Bp's marketing strategy

1. Introduction

Multinational corporations operating in complex and diverse political, economic, social and cultural environments have to improve, adjust and develop their marketing strategies on a regular basis (Bamberg, 2009: 46). Changing environmental factors create new conditions for their operating, which often require considerable and serious changes in strategic decision-making and positioning of companies. Inflexible and rigid firms will cease to be competitive in the market every time changes occur (Fight, 2006: 85). The aim of the present report is to identify the past and present changes in marketing strategy of British Petroleum, which have occurred under the pressure of environmental factors. It is evaluated whether these changes were necessary, and future strategic options for British Petroleum are recommended.

2. Background

British Petroleum (BP) is a multi-national gas and oil company located in the United Kingdom. Taking into consideration the size of revenues, BP proves to be the third largest energy company in the world. It is reported that its revenue was equal to as much as $308 billion in 2010 (BP, 2010: 18). Working in the field of the gas and oil industry, the corporation carries out a wide range of operations, namely exploration, refining, production, trading, power generation, renewable energy production, etc. BP is presented in more than 80 countries all over the world and employs more than 80, 000 workers. The company was founded in 1909 as the Anglo-Persian Oil Company, but only in 1954, it was known as the British Petroleum Company. 1998 was marked by the merger with Amoco (BP, 2011: 1). Operating in

turbulent and dynamic industrial sector, BP has always had to adequately react to the environmental changes and adjust their marketing strategy (Bamberg, 2009: 49).

3. BP in Dynamic and Changing Environment

Taking into account that this report analyses strategic positioning of BP as a response to environmental changes and influences, the external environment of the company should be carefully scanned. It is important to note that not only contemporary external influences ought to be investigated, but also the environmental factors that used to influence BP some time ago. This will allow for observing changes from a historical perspective. In this sense, the PESTEL framework appears to be a very useful tool. It is argued that " the PESTEL framework helps to identify the relative importance of political, economic, social, technological, environmental and legal influences, and can be used to identify the key long-term drivers of change" (Fight, 2006: 44).

It may be critically stated that " recent market events have provided a sharp reminder of the central role of energy for our near-term security; insecurity arises from a range of issues, including geopolitical instability, natural disasters, terrorism and even poor regulatory design" (ORCD, 2003: 421). Indeed, geopolitical instability proves to be a powerful political factor, which can influence volatility in the energy markets. It is reported that the world is heavily dependent on Middle East since this region has more than 60% of the world's oil reserves (Thomas White Global Investing, 2010: 1). The key oil producing countries are Saudi Arabia, Iran, Iraq, Kuwait, UAE, Venezuela, Russia and Libya. Oil reserves of these countries are demonstrated in the

graph below. It is valid to argue that a number of instability ‘ symptoms’ have been observed in these countries recently, including military conflicts, authoritarian political regimes, corruption, etc. For instance, Venezuela tends to use its oil revenues to finance governmental programmes and ideology (Thomas White Global Investing, 2010: 1).

As it may be observed from the histogram, Saudi Arabia has the largest oil reserves in the world, namely 262. 2 billion barrels. Canada, Iran and Iraq have 179. 2 billion, 136. 3 billion and 115 billion barrels respectively (Thomas White Global Investing, 2010: 1).

In response to the mentioned political influences, BP’s strategy has been changed the following way. Generally, it is possible to observe two main tendencies. First, British Petroleum attempts to hedge political risks in the oil producing countries by means of partnership and deals with the governments. For instance, BP signed a contract with the Russian state-run oil company Rosneft in 2009 (Hernandez, 2011: 1). Second, the company evacuated its personnel from northern Africa because of growing political instability in Tunisia, Egypt and Libya. Simultaneously, BP develops its cooperation with emerging economies in Asia, which are more politically stable, namely India (Hernandez, 2011: 1). These changes were necessary in order to avoid political risks in the countries, which prove to be the leading producers of oil.

Geopolitical instability in the world and political tensions in these countries can be viewed as important factors that have led to the fluctuations in oil prices, which may be illustrated by the following graph.

