

Corporate level strategy of bp management essay



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Due to the oil crisis in 1980s, the company had to consolidate its position.

This was done by acquiring Standard Oil Co, which led to the formation of BP America. Moreover, BP acquired Britoil, a British oil company, which strengthened company's position in the North Sea oil industry.

The company has since expanded through the several acquisitions as well as by forming strategic alliances. The most recent and significant to mention were Amoco, Arco, Veba Oil and TNK BP (JV).

Merger with Amoco lead to a formation of BP-Amoco, which was called the biggest industrial merge and let the company to become biggest US oil and gas producer, owning over 29000 service stations worldwide.

BP-Amoco greatly enlarged with the purchase of Atlantic Richfield Company (ARCO). However, acquiring ARCO was mainly done due to the large gas resources the company owned; still it brought some opportunities in the oil field. BP-Amoco got the reserves of 15. 5 billion barrels of oil equivalent as well as gained a strategic advantage in US downstream operations. The company got the market access to California and some more states on the West Coast, with a leading US retail network of am/pm convenience stores as well as got access to the best refineries in the US, which meant it could offer its customers cleaner fuels.[1]Moreover, as said by John Browne (1999) this merger brought: “ some excellent positions in the deep water Gulf of Mexico, in the lower 48 through Vastar, in Algeria and in the Southern North Sea.”[2]

In 2001, the company developed its market by entering German market, which in fact the company had entered already in 1970s, but had a failure. BP formed a joined-venture with German's biggest fuel retailer Veba Oil's,

thus got access to its retail and refining assets in Germany as well as central Europe, making BP the market leader in Germany and Austria as well as consolidating its position in Poland and some other central European countries. In 2002, BP acquired the rest of Veba Oel's operations from E. ON. Veba.[3]

Moreover, owing to oil discovery at BP's Farragon exploration field in the North Sea, a new joint venture (TNK BP) was made between BP and Russian Alfa Group and Access-Renova (AAR), which now is called as the Russia's fastest growing company, representing about a quarter of the company's production as well as generating about the tenth of BP group's profits and having the largest return on capital employed.

TNK-BP claims to provide the largest reserve base, about 40 billion barrels of oil equivalent (Datamonitor, 2010)

The company owns five refineries in Russia and Ukraine. Moreover, it got access to approximately 1, 400 retail service stations operating under TNK and BP names, which established TNK-BP as a market leader in petroleum product sales in European Russia as well as made the market leader in Ukraine.

Entering Russian market was called to be one of the most successful strategic decisions. TNK-BP production represents about 17% of Russia's oil production, which is an enormous output, taking into account that Russia counts to be the world's second largest oil producer.

In fact, BP claims to be an environmentally friendly company, thus focusing on the new “ green” product development. The company is targeting climate change concerned customers, thus offering, such products as:

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Petrol stations with environmentally friendly features

Premium fuels with lower carbon e. g. BT Ultimate

Biofuels (alternative energy)

For example, in 2007, in Los Angeles, California, BP opened Helios House with a unique iceberg-shaped dome, produced from the recycled steel triangles, containing energy-efficient lighting and build-in. It was commented: “ Many of our stations run partly on wind and solar power generated from on-site wind turbines and solar panels built into the station canopy.”[4]

Moreover, fuel cards were developed as a means on payment on a service stations.

BP, initially founded as an oil exploration and production company, differentiated its interests by entering petrochemicals business in 1947, through a formed joint venture with Distillers. (ICIS, 2010)

Corporate-level strategy

Companies structure

Competitive advantage – vertical operations

From 2010 presentation chto hotjat sdelatj

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BP now comprises just two business segments - Exploration & Production and Refining & Marketing. Alternative Energy is a separate unit within Other Businesses and Corporate. This will simplify both our corporate governance and decision-making. (restructuring segments)

Flatter organisational layers

Our objective is to reduce the corporate overhead by between 15 and 20%. We are starting from the top with fewer layers of management and a smaller corporate infrastructure. We have reduced the number of Executive Directors from six to four and the number of Group Vice Presidents by more than 10%. → to drive standardisation, increase capability and prioritise spending.

