

The marketing strategy of gazprom

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Energy makes the world turn. There is nothing else that could move airplanes, railways, buses, cars, or even make a home function the whole year round. It is understandable why nations would go to war for oil, natural gas, coal and any other fossil fuel imbedded in a country's territory (Gaddy, 2002).

It is also no wonder that one of the most profitable businesses are those that trade in hydrocarbon fuels. One of the most prominent and rising fast - to be one of the elite in the pack is a Russian company called Gazprom (Victor, Jaffe, & Hayes, 2006).

The booster-rocket-like speed with which Gazprom climbed the charts can be explained in three ways. These are listed as follows:

- 1) trading in a precious commodity;
- 2) ability to access and produce a huge amount of said commodity;
- 3) monopolistic practices;
- 4) combining all three to create a marketing strategy unique to Gazprom.

A marketing strategy that not only is unique to a post-USSR Russian company but also a strategy that could be the envy of other energy firms (Gavrilenkov, Wiegert, & Welfrens, 2004).

This study aims to take a closer look at the factors affecting Gazprom's success with a focus on their marketing strategy. By marketing strategy, the proponent will use a non-conventional approach to understanding marketing. This is because the popular understanding of what marketing is about will

not be enough to accurately understand Gazprom's activities and even any corporation for that matter. Aside from that, strategic marketing will be defined with an eye towards comprehending the extent of Gazprom's influence and ability to change Russia and perhaps the world (Rosner, 2006).

The goals of this study can only be achieved by looking at current trends in marketing strategies. Another method that can be utilized in having an in-depth understanding of how Gazprom operates would be to look at the internal environment from which it operates as well as the neighboring regions that affects its operations. Then finally it would be impossible to fully grasp the essence of Gazprom without taking a step back and see the larger picture (Weitz & Wensley, 2006). Learn about Dell Marketing Strategy

By seeing the larger picture the proponent meant, seeing the global aspect of the operation as well as how nations that are within the influence and scope of Gazprom's operations play a part in this complex world of selling energy (Balmaceda, 2006).

Internal Environment

The western world may have seen in simplistic terms, the end of the cold war. This is the period in history when the once mighty Union the Soviet Socialist Republic was brought to its knees. The illusion, which is communism, was exposed for what it really is - an ineffective way to rule a great people. And that way of ruling is by means of a centralized government in the heart of Moscow, which can be argued as a different political system yet at its core suffers from a common problem of bureaucracy and corruption (Victor, Jaffe, ; Hayes, 2006).

In the 1980s communism is showing its cracks all over the globe and when it died down in the former Soviet State, it created a vacuum of power. The old USSR was broken to pieces huge landmass was seceded and the new government could not properly manage some of the remaining territories. What was true in the political landscape was also true of the business climate. Chaos could be a mild term to describe what happened. For a time the once proud Russians who were once feared to rule the world, are now staring hopelessly into the future. The once utopia promised by communism was replaced with widespread hunger and despair (Lewis ; Littler, 1999).

Reforms were made in the hope of duplicating the successful capital model of Western countries. But things did not happen as expected (Gaddy, 2002).

A Joint-Stock Company

In the official website of Gazprom one can see that the official designation of the business is a joint-stock company. At first glance it is indeed a conventional joint-stock company as it possesses the attributes of one. As described by R. P. Maheshwari a joint-stock firm have the following essential features:

- a) Distinct legal entity;
- b) Perpetual corporate existence; and having
- c) centralized and delegated management (2004).

But in reality Gazprom behaves in dual mode; it is partly a conventional company - in fact its shares are publicly traded (see Gazprom. com) - and at the same time an extension of the government. It can be argued that it is a natural monopoly, a product of the environment from which it sprung (Victor,

Jaffe, ; Hayes, 2006). This idea will be explained in detail much further in the following pages.

Natural Monopoly

The transformation of Gazprom which have its roots in the glory days of the USSR - a centralized government with an eye towards world domination and at the same time a paranoia against anything Western - has significantly influenced its development. By this one means its metamorphosis from a public enterprise into a business geared to compete in a free market system and then into a natural monopoly.

Pierre Guslain documented Gazprom's early history:

Gazprom was also privatized in 1994 and managed - pursuant to a special 1992 order of President Yeltsin- to escape breakup, the fate of most other huge Russian monopolies; it remains a vertically integrated company, from exploration all the way to distribution, and has been described as a state within the state (1997).

