

Three core areas of corporate strategy



The study of corporate strategy cannot be simply defined due to its complex nature which according to Lynch (2006, pp 13) incorporates three core areas. These are strategic analysis, strategy development and strategy implementation.

1. 1 Objective

The objective of this assignment is to critically analyse the current strategic position of Schlumberger Trinidad Ltd and to make detailed recommendations of one aspect of their future strategic direction.

1. 2 Organisation Overview

Schlumberger International Ltd (SLB) is the world's leading oilfield services provider in exploration & production. It operates in four main geographical areas which are Middle East and Asia (MEA), Europe, Caspian and Africa (ECA), North America (NAM) and Latin America (LAM). These geographical sectors are further broken down as shown in figure 1.

The sector LAM entails the sub-geo-market Venezuela-Trinidad & Tobago (VTT), where Schlumberger Trinidad (SLBt&t), which is our main focus, is a further sub-geo-market. SLBt&t consists of the following segments which plays a strategic role in the exploration and production of oil and gas in Trinidad and Tobago:

Artificial Lift (ALS)

Completions (CPS)

Drilling and Measurement (DBM)

Well Testing (WTT)

Wire Line (WL)

Well Services (WSV)

Schlumberger Information Systems (SIS)

Data Consulting Services (DCS)

Figure 1: Showing Schlumberger Ltd and its SBUs

Source: Researcher/Group

1.3 Organisation Framework

SLBt&t's main focus is on improving their services through technology advancement, whereby maintaining their market position as number one in the oil and gas services industry. Their vision, mission, objectives, strategy and tactics (VMOST) are outlined as follows:

Vision:

To be the leading developer of technology and the best-in-class provider of value-added solutions to optimize reservoir performance.

Mission:

To help their clients optimize their reservoir's performance, with more efficient production and increased recovery without increasing lifting cost.

Objectives:

To provide customized solutions to their clients.

To provide excellence in service delivery.

<https://assignbuster.com/three-core-areas-of-corporate-strategy/>

To provide increased customer value.

Strategies:

Diversification

Mergers & Acquisitions

Tactics:

Preparation of future technologies

Identification and acquiring of smaller, profitable companies that either supply SLBt&t or take their market share

2. 0 STRATEGIC ANALYSIS

Strategic analysis involves the examination of the company's objectives, the existing relationship between the organisation and its environment and the resources available within that organisation (Lynch, pp13).

2. 1 EXTERNAL ANALYSIS

An external analysis focuses on the organisation-environmental relationship which exists. Johnson (2006, pp54) states that the external environment provides the means to organisations survival, but also is a major source of their threats.

2. 1. 1 Strategic Environment

Market definition:

SLBt&t operates in a large market with a global capitalization of approximately US\$252. 3 billion in 2009.

Market growth rate:

However growth in both the global and T&T market decreased in 2009 compared to 2008 due to the reduction in the demand for oil created by the economic downturn. According to Datamonitor (2010, pp13) “ volatile fuel commodity prices continue to affect the market, with players being affected by the knock on effects of the global recession taking their toll on consumption levels and therefore the demand for equipment and services.”

Market share:

SLBt&t’s market share decreased to approximately 61% in 2009 which was also due to the economic downturn and further affected the changes in customer buyer behaviour. Their desired market share however is approximately 70-75% which is the market share they possessed before the economic downturn.

Figure 2: Showing the Schlumberger global market share

Source: Researcher/Group

2. 1. 2 Pestle Analysis

SLBt&t is exposed to both positive and negative external influences which are summarized and highlighted in the pestle analysis shown in figure 3, and furthered detailed in Appendix A.

SLBt&t faces political opportunities through free CARICOM trading which promotes the company’s growth. The increase in T&T’s foreign revenue due to national working in the various SLB sectors abroad is a major economic opportunity. Technological and legal opportunities also exist with regards to <https://assignbuster.com/three-core-areas-of-corporate-strategy/>

technology advancement and development of tools and equipments which is supported by T&T's IP protection laws.

The company is however adversely affected by increase taxation and limited incentives found within the oil and gas service industry. Due to the nature of this industry there are high environmental threats existing whereby severe fines and penalties are faced if any environmental laws within the country are not maintain. The volatility of the energy market is a current economic threat which impacts on the revenue achieved by SLBt&t whereby obstructing the company's future growth. It must be noted that the investment into research and development by competitors is a great threat and must be constantly monitored as this could reduce SLBt&t's competitive advantage.

