

# [Analysing market competition of british petroleum and compempetitors](https://assignbuster.com/analysing-market-competition-of-british-petroleum-and-compempetitors/)

British petroleum was originally created by a German firm as a way of marketing its production in Britain. British petroleum started 1908 in a rugged part of Persia(history of Bp 2010) and has had a lot of oil and gas in the proverbial pipeline(Bp New millenium2010). , including discoveries from BP’s own research facilities. British petroleum is one of the world’s largest energy companies, providing its customers with fuel for transportation, energy for heat and light, retail services and petrochemical products for everyday items(Bp At a Glance2010). BP is the world’s second biggest oil firm by market value. BP had grown to become a global energy company, providing large quantities of oil while also making strides along a promising path towards oil’s alternatives(Bp At a Glance2010). British petroleum cost profit as at year end 2009 was 14. 0 billion and reserves at 18. 3billion barrels of oil equivalent i. e. its exploration and refines wholly and partly owned are in 30 countries.

This paper analyses BP and its competitors such as Exxon Mobile, Shell, Chevron in terms of the market competition as well as its position within the petroleum industry. This essay is also aimed at assessing both the internal and external factors that greatly influence the business activities of the global petroleum company. Relevant emphasis would be made on the analysis of the critical success factors of BP alongside its business strategies over the past five years. Nevertheless, the essay will appraise the survival of BP in the competitive nature of oil and gas/renewable energies as well as an analysis of the resources and capabilities acquired by the company over the period of five years demonstrating the extent to which such resources have been effectively utilised to gain competitive advantage over its competitors within the oil and gas industry.

2. 0 COMPETITIVE ENVIRONMENT OF BRITISH PETROLEUM

Oil and Gas companies such as British Petroleum yields a huge amount of turn over for industries. In 2005 Bp delivered a record level of cash flow of $25billion and yielded cash proceeds of $8. 3billion and launched the alternative BP business, also distributing $19billion of cash to share holders(Bp Presentation Script 2006). As at 2007 end oil and gas reserves were valued at 177. 9billion, which is an increase from the previous year of $120. 9billion, while gas was estimated to be worth $68. 3billion in the UK(National statistics2010). Oil and gas industries remain highly attractive due to its favourable market position with strong financial make-up and strong earnings growth and by this barrier to entry to oil and gas industries is very high. However the oil and gas industry consist of a few players such as Exxon mobile, shell, Saudi Aram co, chevron which are involved in the large scale of International operations which increases the rivalry level(Energy Business Daily 2010).(energy 2010) argued that threat of new entrants is low due to the fact that leading oil companies as mentioned earlier are very large in size and highly integrated which make use of the large scale of their production and distribution to reduce cost and increase profit and also by investing heavily on drilling rig, technology and innovation that are hard to replicate which leads to manufacturing capabilities and investment which is a significant barrier to enter. Strong players such as BP, Exxon mobile, Shell, Saudi Aramco and few others use their scale of economies , strong research and development(R&D) which act as a significant barrier to entry. Major disadvantage of high barrier to entry is it increases rivalry between competitors and most especially declining industries which is related to the competitive rivalry between BP and competitors such as chevron, shell, Exxon mobile (Energy Business Daily 2010).

However in 2009 BP marked the seventeenth year of delivering reserves replacement consecutively of more than 100%, invested $20billion in its business and gained $4billion in cash cost savings approximately 40% of lower fuel cost(annual review 09). Production grew by 4% while production cost reduced by 12% which makes BP the largest producer in deep water field globally(Annual. Reporting 09).

On the other hand shell seeks a large rival method by re-enforcing its position as a leader in the industry with the ability to provide competitive shareholders return and the projection of 8billion barrels of oil to improve its financial position till 2020(Shell strategy 2010).

2. 1 CRITICAL SUCCESS FACTORS

Critical success factor is important as it allows firms concentrate on building their capabilities and allows firms to make a decision on whether they have the capability to build the necessary requirements to meet its Critical success factors(Rockart J& Bullen C 1981). Rockart in (Mind tool 2010) states that critical success factors are

” The limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization. They are the few key areas where things must go right for the business to flourish. If results in these areas are not adequate, the organization’s efforts for the period will be less than desired.”.

Critical success factors are those major factors of a company such as reputation, brand, excellent services, delivery, product range and innovation ”(Johnson & Scholes2002). Presently Bp is facing a huge loss in the business related to the oil spill with the effect on the environment at large in April. Early this year BP has paid $11. 6bn in total costs on the gulf of M’xico oil spill, but still faces ongoing clean-up charges which is estimated to be $39. 9billion).(Guardian2010).