As it may be grasped from the graph, crude oil price reached its maximum in 2008 and constituted as much as $91. 48 per barrel (IBP Oil, 2011: 1). The period from 2002 to 2008 was marked by the gradual rise in crude oil prices. In 2009, the indicator was equal to $53. 56, and oil prices started growing again (IBP Oil, 2011: 1). It may be argued that fluctuations in crude oil prices are also the result of economic influences. It is obvious from the graph that crude oil prices skyrocketed simultaneously with the coming of the global financial crisis. Another increase in oil prices occurred during the prolonged recession, in the long-term of the financial crisis (Bamberg, 2009: 184; IBP Oil, 2011: 1).

In accordance with Brigham and Ehrhardt (2010: 901), the main causes of fluctuations in crude oil prices are demand and supply forces, investment demand and monetary inflation. The US Dollar inflation can be graphically presented the following way.

As it is observed, inflation reached its maximum in 2008 when the indicator was equal to 3. 85% (Inflation Data, 2011: 1). It has already been stated that the rapid growth of crude oil priced took place the same year. As argued by Brigham and Ehrhardt (2010: 901), it is possible to establish cause-effect relations between high inflation and the growth of oil prices. Indeed, these environmental factors had economic influence on British Petroleum. The excessive dependence on non-renewable energy carriers and fluctuations in crude oil prices have contributed to the popularity of renewable energy, namely wind, solar and geothermal (Fight, 2006: 93). The point is that the reserves of renewable energy are not limited.

In response to these economic influences, BP reconsidered its business strategy the following way. It is reported that the company started producing solar panels after the acquisitions of Lucas Energy Systems (1980) and Amoco (1998). At the present moment, the company proves to be the largest manufacturer of solar panels in the world. BP has launched two main types of solar energy products, namely products for individual consumers and products for organisations. For instance, the firm is planning to run a new solar energy project aimed at energy supply for Wal-Mart stores (BP, 2011: 1). Furthermore, it is reported that BP invested more than $6 billion in wind and biofuel energy projects during the period from 2005 to 2010 (BP, 2010: 61). These changes were necessary because the PB attempted to attract customers by cheaper and ‘ green’ energy. The volumes of ‘ green’ energy production by BP can be presented by the following graph.

It is illustrated by the histogram that BP produced as much as 774 megawatts in 2010. The total volume of wind energy produced by the company is more than the volume of solar energy (BP, 2010: 63). However, the company tends to produce more solar energy every following year. If 162 megawatts were produced in 2008, the indicator increased to the level of 325 megawatts in 2010 (BP, 2010: 63).

Global energy consumption patterns may be viewed as an important social influence on BP. The following histogram illustrates the changes in energy consumption during the last two decades. It can be observed that the world’s population consumed as much as 8, 131 million tons in oil equivalent in 1990. However, the indicator constituted 11, 808 million tons in 2010 (BP, 2011: 1).

However, it should be taken into consideration that energy is not consumed equally by different regions of the world (BP, 2011: 1). The following graph illustrates energy consumption patterns by economic zones, unions and countries. As it may be understood, this social influence could lead to changes in marketing strategy of BP.

It is reported that nearly 20% of the world energy is consumed in the US market. To be more specific, the indicator was equal to 89, 021 kWh/hab in 1990 and decreased to the level of 87, 216 kWh/hab in 2008 (BP, 2011: 1). It can be observed that the EU countries consume half the amount of energy used in the US; it constitutes 40, 812 kWh/hab. It is interesting to note that the EU consumption patterns had grown by 2008. Furthermore, it should be emphasised that such regions as Middle East and China have experienced enormous growth of energy consumption recently (BP, 2011: 1).

In response to these socials changes, BP has reconsidered and changed its strategy the following way. The company used to operate in the US market very actively and have large manufacturing facilities in this country during the 1990s. It is understandable that the region consuming nearly 20% of the world energy will be of strategic interest for British Petroleum (Bamberg, 2009: 142). Nevertheless, the company attempted to move considerable part of its manufacturing facilities from the US to China during the 2000s. For instance, BP’s factories in Frederick, Maryland were closed in 2000 (Wenying, 2004: 100). Moving production facilities to China continued regardless of the fact that the Chinese government issued a number of protectionist laws, which require than no less than 85% of input materials must be manufactured in China (Bamberg, 2009: 83). These changes were necessary

because energy consumption patterns in the US market had reduced by 2008.

It may be argued that technological progress is associated with the growth of energy consumption patterns by such sectors as industry and transport. The following graph can be presented to illustrate this relationship.