Younkyoo Kim explained further the extent of this monopoly:

Gazprom retained a substantial degree of operational control over the entire Russian gas

Business, not only the responsibility for structures which were directly connected with the gas supply but also those that had to do with gas supply only indirectly, for example building companies, machine producers as well as agricultural operations and consumer goods producers (2003).

There is no escaping its past and perhaps the environment from which it has to exist. At the onset, Russia began the initial steps and headed for reforms.

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The predictable changes was the transformation of State owned firms into businesses that are independent of state control and therefore freed from tendencies of corruption and inefficiency common in many government owned businesses (Vogelsang, 1999).

There is evidence to prove that the Russian government is tolerating Gazprom's role as a more direct tool of the government to improve the economy. This is because it is left with no choice but to embrace Gazprom as an equal and sole partner in exploiting Russia's fossil fuel reserves. Part of the evidence is found in the observation findings of Gavrilenko, Wiegert, and Welfens, " Energy is by far the most important sector in the Russian economy, and a central pillar of its foreign trade. However, the country has been unable to pull the economy from its post-socialist slump" (2004). In this grim scenario Gazprom pumps money into the economy, " The energy industry provides almost one-third of industrial production, and more than a half of export revenues" (Gavrilenko, Wiegert, and Welfens, 2004).

There were changes all right but it seems that culture and habits are social factors that could not be easily taken out or inculcated into a particular society. What Russians now have is a country that tries hard to imitate countries belonging to the so-called G8 group but failing to behave like one (Larsen, 1997). A look at Gazprom will further explain this point.

First of all, Gazprom is not like any giant firm that say operate in the United States or in the United Kingdom because of the degree of involvement of the State. The above mentioned recent history of Russia partly explains why Gazprom have its own unique business principles. Reiterating these factors one can easily recall culture of the country, culture of the region, habits

formed by decades of communist rule that relied so much on a centralized government and the bad practices associated with such a regimented type of governance (Gaddy, 2002).

In a study on the kind of internal environment one can find in Russia, Jean-Jacques Lambin and Inge Vanfraechem reiterated the following case:

Dane McSpedon, Office Manager of Honeywell Home and Building Control, St. Petersburg felt the temperature in his office was rising beyond the level of comfort. But there was no valve to regulate the temperature [...] everything was controlled from a central boiler house somewhere in the city (as cited in Larsen, 1997).

Since Honeywell is a Western company then it follows that the said manager proceeded to solve the problem using a “Western” mindset and he thought of selling Thermostatic radiator valves produced by Honeywell (Larsen, 1997). But J. Lambin and I. Vanfraechem was quick to point out that it was not that easy to do in Russia. The following are the reasons why:

1. Monopoly - Lenenergo is the main producer of heat energy in St. Petersburg and controls about 50% of the retail market.
2. Infrastructure - One of the biggest disadvantages of the central heating systems is the very bad condition of the pipe work system.
3. Technology- It is very difficult to control the output parameters (pressure and temperature of the water).

4. Overhaul - There is a need to change the system from the ground up just so one can deliver customer satisfaction and significant energy savings from the installation of the valves (as cited in Larsen, 1997).

The above scenario is common in Russia and offers a view into kind of culture, bureaucracy, and inefficiency the Russian people are enduring for decades now (Gavrilenkov, Wiegert, ; Welfrens, 2004).

Gaddy (2002) made no qualms in condemning Gazprom as part of a troika - tri tolstyaka - known popularly as the " Three Fat Boys of Russian monopoly: RAO UES (the electricity monopoly); MPS (the state railways); and finally Gazprom (the natural gas monopoly).

Rosner made the same conclusion and was emphatic in his remarks about the government's not so discreet way of showing that it is using Gazprom:

Gazprom for all its hope at being perceived as a legitimate commercial enterprise, remains largely a tool and now the crown jewel of Russia's quest for empire. This was definitively settled as a result of the government's reconsolidation of its majority ownership position over the world's gas giant in 2005 (2006).

Second, the product sold by Gazprom is not an ordinary product. It is not a product that a competitor can come in and could easily copy, manufacture, and ship to key customers of Gazprom. In other words it would not be easy to weaken Gazprom by virtue of producing a superior product because what Gazprom is selling is a precious resource. Gazprom is not only enjoying monopolistic control over this resource but it is also controlling a significant amount by global standards (Kim, 2003).