Figure 3: Showing the PESTLE

Source: Researcher/Group

2. 1. 3 Five Forces Analysis

New Entrants

The threat of new entrants into the oil and gas service market is relatively low due to the high capital requirements needed to enter this industry. The decrease in demand for oil and gas resulting in its reduced prices are also major factors which act as barriers to new entrants.

Buyers

The bargaining power of buyers is high due to the current limited number of buyers or market opportunities within the industry. This again resulted from <https://assignbuster.com/three-core-areas-of-corporate-strategy/>

the reduction in the demand within the industry whereby allowing the buyers to hold the bargaining power. The cost of switching buyers is also high due to customer loyalty and existing long term contracts.

Suppliers

The bargaining powers of suppliers are somewhat low due to the fact that major companies within the industry have become involve in backward integration and there are many suppliers within the market.

Figure 4: Showing Porter's five forces analysis

Picture1. png

Source: Researcher/Group

Substitutes

The threat of substitutes is currently low since there are no present affordable substitute to oil and gas. However this may tend to become moderate in the near future as countries are working at becoming more environmentally aware by investing in more eco-friendly sources of energy. SLBt&t can reduce these effects by adapting and creating eco-friendly technology.

Rivalry

It can therefore be determined that competitive rivalry within the oil and gas industry is relatively high due to the current low market growth rate and high fixed cost existing within the industry. Although there are a few dominant

players within the industry the high exit barriers also increase competitive rivalry.

2. 1. 4 Industry Life Cycle Analysis

SLBt&t currently operates in a mature industry, with little growth over the last two and a half years. This results in highly competitive conditions where companies fight to maintain their market share. It should be noted however that future growth potential could exist since the industry can move backward into the growth stage at the ending of the global economic recession or due to technology advancement.

Figure 5: Showing the Industry Life Cycle

SLBt&t

Source: Researcher/Group

2. 1. 5 Key factors of Success Analysis

According to Ohmae's 3 C's the three key factors of success within an industry lie within the area of customer, competition and corporation.

Customers

Companies within the oil and gas service industry must possess a broad customer base mix to be successful. Their focus should not be limited to one segment within the market, but should entail a mixture of both local and international customers and also focus on both the upstream and downstream markets.

Competition

Organisations should also operate in various geographical areas and sectors so as to seize opportunities which may exist globally and whereby increasing their competitive edge. The ownership or development of specialist technology is also a major factor of success for companies to increase their competitive advantage.

Corporation

Highly skilled management teams and specialised trained work force is a further necessity to corporations within the industry so that product and service innovation capabilities are encourage amongst staff.

2. 1. 6 Competitor Analysis

SLBt&t major competitors are Halliburton, Baker Hughes, Tucker Energy Service and BJ Services. The VMOST of the competitors are somewhat similar to SLBt&t where their vision focuses mainly on providing excellent customer service. Here, SLBt&t differ through their stated desire to be the leading developer of technology. The objectives of the competitors are also somewhat similar, as all companies main focus is on achieving the key success factors outlined in section 2. 1. 5 with emphasis being placed on technology advancements.

Competitor's strength lies within their inner core values, their specialized and skilled workforce and the existing opportunity within technology advancement. Their weakness however, is found mainly in their low market share and low capital investment in R&D. The position of the competitors within the BCG matrix can be seen in figure 6 with SLBt&t and Halliburton

being the only two companies classed as cash cows while the others are classed as dogs.

Figure 6: Showing the position of the competitors within the BCG matrix

Source: Researcher/Group

These companies are also analysed using a competitive profile matrix and can be seen in Appendix B. The following is the calculated weighted score which each company received:

SLBt&t - 4. 5

Halliburton - 3. 7

Baker Hughes - 3. 4

BJ Services - 2. 5

Tucker - 2. 0

2. 1. 7 Customer Analysis

SLBt&t main customers are British Gas (BG), British Petroleum (BP), Petrotrin and EOG Resources. Business to business customer segmentation exists which means that transactions occur directly between SLBt&t and their customers where services are provided. The intensity of customer rivalry is relatively low as BP holds the majority of the upstream market within T&T. The concentration of customer base is ranked high since more than 25% of SLBt&t's revenue is received from their main customers.

