

Strategic marketing at bp plc flashcard



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Strategic marketing is broader than traditional marketing since focuses on Integrating the overall marketing function within the long term corporate strategy (Raise & Trout, 2010). This report considers how strategic marketing can be used to respond to an adverse event by considering the Impact of the Gulf of Mexico 011 spill on BP Pl. Background to BP Pl One of the oldest and most recognized global corporations, BP Pl (“BP”) Is one of the world’s largest energy companies with extensive operations in the petrochemical, natural gas and alternative energy sectors (Marketable Inc. 012). The company Is one of the four largest global listed companies with dual listings on the New York and London stock exchanges (Marketing Inc, 2012). For the year ended 31st December 2012, the company had operations in over 80 countries with a total workforce of eighty five thousand (BP Pl, 2012). BP operates in all major upstream, midstream and downstream sectors of the petrochemical and natural gas industry through its three operating divisions; exploration and production; refining and marketing; and, other business and corporate (BP Pl, 2012).

The exploration and production Division Is engaged in the discovery and development of new oil and gas fields as well as extraction of crude oil and gas (BP Pl, 2012). The refining and marketing division concentrates on refining and delivery of products to corporate and private customers; while other business and corporate houses centralized corporate functions and is also engaged in development of alternative energy sources such as wind and solar power (BP Pl. 2012). Given Its size and the competitive nature of Its 1 OFFS company.

The Gulf of Mexico Incident Unlike most consumer oriented companies, BP has limited product development options. Its portfolio of products is dependent on crude oil and natural gas. Furthermore, the nature of an extractive industry puts the company under a microscope with regards to its environmental protection and safety record. The Gulf of Mexico incident represents a major event, the repercussions of which need to be managed strategically with a marketing orientation in order to ensure the future viability of the company.

On 20th April 2010, an explosion occurred on the Departed Horizon oil rig, which was conducting exploratory drilling in the Gulf of Mexico on a BP operated license (Blamer, 2010). The explosion was traced to a fault in the oil well sealing system which allowed flammable gases and crude oil to blowback and leak in the main extraction pipe (Blamer, 2010). The resultant explosion caused the oil rig to blow up and sink, resulting in the deaths of eleven people. Furthermore, crude oil began to flow into the Gulf of Mexico from the open drill hole, located forty one miles off the coast of Louisiana.

The flow of crude oil into the ocean was equivalent to approximately 60, 000 barrels of oil per day (Marketing Inc, 2012). The Departed Horizon incident is considered to be the worst ecological disaster in US history with devastating environmental impact on endangered species of marine life and birds (Bean, 2010). Furthermore, the multimillion tourist industry in South- Eastern United States was devastated. The impact on BP has been monumental with significant financial losses, legal uncertainty and a massive loss in reputation leading to a brand management and public relations nightmare.

To counter these issues, the many needs to undertake significant radical strategic marketing initiatives which form the crux of this report. BSP Historical Market Positioning Like other extractive companies, BP has always been viewed with suspicion in the popular media and the general public. Extractive industries are often considered to be environmentally unfriendly and exploitative, especially in an age of corporate social responsibility and increasing political and media scrutiny.

Prior to the Gulf of Mexico incident, in July 2000, BP attempted to counter this negative image through a wide ranging strategic marketing initiative aimed at positioning the company as a expansible global corporate citizen (Blamer, 2010). The centerpiece of this initiative was brand positioning based on the tagging, “ Beyond Petroleum” (Kettle, et al. , 2011). A play on BP, the tagging attempted to cast the company in a positive light as a socially responsible and environmentally friendly company. The positioning appeared to have worked in the first half of the prior decade.

BP successfully entered the consumer mindset as a leader in cleaner petroleum and renewable energy and the brand was consistently ranked as one of the top, trusted worldwide brands Cobber ; Fay, 2012). The company’s customers and key stakeholders, including investors and employees, felt that the top management has adopted a correct strategy and the firm was heading in positive direction (Sanguine, 2008). This was reflected in BSP ranking as the eighth most valuable global brand in 2000 and its increasing market value throughout the early sass’s despite volatility in global oil (Sanguine, 2008).

However, even during this period, there were rumblings, especially in academic circles, that the company was attempting to pull the wool over the eyes of consumers and stakeholders. There was a feeling that the company was making environmental and safety commitments without significantly changing its operations to reflect its new green image (Geysler, 2010).

Academics noted that there was significant variance between the company's market positioning and its operational reality.

Environmental groups in 2002/2003 noted that only one percent of BSP activities were based on environmentally sustainable resources (Geysler, 2010). Furthermore, incidents like the Texas Refinery explosion in 2006 indicated that the company's safety record was less than stellar (Bannered, 2010). Hence, while BP may have convinced consumers and key stakeholders that it was becoming socially and environmentally responsible, the company needed to drive the strategy throughout its entire operational chain (Bean, 2010).