Clifford and Ickes offered an idea of the amount of precious resource Gazprom is sitting on, "Gazprom is the largest producer of natural gas, some 23 percent of the world output, while its proven reserves account for some 35 percent of world reserves" (year).

Third, the commodity being discussed here is not only precious but the manner of extraction is also unique for one requires massive infrastructure to deliver the product to its customers. Now, the massive infrastructure required is half of the story. What is significant is the kind of infrastructure that needs to be constructed and the location where it should be constructed. There is one word for all that - pipelines. In simple terms, when one builds a pipeline - especially in the case of Russia and Gazprom - it is inevitable to cross borders and enter territories of other geopolitical nations. That is one major production and logistical problem for this type of industry. And it contributes largely to the strategic planning and marketing of Gazprom.

An example of the production challenge faced by the company is seen in the construction of the Yamal pipeline. A Harvard professor of Russian and Eurasian studies offered a glimpse to the significance of the said pipeline on the production aspect of Gazprom:

The Yamal-Europe pipeline was conceived as a gigantic project involving the development of the Yamal gas fields in Siberia with transport to Western Europe via a 6670 km pipeline passing through Belarus, Poland, and Germany [...] and also to reduce dependency on gas pipelines passing through Ukraine (year).

Fourth, the product being offered by Gazprom is not only a precious commodity like say diamonds for example that in the case of high prices and high demand a person can learn to live without. The product is not only precious but in fact is a vital resource. It is so vital that it can be used as political concession, something that could be used as a leverage and put simply can be utilized to blackmail a country and make it bend backwards to the wishes of Gazprom and whoever is controlling it.

Fifth, the product being discussed is one of the few commodities that could change history and therefore the world is watching every step that Gazprom will be making and that would be to their advantage or disadvantage depending on how they will play their cards. This is a global company whose actions can have global consequences.

Combining all five factors together one gets a interesting mix of power, influence, and wealth. This means that the Russian government wants to control Gazprom then it would do all it can to wield control of the company. This also means that nations within its borders will now become more active in their negotiations with Gazprom making distribution and production of the product complicated. Moreover, this also means that industrialized nations will be wary of Gazprom and would do all that they could to restore the balance of power.

In the midst of all these is Gazprom, a firm in the cusp of a breakthrough of global proportions. In terms of marketing strategy, Gazprom could not afford a misstep. And it starts with having a correct understanding of what strategic marketing is all about. In the latter part, it will be shown how Gazprom is

using all the factors directly and indirectly working against and for the firm to create a competitive edge.

Macro-environment

One of the more crucial aspects in the strategic marketing thrust of Gazprom will always concern its neighbors and the nations near its borders. There are two major reasons when talking about creating a competitive edge amongst its closest rivals, the immediate advantage being enjoyed by Gazprom is the proximity of the source of their product and these neighboring nations. This means selling their wares at a very competitive price, which will make it impossible for competitors to beat. If this trend can be maintained of course with peaceful relations and serving common interests then Gazprom is already assured of steady demand that can translate to expansion and upgrade of its facilities (Balmaceda, 2006).

But there is one more important reason why the nations near its borders occupy a special place in the firms planning phase - the pipelines. Nations like Belarus is a key part of the strategy in Gazprom's bid to reach the top and ensure a bright future for all its investors.

Balmaceda described the strategic importance of Belarus, " Strategically placed between Russia and Poland, Belarus is the shortest route between Russian energy fields and Western European markets, making it an important player in European energy transit" (2006).

Arguing along the same lines, Rosner alerted everyone who wants to listen that all the aces are in the hands of Gazprom:

European Union (EU) G8 Member dependency on Russian imports for these fuels is growing [...] Member's import dependency was allowed to grow, if not encouraged, as dependency was at least partially viewed as preferential to continued and expanded dependence on the decidedly non-democratic regimes of the Middle East, a classic example of expanding energy security through diversification of source country for primary energy sources (2006).