2. 1. 8 Degree of Turbulence

A spectrum of turbulence table is used to assess the dynamics of the environment and can be seen in Appendix C. The oil and gas industry is very complex as many global factors determine its growth and is hence susceptible to changes due to the volatility of the global economy. Its complexity is therefore classed as Global socio-political and its events are discontinuous familiar.

The industry is also continuously changing due to technological advancements requiring companies to adapt quickly in order to stay within the market. Due to the 'one step ahead' approach which most companies adopted, the rapidity of change within the industry is therefore classed between, comparable to response and faster than response. The visibility of the future is classed as partially predictable as a result of the nature of the industry.

These factors contribute to a very high turbulence level of 4. 25, which means that the industry future is unpredictable and hyper competitions levels exists.

2. 2 INTERNAL ANALYSIS

Thomson (2005, pp139) states that the internal analysis involves the determination of the relative strengths and weaknesses within an organisation and is based on the various functions and key activities such as marketing, human resource, operations, etc.

2. 2. 1 Resource Audit

The resource audit is analysed using the Grant's (1991) resource model and can be seen in Appendix D. Resources are the main source of SLBt&t capabilities and as a result is a major contributing factor to its competitive advantage. This allows the company to have a competitive edge over its competitors such as Baker Hughes and Tucker, who resources are ranked low to medium. Although the existing economic downturn has impacted on the industry, SLBt&t maintains a stable financial position compared to its rivals.

2. 2. 2 Value Chain

Due to SLBt&t strong financial position their core suppliers can be acquired whereby reducing cost within the value chain shown in figure 7. Their competences as detailed in the value chain exists, where human resource contributes to operations and services by hiring and training skilled workers to meet the demands of the industry and promotes good customer service.

SLBt&t focused technology development influence better and more efficient operations and outbound logistics within the value chain. The procurement system passes value onto customers due to lower cost within the inbound logistic. The company also market their services and products using their own personnel. The value chain is further analysed using the Anthony's triangle and can be seen in Appendix E.

Figure 7: Showing the SLBt&t's Value Chain

Capture. JPG

Source: Researcher/Group

<https://assignbuster.com/three-core-areas-of-corporate-strategy/>

2. 2. 3 Value System

SLB acquires their core suppliers so as to obtain high quality raw materials at lower cost. This value can be transferred to their customers whereby gaining competitive advantage through low cost differentiation. Strong and better relationships with customers can then be achieved whereby further increasing customer loyalty (see figure 8).

Figure 8: Showing SLB's Value System

Capture2. JPG

Source: Researcher/Group

2. 2. 4 Mc Kinsey 7S Framework

According to the 7s framework SLB has a multi-divisional structure which facilitates the company's effort to develop economies of scale and uses a formal procedure system for performing operations. A transformational leadership style also exists which encourages work life balance, with the tendency of changing to a situational style. SLB workforce is highly diversified with extremely skilled and technical professionals operating in a global fashion throughout the world. Its main strategy is currently diversification, acquisitions and mergers and a further detailed framework can be seen in Appendix F.

2. 2. 5 VRIO Framework

SLB's technical knowledge and experience is very valuable to the company but is not rare and not costly to imitate. It is however exploited by organisations within the industry whereby indicating competitive parity. SLB is the leading company in innovation which is rare, valuable, costly to imitate

<https://assignbuster.com/three-core-areas-of-corporate-strategy/>

and also exploited by organisations. This indicates a sustained competitive advantage.

Figure 9: Showing the VRIO Framework

Source: Researcher/Group

2. 2. 6 Core Competencies

SLBt&t core competencies are:

Research and Development - This promotes their innovative nature.

Brand & Image Reputation - This is distinctive within the industry.

Innovation - This upholds their competitive edge.

Highly Skilled Knowledge Workers - This adds to the company effective operations and services.

2. 2. 7 Distinctive Competencies

SLBt&t's distinctive capabilities include:

Their high investment and continuous spending on R&D

Their brand name product and services which are known by all.

Their high tier technology which gives them the competitive advantage.

2. 2. 8 Portfolio Evaluation

The eight SBUs under SLBt&t outlined in section 1. 2 are classified within the BCG matrix in figure 10 below. ALS, DBM and WSV all possess low market share with a high business growth rate, whereby being positioning as ‘

questions'. Although CPS, WL and WTT has low business growth rate, their high market share allows them to continuously dominate across the industry and are classed as cash cows. DCS has both low market share and business growth rate, positioning them as a 'dog'. A profile matrix and their position within the McKinsey/General Electric Matrix can also be seen in Appendix G and H respectively.