Given the fallout from the Gulf of Mexico disaster, this need is more important than ever before. The next section of this report considers the overall impact on BP of the disaster. Internal and External Analysis This section of the report considers the main ramifications for BP of the Gulf of Mexico oil spill and the company's subsequent response to the disaster. In order to do this analysis, this report uses the PESTLE and SOOT models. These models are commonly used in strategic planning to understand the internal and external environment in which a company like BP operates.

They are considered to be appropriate for this report since they provide a template for such an analysis. Internal Analysis – The SOOT Model. To some extent, the SOOT model has elements of both internal and external analysis since strengths and weaknesses are internal to a company and opportunities and threats often arise due to external factors. However, on an overall basis, the model is internally focused since the strengths can be used to leverage on opportunities while minimizing the threats.

Strengths Strong innovation and research capability Despite the problems caused by the Deported Horizon debacle, BP is still recognized as a highly innovative company in its industry (Marketing Inc, 2012). BP has significant competitive advantage in the development of new, highly advanced drilling and extraction technology in any geographical location (BP PI, 2011). The company has pioneered crude oil and natural gas extraction in deep water locations and in the Arctic with its swathes of frozen ice.

It has developed technology for efficient seismic surveys of large fields which allows it to survey such fields faster than its competitors. Such technology makes it the partner of choice for governments with natural resources in difficult operational conditions. **Widespread Global Operations** BP has globally well diversified with operations in 80 countries. Its largest market, the USA, contributes to less than fifty percent of total revenues which allows diversification to protect its revenues since losses in one market can often be compensated by gains in another (BP PI, 2012).

Furthermore, the sheer size of the many gives it significant lobbying power with governments. BP controls all aspects of its petrochemical extraction and

refining processes which gives it control over upstream, midstream and downstream processes (BP PI, 2012). Thus, the company can control all aspects of its petrochemical and natural gas value chain from the initial feedstock to partially refined and fully refined products. Such integration confers significant economies of scale which are financially beneficial for the company.

Weaknesses Losses due to the Gulf of Mexico Incident BP has suffered a tremendous reputation loss due to the Gulf of Mexico incident. Its brand position has fallen from number 8 to number 40 on a global basis while its share price plummeted in 2010/2011 (Geysler, 2010). There have also been significant financial losses with the company having paid IIS\$ 40 million in fines and compensation as of December 2012 (BP PI, 2012). The company has set aside US\$ 20 billion to cover lawsuits and compensation payments.

However, recent estimates show that this amount may be too low and the real liability could be far higher (Preston, 2013). Any increase in payments is likely to have a significant adverse impact on the financial position of the company. **Opportunities** Opportunities to diversify and expand in new markets BP has the ability to diversify into new reemerging economies and use its expertise of gain licenses for extraction in such countries. This can help the company to increase its proven oil reserves and increase its revenue stream.

BP also has the opportunity to enter into strategic alliances in different markets. Such agreements will also allow the company to expand and compensate some of the losses from the Gulf of Mexico incident.

Development of Alternative Energy BP is investing significant amounts in expanding its alternative energy and biofuels business. Between 2011 and 2012, BP has invested in the development of wind farms in the UK and USA (BP PI, 2012). The company has also invested in the bio fuels business by buying one of Brazil's largest ethanol and sugar producers for US\$700 million in 2011.

Such investments provide tremendous opportunity for growth in a growing industry. External Analysis – The PESTLE Model Political Given the size of the environmental and economic fallout of the Deepwater Horizon incident, the US government was heavily involved in its aftermath. The President of the USA addressed the nation immediately following the incident, directly blaming BP for poor safety and operational procedures (Bean, 2010). The company's then CEO, Tony Hayward was subjected to Senate and Congressional hearings which resulted in fines exceeding US\$ 4 billion to date (Preston, 2013).

The incident also soured relations between the US and UK since BP management lobbied the UK government to intervene on their behalf in order to keep the total payout amounts manageable. The incident led to the devastation of the tourism industry in South Eastern US including key states such as Florida, Louisiana, Alabama and Texas (Blamer, 2010). There was also disruption to the fishing industry (Blamer, 2010). A number of small and medium sized businesses are also claiming that they went bankrupt as a result of the loss in business.

Coupled with an overall recessionary climate in the US, there is little doubt that the incident has devastated coastal communities. Social While BP acted

rapidly to set up a contingency fund of IIS\$ 20 billion to compensate businesses and individuals, there has been a severe backlash against the company in the US (BP PI, 2012). Throughout 2011, the company faced product boycotts in the US with populations in affected states running campaigns against the company.

BP has covered some ground in 2012/2013 through public relations campaign, but its corporate reputation has been heavily tarnished, especially in light of its attempt to position itself as a socially and environmentally responsible company prior to the Gulf of Mexico incident (BP PI, 2013). Technological BP has always been at the cutting edge of extraction technology in departed fields. However, the Departed Horizon incident serves to caution against the use of new exploratory technology. BP may have to reconsider safety procedures and trial procedures for the use of new technology in environmentally sensitive areas.