All the four sectors have experienced growth in energy consumption recently. It is reported that in 2008, industry and transport used 27, 273 TWh and 26, 742 TWh respectively (BP, 2011). It may be explained by the fact that new technologies are more energy consuming. Furthermore, rapid growth of the world’s population means that more and more oil should be spent on manufacturing of industrial goods and transportation (Bamberg, 2009: 42). For example, there were about 400 million motor cars in 2000; however, the total amount of vehicles constitutes more than 750 million today (Heitmann, 2009: 167).

These technological changes have led to the following reconsiderations and amendments in BP’s strategy. First, the company started popularising efficient use of energy and invested in energy efficiency of industrial enterprises and engines for motor vehicles (BP, 2010: 53). Second, BP introduces new technologies in their own production process. It was officially stated by the Group Chief Executive that “ the answer to the problems caused by some technology is more and better technology – to reduce the environmental impact of exploration, to reduce the carbon content of the fuels we use, to give people everywhere better choices” (BP, 2001: 1). To be

more specific, BP has rationalised transportation of oil and its products and has reduced the content of carbon in its fuel (Bamberg, 2009: 142).

Being an energy company, BP is subjected to manifold environmental influences. It is possible to differentiate between environmental factors that refer to the global ecological changes and environmental influences provoked by the company itself. The latter are numerous chemical leaks, oil spills and dumping of hazardous substances. For instance, BP was blamed for dumping of chemical wasted in Alaska during the period from 1993 to 1995 (Roach, 2006: 1). Prudhoe Bay oil spill, which occurred in August 2006, was the result of pipeline corrosion. More than 5, 000 barrels of crude oil leaked and caused environmental damage to the sea life. Another problem was registered in Texas City in 2010 when there was a chemical leak of hazardous elements into the atmosphere (Aulds, 2010: 1).

Regardless of the fact that BP runs a great number of ‘ green’ practices and corporate social responsibilities (investment in renewable energy projects, restoration of the environment after oil accidents, funding of ecological projects and initiatives, etc.), the company was given the Greenwash Award in 2009 (Green Peace, 2010: 24). The firm tends to manipulate the public paying considerable attention to its CSR activities. It is argued that BP spends on ‘ green’ practices less than it is proclaimed in official statements of the company (Green Peace, 2010: 26). It can be summarised that BP attempted to build positive public image by its ‘ green’ practices in response to the mentioned environmental influences. However, these attempts cannot be classified as successful. These changes in strategy cannot be classified as

a necessity. The company could have been more open and honest with the public, which could have created more positive public image.

Finally, it may be stated that BP has already had a series of legal arguments with the governments and non-governmental organisations. It is reported that " yet already BP's actions are facing unprecedented scrutiny, thanks to a years-long history of legal and ethical violations that critics, judges and members of Congress say shows that the London-based company has a penchant for putting profits ahead of just about everything else" (Mauer and Tinsley, 2010: 1). In response to these legal influences, the company has become more careful and prudent (Aulds, 2010: 1).

4. Strategic Position of BP

Prior to the identification of the generic strategy of BP, it is necessary to conduct a stakeholder analysis and detect the recent changes in BP's attitude towards different interest groups. The main stakeholders of the company are the government, the press, suppliers, ecological organisations, customers, alliance partners, shareholders, the public and employees (BP, 2010: 34). The positioning of these interest groups in the stakeholder matrix can be presented the following way.

It may be observed that role of the governments has changed under the influence of political influences and geopolitical instability. The governments of oil producing countries and suppliers appear to be very powerful (BP, 2010: 74). At the present moment, BP has to build strong long-term relationships with governments in order to avoid political risks, limitations and possible restrictions (Thomas White Global Investing, 2010: 1). It is

argued that ecological organisations and customers are less powerful, but they tend to demonstrate greater interest to the company. Ecological organisations and the public are worried about harmful effects of the company’s operations. Customers are interested in BP because the energy consumption patterns are growing and there is always demand for oil (Bamberg, 2009: 34). The company has several groups of customers, namely car owners using service stations (Aral, ARCO, BP Connect, BP Express and BP2go), users of convenience stores, users of solar panels, users of motor oils and derived products, the transport industry and the aerospace industry (BP, 2010: 74).