Figure 10: Showing the SBUs positions within the BCG matrix

Capture8. JPG

Source: Researcher/Group

2. 2. 9 Generic Strategies

Using Porter Generic Strategy model SLBt&t is compared with its competitors and can be seen in figure 11. SLB, Halliburton and Baker Hughes lie within the differentiation quadrant as they all have a broad focus and use differentiation as their competitive advantage. Both BJ Services and Tucker are narrow focused where BJ competitive advantage is differentiation while Tucker is cost focus.

Figure 11: Showing the Porter Generic Strategy of SLBt&t

Capture5. JPG

Source: Researcher/Group

2. 2. 10 Strategic Option/Business Expansion Matrix

SLB operates in an existing market with existing products and services which according to Ansoff Product - Market Growth Matrix lies within the market penetration quadrant (see figure 12).

Figure 12: Showing the position of SLBt&t within the Ansoff Product matrix

Source: Researcher/Group

2. 2. 11 Financial Analysis

Profitability:

SLBt&t is a highly profitable company compared to its competitors and can be seen from their steady increase in both gross and net profit margins during 2004 to 2007 (see figure 13). This shows management efficiency within operational costs, as well as proper control over direct cost. It should also be noted that the decreased in oil and gas prices from US\$147 to US\$40 per barrel during the economic downturn further resulted in the decline of SLB's profit during 2008-2009 (Gould, 2009).

Figure 13: Showing the profitability of SLB

Source: Researcher/Group

Liquidity:

During the period 2004 to 2009 there was a minimal increase in both current and quick ratio of approximately 0.3 which is supported by the increase of 18% in short-term investments (see figure 14). This particularly resulted from the joint venture with Smith International where SLB acquired a 40%

interest. A low stock turnover is indicated by the 17% increase in inventory in 2008 as a result of lower demand for oil and the sharp drop in its prices (Gould, 2008). It should be noted that SLB maintains liquidity across the period and is a good indication that all their current liabilities are being met.

Figure 14: Showing the SLB's liquidity

Source: Researcher/Group

It can be further seen in figure 15 that SLB possesses 2 to 3 times higher profit margins than its competitors which therefore indicates its competitive edge. Their net income of approximately US\$3.14 billion is 3 times greater than that of their competitors and also indicates their strong financial capital (Yahoo Finance, 2010).

Figure 15: Showing the financial analysis of SLB key competitors

Capture. JPG

Source: Researcher/Group

2.3 SUMMARY OF ANALYSIS

SLB operates in a 'red ocean' and needs to continuously monitor their external environment as it rapidly changes to meet global demands and perspectives. The advancement in technology plays a major part within the industry and can be seen by its strong focus throughout the main companies. Although SLB is losing market share due to the economic downturn and the maturity of the market, its strong financial capital helps to cushion the impact.

2. 4 SWOT ANALYSIS

After completing both the external and internal analysis the strengths, weaknesses, opportunities and threats of SLBt&t are summarised below and further detailed SWOT in Appendix I.

Strengths:

High continuous investment in Research & Development and technology

Their relatively stable and strong financial capital

Their highly innovative nature

Highly trained and skilled workforce

High HSE culture

Weaknesses:

Communication/culture barriers which exists

Their autocratic leadership style

The low employee morale which exists

High cost

Opportunities:

The existing employment laws within T&T.

Existing brand equity

The strong presence of IP laws

The possibility of backward integration

Global technological advanced.

Threats:

Increased taxation and limited incentives on exploration

The volatility of the global energy market which dictates oil and gas prices.

The country's natural reserves are predicted to last until 2019 (Business Monitor International, 2010 pp. 11).

The increase in expenditure on R&D by competitors would increase competition.

2. 4. 2 TOWS Options

SLBt&t's strengths and weaknesses are linked to their existing opportunities and threats so as to highlight future strategic options. This is summarised below and shown diagrammatically in Appendix J:

Maxi – Maxi strategies:

The benefits achieved by SLBt&t's high and continuous investment in research and development could increase as a result of the existing opportunity within global technology advancements.

Their strong financial capital could be used to maintain and keep up to date with these advancements in technology and is also a great strength for venturing into backward integration.