2. 1. 1 Cost reduction: Bp suspended its dividend quarterly payments made to shareholders, which is about 9. 5pence per share amounting to $2. 6billion as a result of the oil spill making all efforts to cut cost and maximise profit(BBC New2010). Bp laid off thousands of workers , about 20% by cutting down capital expenditure significantly as part of bps plan to reduce annual cost (BBC News Channel2008). Bp sold four oil and gas stakes in the gulf of M’xico to Marubien corporation at $650billion as a result to raise funds to pay part of the damages of oil spill which is as a result of cutting cost(Euro News 2010). BP agreed to sell part of its assets in North America and Egypt for $7 billion which is part of BP’s plan to get money to pay out of the damages they caused in the gulf of M’xico which is another process of cutting cost (Bloomberg Business week 2010). (Market Watch2010). Bp established $20billion escrow fund for victims of the oil spill spreading out the payment quarterly, initial payment of $3billion in 3rd quarter, $2billion in 4th quarter and $1. 5billion per quarter till its fully paid as a result of cutting cost .

2. 1. 2 Sales and Marketing: British Petroleum is into all kinds of energy products such as wind, solar, bio fuel, carbon, hydrogen power, gas fired power and storage systems(Bp 2008 pg33-34). British Petroleum invested $1. 4billion in as part of the commitment of the company to spend $8billion in 10years by developing alternative energy such as wind, bio fuel, carbon and storage(Bp 2008 pg 33). The industry is currently facing a down turn in alternative energy by closing factories around the world and cutting alternative budget from $1. 4billion(‘ 850m) to between $500million and 1billion(Guardian article 2009).

2. 1. 3 Process Innovation: British petroleum invented Bright Water with the use of polymer popcorn as a process of recovering oil from the deep shores of the sea which helps Bp to boost its oil out significantly, which is an advantage for British petroleum to improve its research and development and gain competitive advantage over its rivals(Bp report 2010).

2. 1. 4 Research and Development: British petroleum commenced on a $500billion research in Illinois on farm bio-energy production(Tech 2010). Bp launched a major new personal development programme which would give young people from different parts of the world the opportunity to have a better life and the positively influence local communities(London 2012). Bp has established a new research of $500million studying the impact of the deep water horizon(Bp2010). Bp is the leading player in the global bio fuel market, Bp and martek bio science corporation entered a jointed agreement to prove microbial oil for bio-fuels(Bp press 2010). Bp in 2008 commenced on a project of exploration and extraction of crude oil and natural gas from wells of 8 different countries and also completed 9 major production projects which led to record profit of $37. 9billion before tax approximately 39% higher than the previous year(Bp2008 pg13-14). Bp is the largest producer of oil and gas in the US Gulf of Mexico, producing about 400, 000 barrels of oil every single day. It has also made progression on nine projects n the Gulf of Mexico such as Atlanta Phase2, Tubular Bells, Kodiak, Freedom, Kaskida, Isabela, Santa Cruz, Mad Dog Tie Backs and Great White(Bp Press Releases 2009). Therefore British petroleum has a good reputation on research and development which as a result, increase competitive advantage over it rivals.

3. 0 CONCLUSION

4. 0 PORTERS GENERIC STRATEGY OF BRITISH PETROLEUM

Cost leadership strategy, differentiation strategy and focus strategy are the three main strategic approach that can be applied to any products of any industry to gain competitive advantage(mind tool 2010). Cost leadership strategy is also referred to as low cost leadership strategy which is aimed at gaining competitive advantage by reducing cost below its competitors(Ecofine 2003). Differentiation strategy is a competitive business strategy in other to gain competitive advantage by the differentiations of product and services from that of competitors(Ecofine 2003). Focus strategy is the use of core competencies of an industry to serve a group of customers ” Niche Market”(Ecofine 2003). Bps’ method of gaining competitive advantage is by cutting cost which led to the explosion in 2005 in Texas. It was stated that Bp implemented a 25% cut on fixed cost from 1998 to 2000 which impacted the maintenance and infrastructure of the refinery(Washington post 2006). Four successive accidents took place between 2005 and 2006, the explosion at the Texas city refinery, the oil spills in Alaska, the $1billion thunder oil rig in the gulf of M’xico was as a result of poor maintenance and cost cutting(The Sunday Times 2010). As at 2007 year end Bp shed more than 7500 jobs and contractors swinging its profit to $4. 3billion after a loss of $3. 3billion the previous year which is as a result of cutting cost(SA Business2010). The newly appointed CEO in 2008 carried out a program on cutting cost on job cuts of 14500 workers and $1billion over head cost cut by maximizing its profit with a much greater investment in Canadian oil sands(Guardian2008). A savings of $1billion and a cost cut of $2billion and the lower oil price led to increase in profit(BBC New2009). It has always been a tradition of Bp to cut cost by maximizing profit their by increasing its competitive advantage in the business, however cutting cost in 2010 has left Bp with a shredded reputation as a result of poor performance and safety caution(Panel 2010). Furthermore British Petroleum has also imbibed differentiation strategy by engaging in new projects and new researches and developments which would enhance its competitive advantage over its rivals. Bp and Edison Mission Group a sister company to Edison International in 2005 planned a project of $1billion that would generate electricity with the use of minimal carbon using hydrogen fuelled power plants in California(Green Car Congress2006). Bp is committed to developing other new project of bio fuel such as Algae, Diesel and Butanol (Good Clean Tech 2009). Bp differentiates itself from its rivals by new researches and developments, involving in new projects by creating and expanding energy products. Bp and Emerson Project Management increased the flow of wireless network technology by expanding its cherry point refinery application and installing Emerson’s smart wireless throughout its R&D facility in Naperville(Control Global 2009). However Bp imbibed marketing and refining strategy by processing crude oil to petroleum products and selling them around the world in over 100 countries operating in 17refineries worldwide at the capacity of 2, 155million barrels per day, while its retail network consists of 22600 stations branded Bp, Amoco , Arco, Castrol brand as part of its means of differentiating itself within the energy industry and a means of gaining competitive advantage(Bp2008 pg27-28). The company has set a standard with the use of cost leadership strategy, market strategy, differentiation strategy and a bit of focus strategy to maximize profit, generate revenue and having a competitive advantage in the energy industry.