Strategic Marketing

The popular notion with regards to marketing is that it is all about sales. Marketing then denotes selling. This is then simplified as having already a product, fresh from the production line and now being displayed in the showroom and the salesman does his job to sell it to the customers (Bove ; Arens, 2005)

Moreover another wrong interpretation of marketing is the activity done to make customers purchase a product that is of very little utility and that the primary method of doing this is advertising. Weitz and Wensley commented on the oft repeated and they wrote, " A reading of marketing textbooks suggests that it is almost axiomatic that advertising increases product category sales" (year). Both authors then quoted J. J. Lambin an expert in marketing studies who made the following conclusions, " Limited empirical support is given to the view that advertising increases primary demand" (Weitz and Wensley, 2006).

In the same vein McDonald, Rogers, and Woodburn made the following assertions:

Another endemic problem in business is the depth of ignorance about what marketing actually is. This is graphically illustrated by the comment of one managing director, who announced aggressively at a public seminar that, 'There is no time for marketing in my company until sales improve' (2000).

The correct way is being exemplified by Slack when describing the ideal processes occurring within an enterprise and he wrote:

Marketing, like other functions and the organization as a whole, may have a plan, which sets out the objectives and the means of achieving these. The plan can be viewed as a blueprint for future action. It will also set out targets which performance can be monitored (1999).

This piece of information is significant in analyzing Gazprom's marketing strategy because there is evidence to support the assertion that the firm knows about essence of a real marketing strategy and that they are exploiting this knowledge to the full. An example of a Gazprom business policy that focuses more on making the customer need their product rather than wasting time in useless marketing gimmicks can be seen in their dealings with Belarus (Balmaceda, 2006).

Russia is providing the country of Belarus oil that are significantly lower than market prices which the importer in turn exports at world market prices - leading to significant profits for Belarus. Balmaceda made comments on the what is behind all this fraternizing and she remarked:

Russia's willingness to continue offering Belarus subsidized energy in exchange for political and military also tells us that in an era where Russia has officially embraced free-market prices [...] it is still willing to use energy for clear foreign policy purposes" (2006).

As mentioned earlier the common definition of marketing is not an accurate description of what marketing is really about (McDonald ; Woodburn, 2000). This leads to a wrong analysis of Gazprom's activities and what it is trying to do in the present that will ultimately affect its future. This is because a major component of strategic marketing deals with the future, since it involves forecasting (Lewis ; Littler, 1999).

Again, using Belarus' Gazprom entered into a mutual relationship with the said country not only to ensure steady production and delivery but also because it was already preparing for the future in case problems will develop in other pipelines especially those located in Ukraine (see Balmaceda, 2006).

Another example of strategic marketing employed by Gazprom was revealed by Victor, Jaffe, and Hayes when they made known how the gas giant is using its influence and position in a rigged market and they wrote:

Low producer prices and uncertain access to pipelines prevented most independent producers from entering the market. Thus Russian gas production includes only minuscule quantities of associated gas, even though Russia's oil industry is one of the world's largest...(2006)

Competitive Edge

It would be foolish to assume that Gazprom is not poised to become the top dog of the gas industry. Therefore, it is important to read carefully what it is

doing and carefully connect it with its role in the Russian economy, the Asian Economy, and the European Unions's collective economy. Add to that one must find the linkage between its already dominant position as being a natural monopoly that is sanctioned indirectly by the Russian government (Rosner, 2006).

Putting it all together one can see a clear picture of how Gazprom is strengthening its position and at the same time forming a formidable marketing strategy not yet seen in the history of the gas industry. Not in this scale and surely not in the kind of audacity shown by its leadership and whoever is behind it (Gavrilenkov, Wiegert, ; Welfrens, 2004).

At the end, history will be the only capable judge in determining whether the Russian government and the leaders of Gazprom are right or wrong in terms of the mutual understanding that existed between two parties. This is because in the words of Ingo Vogelsang a "Public Enterprise" is an oxymoron in that the two concepts could not be reconciled (1990). Vogelsang clarified his point by saying, "... public production of private goods is seen as creeping Socialism" (1990). The author then added the final reason as to why he sees no harmony in such a set-up:

Controlled by lethargic bureaucrats and buffeted by political demagogues, how can anything 'public' also be an 'enterprise' with its connotations of efficiency and entrepreneurial dynamism?

Vogelsang may be correct in his assessment but it seems that Gazprom is set to prove him wrong as the company is raking in profits (see Gazprom.com).

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