPI Value	Peer Average	Oppty ($M)	Change in KPI	Potential ($M)	Affected Parameter
1 Year Revenue Growth (%)	7.577	18	18,8	50	1%	76	Revenue
Revenue / Employee ($)	7.577	700.062	394.654		1%	76	Revenue
Gross Profit Margin (%)	2.295	30,3	34,7	333	1%	23	Gross Profit
Operating Profit Margin (%)	734	9,7	15,4	432	1%	7	Opertng Profit
SGA Expenses / Revenues (%)	863	11,4	14,2		-1%	9	SG&A Expenses
Days Sales Outstanding (DSO)		53,9	54,8		-1 day	21	Receivables
Days In Inventory (DII)		107,3	76,6	444	-1 day	15	Inventory
Days Payables Outstanding (DPO)		63,9	51,7		1 day	15	Payables

		Spend(%)	Estimate
Revenue		100	7.577.000.000
Total IT Spend		2,2	166.694.000
Internal IT Spend		30,7	51.175.058
External IT Spend		69,3	115.518.942
	Applications Spend	19,5	22.526.194
	IT Management Spend	16,9	19.522.701
	Infrastructure Spend	19,3	22.295.156
	Network and Communications Spend	13,6	15.710.576

Taris Applications Environment

Taris business applications environment includes a wide range of disparate and duplicated systems acquired over time via business acquisitions. These include SAP (Finance, Manufacture, Logistics, Warehouse, Procurement, Success Factors), Oracle E-Business Suite (Fins) and 50 seats of Salesforce (Sales and Marketing), Hyperion Planning and Fusion HCM Cloud in Italy).

The E-Business Suite financial environment is present in the enterprise via an acquisition; the SAP financial environment is the original operating book of record. There are support deadlines looming for the SAP and E-Business Suite environments. Support for SAP is due to expire in eighteen months with support for E-Business Suite expiring in twelve months. The company currently spends annually for support for all the above-mentioned application environments. Additionally, based upon previous interactions with the customer, the Oracle team has provided estimates for the cloud ARR and corresponding implementation estimates. The below table lays outs all these numbers:

Application	Current Support (includes Tech)	Cloud ARR Estimate	Implementation Estimate
SAP	$2.1M	$2.9M	$4M
e-Business Suite	$1.1M	$1.9M	$1.2M
Salesforce	$220k	$150k	$300k
Hyperion	$810k	$675k	$508k

A number of these on-premises applications run in two existing data centers in Mexico and Brazil. These data centers are much older and fully depreciated. They cost Taris 15% of the current software support.

Taris CIO has recently approved the purchase of some cloud infrastructure from Amazon to run application testing and deliver increased capacity during peak periods. Where possible, they have standardized on Oracle Database (12c), Oracle Identity and Access Management, Oracle Fusion Middleware running on their various hardware platforms. The IT division is short staffed and heavily reliant on overtime and external contractors to manage these complex environments. This has been the primary reason IT spend has risen over the last 20 months to 4% of overall revenue. The CIO has been challenged to reduce this to the 2015 level of 2.2% within 24 – 36 months, even with the potential interest executives have expressed to acquire additional cloud services.

In addition, reporting, patching and security management requires a significant amount of staff time and there is a major backlog of business improvement requests. Taris experiences 5-6 hours of downtime per month across its various application environments.

Taris Account Summary:

The following is a brief consolidation of the Oracle sales team experience and knowledge with the customer:

1. Taris is an existing Oracle customer and despite several changes in leadership and a relatively recent change in several senior executives, relationships with Taris continue to be productive and healthy.
2. Taris has ongoing relationships with other Tier 1 and Tier 2 vendors including SAP, Sales Force and others. As with most accounts, specific executives may have a higher perception of these vendors over Oracle.
3. Even with several recent engagements and the moderately positive perception of Oracle, Oracle has been unable to close any significant opportunity in Latin America in the last 24 months.
4. Some executives are expressing a tendency towards open APIs, they are leaning to a best-in-breed approach unless they are persuaded that a single vendor solution is more compelling.
5. Executive direction has created urgency among specific operating units to identify near and mid-term growth and optimization strategies while supporting the 3 – 5 year directions identified by the executive team.
6. All decisions being made must provide flexibility with business acquisitions, new product creation, expansion to additional markets and must support significant increases in employee and dealer numbers.

The following line of business insights summarizes the domain knowledge of the Oracle sales teams assigned to Taris.

CHRO/HCM – Juan Delgado Gordon

1. Attract top talent to build a world class innovative team
2. Establish controls of HR practices, policies, maintain international compliance (e.g. General Data Protection Regulations (GDPR), and Work Council policies to support European expansion
3. Enable visibility into a common person record across all operating units in 18-24 months
4. Leverage mobile for collaboration, workforce engagement and internal communications
5. Simplify multiple HR processes by consolidating Success Factors and Fusion HCM Cloud in the next 18 months in one solution.
6. Juan Delgado Gordon was not part of Fusion HCM either acquisition and neither the implementation in Italy.
7. Create a common Person record across the enterprise
8. Develop and deliver actionable workforce insights for every department / employee
9. Mobilize for greater speed and flexibility to produce significantly greater capability to adjust underlying costs and faster ways to allocate talent to support acquisition growth strategy
10. Empower employees to grow their careers through just-in-time learning, and anytime-anywhere self-service support
11. Capitalize on collective intelligence through more effective collaboration across globally teams
12. Cultivate creative leaders who can more nimbly lead in complex, global environments
13. Enable just-in-time multi-channel cross-training delivery

CIO/CTO – Máximo Cabezas

1. Review SaaS to replace legacy applications and development environments
2. Consolidate redundant on premise systems from 15 to 3 by Year 3
3. Use analytics and business intelligence to improve business decisions and outcomes
4. Accelerate product launches
5. Reduce the number of data centers from 2 to 0 by Year 2
6. Provide a platform to enable domestic and European expansion
7. Support the business with industry best practices
8. Reduce external development costs by $10MM by Year 2
9. Protect corporate and customer data to support regulatory compliance
10. Consolidate systems to remove redundancy and duplication
11. Review and revise 100% of existing business processes by Year 3
12. Replace existing business processes to align with business goals
13. Invest in mobile applications/experience for employees, customers and partners

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