Centrised operations:

Facilitate co-ordination → smooth production flow

Consistence decision

Easy to bring about major changes

Avoid duplication of activities

Restructuring Segments → simplified decision-making & corporate governance

Flatter Functional Structure → smooth co-ordination, consistence decision, prevents activity duplication

Providing central services → standardisation, gaining efficiency, faster learning

Coaching and facilitating learning centres e. g. Projects Academy,
Operations Academy

<http://www.bp.com/genericarticle.do?categoryId=2012968&contentId=7059787>

Previewing BP's annual strategy presentation to the financial community, Group Chief Executive Tony Hayward said the company had established strong momentum in its core businesses and had made great progress in reducing costs and improving absolute and relative financial performance in the past two years.

But there was a lot more still to do, he added, announcing the start of what he called "a new phase to realise the potential of the portfolio built over the past decade".

"The challenge and the opportunity for us is that while our portfolio ranks amongst the best in the industry, our financial performance has yet fully to reflect this," said Hayward. "There is now a real opportunity to make this portfolio work harder for us and we intend to do just that."

Hayward said there were more opportunities to improve operating and cost efficiency right across the company, from refineries and marketing operations in the downstream to procurement, drilling and project management in the upstream.

BP's Refining and Marketing segment has committed to further improve underlying profitability by over \$2 billion over the next two to three years, and to ensure that refining operations can be profitable even in depressed

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conditions like those the industry faced in 2009. Hayward said BP's R&M business was well placed to compete because of the quality of its portfolio, featuring on average larger and more advantaged refineries than its competitors', and because it had already delivered a strong improvement in underlying performance and reduction in costs.

In Exploration and Production, a significant organisational restructuring is underway to centralise project management, improve cost efficiency and inject greater consistency into operations. In particular a Centralised Developments Organisation is being established to manage all major projects in the portfolio. These developments are expected to enhance capital efficiency and improve returns in the coming years.

" Whichever way you look at it, there are significant opportunities for improvement and in every case firm plans are in place to close these gaps," said Hayward. " Our direction is clear: the unrelenting pursuit of competitive leadership in respect of cash costs, capital efficiency and margin quality. We believe we have made a good start - but it's only a start."

On the upstream, Hayward said BP's medium-term growth focused on three areas of deep expertise: deep-water production, global gas including unconventional gas, and managing some of the world's giant oilfields. In each area, BP had made significant advances in 2009.

He pointed to BP's successful track record of 17 years with a reported reserves replacement ratio of 100 per cent or greater, and to its success in adding to its reserve and resource base over the past two years - with 7.5 billion barrels of oil equivalent (boe) of new resources added, sufficient to

replace five years of production. He also cited its five-year record of industry-leading discovery costs. BP's finding and development costs in 2009 were \$12 per boe, the lowest in five years.

These factors underpinned the company's projection of 1-2 per cent average annual output increases, from a 2008 base at \$60 per barrel, until 2015 and increased confidence in the potential to continue production growth through the end of the decade.

BP produced 4 million boe per day in 2009, an increase of 4 per cent on 2008. In the next two years 24 new major projects will reach final investment decision. BP intends to start up a total of 42 new major projects between 2010 and 2015, expected to contribute about 1.0 million to total production by 2015, more than offsetting the decline from currently producing fields.

In addition to setting out BP's downstream and upstream plans, Hayward reaffirmed the company's commitment to investing in growing a focused portfolio of low-carbon businesses, comprising US onshore wind power, biofuels, solar power and carbon capture and sequestration. BP invested \$1.3 billion in this portfolio in 2009 and a cumulative total of more than \$4 billion since 2006.