4. 1 CONCLUSION

This report has shown that British petroleum used cost leadership strategy which is also known as low cost strategy as a way of gaining competitive advantage which in turn had diverse effect on the business due to the explosions and positively impacted on the business. Also British petroleum has used differentiation strategy as part of its business strategy by differentiating its products by creating and developing alternative energies to yield more proceeds for the business alongside and also incorporating marketing strategy by placing the business outlets in over 100 countries around the globe as a means of having an advantage of its rivals.

5. 0 RESOURCES AND CAPABILITIES OF BRITISH PETROLEUM

The Value chain are the activities through which it develops competitive advantage through its production, sales and marketing, maintenance, through the use of administrative infrastructure, human resource management and research and development in which put together builds products and services(Johnson & schools 2008).

Primary activities; A Company’s primary activities are the processes involved in producing or manufacturing a product or products(Richard lynch 2006). Bp is well known for its cost reduction strategy, sales and marketing strategy, research and development strategy which are alternative energy’s and exploration and production of oil and gas and renewable energy’s, its innovation strategy which are the primary activities of British petroleum.

Research and development; After the major disaster British petroleum caused in the gulf of Mexico, and the ongoing debt it still has to pay, BP is still pushing further on its business by signing a deal with verenium for cellulosic ethanol technology which is a process of fermentation of biomass into ethanol which is one of British petroleum technology on bio fuel which is an alternative energy(C Net News 2010).

Sales and Marketing; Despite the huge loss in the Gulf of Mexico crisis early this year and the damaged image of Bp, Bp is back in profit in relations to the increase in oil price which boosted its earnings in the exploration and production division to ‘ 1. 3billion(BBC News by Peston Picks 2010). Bps exploration and development activities include production of natural gas and oil and drilling of wells to complete production and such activities take place in UK, USA, Canada, Egypt, Azerbaijan, Trinidad and Tobago, Norway and many others while BPs refining and marketing section is involved in crude oil, petroleum products, petrochemical products and aluminium products by supplying these products to customers such as Amoco, Arco, Castrol brands and also producing alternative energies which are the primary activities of BP(Business Week 2010). TNK-BP produces natural gas in subsidiary areas in West Seberia and also in the core areas in West Seberia known as Nizhnevartovsk(TNK-BP2010). Bp sells its products through powerful brands such as ARCO, Castrol, Amoco, Aral and BP in more than 250, 000 filling stations all over the world, Bp is also the largest retailer in petroleum products in Germany and has about 2, 700outlets there. Bp is also planning to build outlets in china which would be named Petro china and Sinopec(BP Investment and income2010). However BP has divested a number of its oil and natural gas properties which means selling off a part of its exploration and production infrastructure businesses and examples are BP sold four drilling rigs such as Magnolia, Merganser, Nansen, and Zia which produced a total of 15, 000 barrels of oil per day which is as a result of exploring new energies in the vicinity and the cash from the sales all four drilling rig would be used to pay out of the violation charges of the gulf of M’xico oil spill(Guardian 2010).

Supportive activities; supportive activities are activities that support the primary activities that makes it more efficient and effective such as procurement, infrastructure, Human Resource Management and technology development(Johnson. G & Scholes. K 2002). Bp new strategy of low cost is divestment of its telecommunication technology section of the business to Telekom system in other to save cost and continue its efficiency.

CONCLUSION

This report shows how British Petroleum has achieved its competitive advantage through its business strategies b cutting cost, innovating new products such as renewable energies, efficiently working on research and development and also utilizing its sales and marketing strategies. In the past five years has aligned its business strategy to resources and capabilities their by giving it competitive advantage. Bp has also faced a lot of challenges relating to the oil spill in 2005-2006 but has also gradually gained its stands in the oil and gas industry. However there are recent challenges due to the recent explosion in the gulf of M’xico causing Bp to lose its licence to extract oil and facing a six month suspense due to the explosion. Bp should focus more safety measure and environmental issues by preparing for any further damages and also training workers in fields on how to quickly spot problems with oil rigs and quick solutions to the problems.

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