# British petroleum (bp): swot and bp porter five forces analysis – essay

Business, Industries

SWOT and Porter Five Forces Analysis of British Petroleum (BP)

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## our site Sample Essay – Abstract

BP Porter Five Forces – BP Plc is one of the leading oil and gas companies in the world operating in more than 80 countries and serving close to 13 million customers. The company was ranked third in the FTSE 100 all share index ranking as at the close of 31st August, 2014 with a market capitalization of 82, 093. 2, million US Dollars. BP's major strengths include strong brand recognition, massive financial capability, excellent corporate strategy, and the ability to innovate. Global reduction in the production of crude oil and natural gas, poor disaster management and inability to implement long-term regulatory mechanisms are the company's key weaknesses. The company has the opportunity to invest in alternative energy even though it faces significant competition from key rivals such as Royal Dutch Shell, Exxon Mobil and Chevron. BP Porters Five Forces Analysis of BP reveal low threat of new entrants and substitutes, medium bargaining power of both buyers and suppliers, and high rivalry among existing competitors. To remain competitive, the company should increase strategic investment in R&D, negotiate with governments and other firms to exploit emerging markets, rebuild its brand value and streamline its production and business operation.

## our site Sample Essay – Introduction

Founded in 1908, British Petroleum (BP) is one of the leading oil and gas companies in the world. The company operations in more than 80 countries, has over 83, 900 employees and serves over 13 million customers globally (BP Plc, 2014). The company provides customers with oil and gas products, fuel for transportation, petrochemical products and energy for light and heat. With a market capitalization of 82, 093. 2, million US Dollars, BP was ranked third in the FTSE 100 all share index ranking as at the close of 31st August, 2014 (Stock Challenge, 2012).

BP’s interests and activities can be categorised into two core business segments: Refining and Marketing and Exploration and Production. The Exploration and Production segments cover upstream and midstream activities which include exploration, production, pipelining, and processing. Refining and Marketing segments cover downstream activities such as crude oil transportation, manufacturing, marketing and supply of both petrochemical and petroleum products and services (BP Plc. 2014).

## our site Sample Essay – BP SWOT Analysis

BP’s key strengths are its strong brand recognition and massive financial capability. Being the third largest energy company in the world, it is globally acknowledged for high quality petroleum products. Additionally, with an expected total operating cash flow of 2014 at $30 billion, the company’s strong financial position gives it the opportunity to introduce new products, develop alternative energy, and expand to new markets (Reuters, 2014). Regarded as one of the best in the world, the company’s corporate strategy is also a notable strength. This, coupled with its strong brandloyalty, enabled it to emerge from the devastating deepwater horizon oil spill of 2010 (Reuters, 2014). The company’s ability to innovate and enter into strategic ventures with other governments and corporations in new markets is another key strength. In 2013, BP entered into a strategic alliance with both China and the US to provide alternative solar energy to a number of government agencies.

A global reduction in the production of crude oil and natural gas is a key weakness of the company. Poor public image as a result of the North Alaska and deep-water oil spills also led to serious challenges for the company. Not only did it face criminal charges, it spent an estimated $42. 2 billion in cleanup and compensation (Reuters, 2014). Another key weakness is its non-competitiveness in the alternative energy sector. Despite being a major player in the oil industry, majority of consumers are still unaware of the company’s involvement in alternative energy (Bamberg, 2000). The inability to implement long-term regulatory mechanism to cushion it from the highly volatile petroleum prices is also a key weakness of the company.

BP’s profits and its current strong financial position present an opportunity for the company to initiate new projects. The company’s biggest opportunity is investing in alternative energy. The BP Solar Home Solutions initially introduced in New York can be expanded into other regions especially within the American and European markets. This will guarantee the company more customers who prefer the less costly solar energy. The company also has an opportunity to expand its export markets to Asia and South America. Discoveries of more oil wells and increasing prices of oil and gas are additional opportunities that the company can take advantage of (Smith, 2011).

Major players in the oil and gas industry especially the Royal Dutch Shell, Exxon Mobil, and Chevron pose the greatest threat to BP. The implementation of environmentally unsound policy and poor management of natural disasters such as the toxic spills often disrupt the company's operation (Bruland, 2003). Other threats include, corrosion in BP's pipeline network, occasional refinery explosions, multiple lawsuits emanating from ecological disasters and the continued sale of BP's corporate owned stations. Declining operations in several potential locations and the tensions associated with operating in the oil business are also potential threats (Black, 2011).

### our site Sample Essay –BP Porter Five Forces – Analysis

Porter (1980, p. 80) outlines the five forces model to analyze an organization's competitiveness. These include threats of entrants, bargaining power of suppliers, bargaining power of buyers, threats of substitutes and rivalry among existing competitors. The oil and gas industry in which BP operates traditionally require massive financial investments in very expensive infrastructure. Huge capital investment is necessary to cover expenses such as building pipelines, drilling wells, building access roads and acquiring land. BP has an asset value of $236. 0 billion (Honnungar, 2011). Considering the cost of market entry and economies of scale in the industry, the threat of new entrance is low.

There are a number of substitute products such as hydroelectricity, nuclear energy, coal, wind power and solar energy. However, most are still in the developmental phase, besides, the cost of production of substitute products is often extremely high. The importance of oil in fuelling cars, running industries and generating electricity makes it essential and useful to sectors of the economy (Ferrier, 2009). Threats of substitutes are therefore, low since alternative products are less competitive. The oil and gas industry have considerable number of suppliers ranging from private corporations to governments. There are also a number of potential buyers similar to BP. Besides, BP’s vertical integration in its operations is similar to that of its key competitors (Stiel, 2003). The bargaining power of suppliers is consequently rated as medium.

The products offered by players in the oil and gas industry are often not much different from those offered by their competitors. As a result, buyers tend to choose products with either lower prices or that have better terms. On the flipside, buyers are many; hence even if a cross section chooses to use the products of their competitors, BP’s operations would not be greatly impacted. The bargaining power of buyers can therefore be regarded as medium. Finally, the oil and gas industry is dominated by huge corporations that produce a number of low differentiated products (Stiel, 2003). Key competitors such as Chevron, Total and Royal Dutch Shell have established well recognized brands with significant client base. This implies that BP and its competitors have all adapted a vertical integration of similar range of products. These factors coupled with low threats of both substitutes and new entrants make competitive rivalry high (Uph, 2010).

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BP is as a major corporation with significant financial backing that can be used to venture into alternative energy research to boost its manufacturing capacity and increase its global presence. The SWOT and Porter's five forces analyses indicates that, the oil and gas industry's major players are well established conglomerates with massive financial resources hence high level of competitive rivalry. The attractiveness of the industry makes both the powers of buyers and that of suppliers' medium while the threat of substitute and new entrance low.

BP should increase its strategic investment in R&D in order to maximize production and exploit new markets. It should also negotiate with governments and other firms in order to exploit emerging markets such as China. The company should also consider rebuilding its brand value thereby regaining its image adversely affected by the recent oil spill crisis (Honnungar, 2011). Finally, the company should streamline its business operations and production to gain competitive advantage over major rivals.

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