

# The competitive environment of british petroleum management essay



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This paper is basically about the analysis of British Petroleum PLC (Bp). The analysis covers the competitive environment of the company in terms of its stance in the midst of its various competitors and also how attractive is the industry in which the British Petroleum company belongs to. Apart from the competitive environment, this report also identifies the key business strategies of the company and also the various resources and capabilities of the company that has given the company an edge over its other competitors.

In analyzing the competitive environment, business strategy and identification of the various resources and capabilities of British Petroleum, the following frameworks will be used; Porter's five forces, strategic groups, Bowman's strategy clock, value chain analysis.....

## **OVERVIEW OF BRITISH PETROLEUM (BP)**

The British petroleum is one of the world's largest energy companies and also one of the largest vertically integrated oil and gas companies in the world, which provides its customers with fuel for transportation, energy for heat and lighting, and also retail services and petrochemicals products for everyday use. The BP Plc operates across six continents which include: Africa, Asia, Australasia, Europe, North America and South America and their products and services are available in more than 100 countries in the world. British petroleum's operations involve exploration, production of gas and crude oil, marketing and also trading of power, and natural gas liquids. British Petroleum's headquarter is situated in London United Kingdom, and it has employs about 80, 300 people as part of its labor force.

Bp has various brands which include the Ampm, Arco, Castrol, Aral, Wild bean café and Bp itself and the energy mix of the British Petroleum is a mixture of oil, gas, solar, wind and biofuels. BP is a company which focuses mainly on petroleum, but has some interest in alternative energy which shows that the company does not only specialize on oil and gas only like some of its competitors does.

## **THE COMPETITIVE ENVIRONMENT OF BRITISH PETROLEUM (BP)**

. In analyzing the competitive environment of the British petroleum, as earlier stated, a very useful tool to consider is the five forces model of competition which was developed by Professor Michael Porter of the Harvard Business School in 1980, this model identifies factors that affect the organization's competitiveness in the industry and also help the firm to adopted the appropriate strategy in order to enhance its competitive advantage and also protect itself from threat as well. The five forces identified by porter include:

Threat of entrants - from organisations currently outside the ' industry'

Power of suppliers i. e. providers of inputs e. g. staff, IT, accommodation

Power of buyers i. e. recipients of products/services

Threat of substitutes i. e. things customers might buy instead

Competitors/rivalry - competition within the ' industry'

**THREAT OF NEW ENTRANCE:** The threat of entrance into the oil and gas industry is Low due to the fact that there is high barrier of entrance into the industry. Some of the companies that constitutes the oil and gas industry like British Petroleum uses heavy and very expensive equipments at well sites For example, pumping trucks and other huge equipments, huge capital investment expenses is involved, such as High infrastructure cost i. e. pipeline, road access in fields, land acquisition etc. Availability of human resources in terms of scarcity of subsurface reservoir engineer and geologist all this contribute to the high barrier of entrance into the industry.

**POWER OF THE SUPPLIER:** The bargaining power of suppliers is relatively high and this is driven by the presence of high cost of switching from one supplier to another and also the presence of relatively small number of energy and alternative energy suppliers (concentrated suppliers), also some of the buyers such as Bp and some other companies that constitute the industry are vertical integration companies so they might not even have the need to want to require the services of this suppliers so the power of the suppliers is Medium.

**POWER OF BUYERS:** The balance of power shifts toward buyers. Oil is a commodity and one company's oil or oil drilling services is not that much different from another company's and this leads buyers to go in favor of lower prices and or better contract terms. The power of the buyer will be regarded has being Medium because buyers are powerful and can switch from the consumption of Bp products to another oil and gas company's product and at the same time an individual buyer's decision does not necessarily have an impact on the company.

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**THREAT OF SUBSTITUTES:** Threat of substitutes is Low and the Substitutes for the oil and gas industry includes alternative fuels such as coal, gas, solar power, wind power, hydroelectricity and nuclear energy which is still in the developing phase and also involves high cost of production. Oil is of great importance; it is not only used in fuelling cars alone, it is also used in the production of plastics and other materials. Majority of the means of transportation still relies heavily on oil and Oil is needed in order to generate electricity which implies that oil and gas would be depended on rather than the alternative due to its level of development and high cost of production.

**COMPETITIVE RIVALRY:** The level of competitive rivalry is high; the industry is characterized by big companies which produce low differentiated products and there is low threat of substitute and also low threat of new entrance into the oil and gas industry.

Another tool that can also be used in the analysis of the competitive environment of the British Petroleum is the strategy group framework by Porter in 1979. According to porter, a strategic group is defined as a set of companies within an industry pursuing strategies that are similar to each other and different from firms outside the group on one or more key dimensions of their strategy.

In terms of the oil and gas industry which BP belongs to, the level of competition is very high because major players in the industry such as Royal Dutch shell, Bp, Exxon Mobil, Total, chevron, and Conoco Phillips all adopt similar strategy and competing on similar bases which is adaptation of a

vertical integration to an extent and they also produces similar range of products.

## **BUSINESS STRATEGY OF BRITISH PETROLEUM OVER PAST 5YEARS**

In analyzing the business strategy being adopted by Bp over the past 5 years, the Bowman's strategic clock would be a useful tool. The strategy clock considers both the price and the perceived added value of goods and services produced by a company and compares it to that of its other competitors.

Placing the Bp group under the strategic clock show that the company uses Hybrid strategy which means that they operate at a low cost based, reinvest in low price and differentiated in operation. BP is one of the largest operators and also one of the most well established globally, the company operates both in the upstream and downstream operation and its operations is also increasingly diversified or differentiated in production offering various oil products to the market. At the same time British Petroleum (BP) has a cost base that permits low prices and which is sufficient for reinvestment to maintain bases for differentiation.

BP has been adopting the Hybrid strategy for a long period of time now and the sole aim of the strategy is to achieve differentiation and a price lower than that of BP's other competitors.