Another important change that has happened recently is that employees’ power has increased. This change can be explained by several accidents, disasters and safety problems, which have occurred at British Petroleum. For instance, it is stated by the US Department of Labour (2011: 1) that the explosion in the isomerisation unit of the BP refinery in Texas City led to the death of 15 workers and injury of 170 employees. Similar scandals attract the public attention and interest and stimulate better maintenance of safety standards and norms. It should be noted that the power of the press and the public has increased too (Green Peace, 2010: 21).

Discussing generic strategies of the company, it is also possible to identify changes. At the early stages of its development, BP was following the cost leadership strategy (Bamberg, 2009: 132). Indeed, the company made considerable efforts to remain the leader in developing costs. Nevertheless, it is argued by Business & Leadership (2011: 1) that the firm’s cost reduction practices were the main reason for oil spills and leaks. Cost cutting measures

prevented the company from timely and regular repairs and maintenance of the infrastructure (Business & Leadership, 2011: 1). BP has transformed the cost leadership strategy into the differentiation strategy by the present moment. It is argued that “ the company has endeavoured to redefine its market space by laying claim to activities beyond oil and gas such as alternative energy and a lower carbon future” (Bright, 2011: 4).

As it may be seen, the turbulent and changing external environment has forced BP to undertake a series of new decisions, which were different from those undertaken in the past. These changes in the corporate marketing strategy can be evaluated as a normal reaction to external political, economic, social and technological influences. As a result, it is possible to observe the change in stakeholders’ power and interest towards the company. Furthermore, BP’s generic strategy has evolved from cost leadership into differentiation (Business & Leadership, 2011: 1; Bright, 2011: 4).

5. Future Strategic Options

The discussion of future challenges for BP will reveal that future energy consumption patterns will continue growing. The forecast of future changes may be presented the following way.

The total volume of energy consumed by the world will have constituted as much as 16, 432 million tons in oil equivalent by 2030 (BP, 2011: 1). Another important challenge that should be taken into account is possible growth and fluctuations of oil prices. The company should avoid accidents, disasters and safety problems, which prove to be serious challenges to British Petroleum.

Finally growing popularity and demand for renewable energy are both opportunity and challenge for the firm (Aulds, 2010: 4).

Relying on the previously identified environmental influences and pressures, it can be suggested that British Petroleum should follow the diversification strategy as a future option. In accordance with Ansoff matrix, diversification is the strategy, which implies entering new markets with new products (Meldrum and McDonald, 2007: 142).

This choice of the future strategic option can be explained by a number of reasons. First, growing geopolitical instability and political risks and oil producing countries have forced BP to entering new markets, which are characterised by considerable potential. Second, the company can continue running and developing renewable energy projects, which have become very popular (Hernandez, 2011: 1). In the conditions of growing demand for energy, growing consumption patterns and increasing crude oil prices, the company should be more active in the field of alternative energy.

A modified version of strategic options was offered by Turner (2005: 340).

As it can be grasped from the improved framework, BP should follow the offensive strategy in future. It is implied that new services should be delivered to more politically stable and balanced markets (Turner, 2005: 340). It is expected that this choice of the future strategy will be consistent with contemporary changes and tendencies in the industry, namely growing demand for renewable energy, unstable crude oil prices, ecological awareness and energy efficiency (Bamberg, 2009: 153).

6. Conclusion and Recommendations

It may be concluded that the main strategic changes undertaken by British Petroleum in response to the turbulent and dynamic environment are contracts with the governments to avoid political risks, moving to more stable countries such as India from the northern Africa, acquisition of the solar panel manufacturers, investment in wind and solar projects, moving manufacturing facilities to China, investment in energy efficiency, reduction of carbon content in fuels, participation in ‘ green’ activities an ‘ greenwashing’. The company had to transform its generic strategy from cost leadership to differentiation since cost reducing practices had led to oil spills and leaks. It may be summarised that the identified changes were necessary. Nevertheless, the company could have been more honest and open in its CSR projects.

It is recommended that BP should use the diversification strategy as a future strategic option in order to continue responding to the environmental challenges. The company should diversify its product range associated with the production of solar and wind energy for individual and corporate customers. It is expected that these products will be popular in the emerging markets such as India and China where incomes are not high, but energy consumption patterns are growing very fast. Furthermore, it is recommended that the company should increase expenditures on infrastructure maintenance and employee safety. Together with alternative energy production, this will positively influence corporate reputation after the recent safety scandals and ‘ greenwashing’. Finally, it is recommended that BP

should continue popularising efficient use of energy by individual consumers and industrial enterprises.

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