Legal BP is facing lawsuits from companies and individuals relating to the incident. The company set up a IIS\$ 20 billion initially to cover the costs of such lawsuits and related compensation claims (Preston, 2013). Till date, IIS\$ 40 million has been paid out and the company is lobbying the US and the I-J government to allow only legitimate claims to proceed and to cap the total amounts of payments. However, it has been unable to reach a viable agreement in the US and there is a possibility that the claims could exceed the IIS\$ 20 billion set aside as a contingency (Preston, 2013).

In addition, the company also lost drilling rights in the lucrative Gulf of Mexico basin (Preston, 2013). Environmental The environmental impact of

the disaster has been monumental with endangered species of fish and other wildlife affected by the oil spill (Geysler, 2010). The company did mobilise substantial resources to clean up the oil spill, but many view its response as being too little and too late. Strategic Choices BP is one of the largest companies in the world and has a strong brand.

The company is geographically well diversified and has the resources and the capability to innovate on a global scale. The company fired its CEO, Tony Hayward and replaced him with Robert Dudley (BP PI, 2011). However, the continuing issues from the disaster are proving to be a challenge for the new management team. Structural and operational changes have been initiated to prevent such an incident in the future, but the company may still face financial ruin due to the spiraling costs of the fallout from the Gulf of Mexico disaster.

What is important for the management to note is that marketing on its own will not save the company. A concentrated strategic choice will need to be made which involves a unwavering focus on safety and risk management through implementing global standards. The company could decide to focus on its key strength in areas consolidating its overall asset base to counter some of the financial costs of the disaster. Finally, the internal risk and reward structures may need to be changed to reflect the focus on safety and overall transparency of operations.

Recommendations This section considers some of the choices that the company can make in relation to strategic marketing as a response to the fallout from the Deported Horizon incident. To provide some structure to the

discussion, this report considers two strategic marketing models; Porter's Generic Strategies and Nations Matrix. Porter's Generic Strategies Figure 1 : Porter's Generic Strategies (Source: (Porter, 2008) As shown by figure 1 above, Porter (2008) argues that companies can generate strategic competitive advantage through either being cost efficient or by having different products.

Furthermore, the company has a choice in applying broad scope strategy or having a more focused approach. What is important is that both cost and differentiation strategies are difficult to apply in the oil and gas industry. Companies like BP have limited control over their costs since the cost of oil fluctuates widely and is often dependent on government level production decision taken by organizations such as the Organization of Petroleum Exporting Countries. Differentiation is also relatively hard to achieve since, essentially, all petrochemical companies produce similar products.

However, BSP management should consider some form of focused strategy which specifically serves to counter act the problems caused by the Gulf of Mexico disaster. For example, the company should develop a focused public relations tragedy which attempts to combat its current tarnished image. BP also has an opportunity to reduce costs by leveraging on its technological edge. Nations Matrix Figure 2: Nations Matrix (Source: (Kettle, et al. , 2011) Nations matrix states that companies can either develop current products in current markets or seek to develop either new products or enter new markets.

The internal and external analysis section of this report discussed that BP has the ability to use its geographical reach to enter new markets to compensate for losses in the US market. Thus, the company should consider a diversification strategy. BP has the technological edge to undertake extraction activities in relatively undeveloped oil fields such as those in Siberia and the Arctic. It can negotiate more access to these fields to compensate for the loss of drilling rights in America.

The company can also seek to use its size to lobby emerging economies for greater access to their natural resources. For example, the company is seeking to enter into strategic alliances in India and South-East Asia to develop offshore oil and gas fields (BP PI, 2012). The company should also seek to leverage social media better to improve public relations and communications as part of its overall marketing strategy. Some key steps have been taken in this direction following the Gulf of Mexico disaster.

One of the key weaknesses noted in the company was the slow and ambiguous response by senior to rectify such issues by appearing to be more transparent and provide detailed information about the environmental impact of its operations and what it does to minimize environmental risks. It should seek to engage the Gulf of Mexico community by focusing on its efforts to help the affected people. Furthermore, it should engage environmental groups in dialogue to ensure that this group of shareholders is satisfied. Conclusion BP's market position through its "Beyond Petroleum" campaign was initially successful.

It led to the creation of a powerful global brand and produced a positive image of the company as a responsible corporate citizen. But, the Deported Horizon explosion showed that the operations and management culture did not effectively espouse this philosophy. Strategic marketing cannot occur in isolation; companies need to be consistent in the message they are sending out and this message must be reflected in the overall corporate and management culture. The very nature of BSP core business involves a polluting, poisonous substance (oil) which, while essential for consumers, is associated with numerous ecological disasters.