SLBt&t's high HSE culture could enhance, promote and maintain high brand equity.

Their highly trained and skilled workforce could be used to capture the opportunity of the presence of strong IP laws.

Maxi - Mini strategies:

SLBt&t's strong research and development, technology and highly innovative nature can minimise the threat of increase competition created if competitors increase investments into research and development.

Their strong financial capital could minimise the effects caused by fluctuations in the global market.

Mini - Maxi strategies:

SLBt&t's low employee morale can be minimised by the existing employments laws within T&T.

Mini - Mini strategies:

A cost reduction strategy would minimise SLBt&t's weakness of being costly and also avoid the threat of increase competition by competitors.

2. 5 STRATEGIC FIT

According to Lynch (2006, pp580) an organisation is said to be strategically fit once the process between strategy and structure matches.

2. 5. 1 EVR Congruence and Gaps

SLBt&t is in strategic fit as can be seen by the possible future strategies highlighted in section 2. 4. 2 which complement the company current multi-divisional structure. Their efficient capture of the industry's key factors of success, as shown by their strong market position, latest technological developments, highly skilled workforce and brand reputation has resulted in a successful EVR congruence. This intersection or overlap of their environment, resources and culture and values is the main key which allows them to have competitive advantage (see figure16).

Figure 16: Showing SLBt&t in EVR congruence

Capture. JPG

Source: Researcher/Group

It should be noted, however that SLBt&t's weaknesses is mainly seen within their values, leadership and culture and can result in the company drifting out of congruence and into the unconsciously competent organisation (see figure 17).

Figure 17: Showing SLBt&t as the unconsciously competent organisationCapture4. JPG

Source: Researcher/Group

3. 0 STRATEGIC DEVELOPMENT

Strategic development involves the forming of various strategies and selecting the most appropriate one based on the organisation skills and its environment (Lynch, 2006 pp13)

<https://assignbuster.com/three-core-areas-of-corporate-strategy/>

3. 1 MAIN PROBLEM STATEMENT

How can SLBt&t increase their market share, develop new market opportunities and maintain a competitive advantage?

3. 2 STRATEGIC LOGIC AND PROPOSALS

The strategies are developed using the following structure:

What basis?

According to Porter's Generic Strategy model outlined in section 2. 2. 9 it was seen that SLBt&t lies in the differentiation quadrant. The proposed generic strategies would therefore be to monitor changes within the market and respond aggressively to competitors or new entrants.

The Industry life cycle discussed in section 2. 1. 4 shows that SLBt&t operates in a mature industry which indicates competitive strategies proposal such as entering new markets, cutting cost and focusing on one generic strategy, or defensive strategic proposal such as vertical integration.

What direction?

SLBt&t has high business strength but its market attractiveness is somewhat medium and can be seen in the McKinsey/General Electric Matrix (figure 18). The proposed strategic directions are to invest in the most attractive market segments, increase the ability to respond to competition or to focus on profitability by increasing productivity.

Figure 18: Showing the SLBt&t position in the McKinsey/General Electric Matrix

SLB T&TCapture5. JPG

Source: Researcher/Group

How?

SLBt&t can venture into strategies through horizontal integration such as mergers with their competitors and strategic alliances or joint ventures with their suppliers. This is possible due SLBt&t's strong financial capital highlighted in section 2. 4.

3. 3 STRATEGIC OPTIONS

The following are the strategic Options:

Cost reduction - cost is reduced within the value system through backward integration so as to achieve cost leadership.

Diversification into new markets - entering into the fresh water market through performing logging and drilling services for the Water and Sewage Authority (WASA)

Diversification into new sectors - entering into new sectors within the market such as Deep Water Drilling

Acquisition - merging with downstream competitor Tucker Energy Services Ltd whereby increasing market share in various geographical areas.

3. 3. 1 Suitability, Feasibility and Acceptability of Strategies

Cost Reduction Strategy:

At present it is unsuitable to reduce cost within the value chain due to the effects on the industry by the current economic downturn. However it is feasible to introduce this since SLB&t has a strong financial capital (see figure 19).

Figure 19: Showing the SFA for the Strategic Options (SFA)

Suitability

Feasibility

Acceptability

Score

Cost reduction

3

5

4

12

Entering the fresh water market

5

5

4

14

Venturing into the deep water market sectors

5

4

3

12

Merging with Tucker

4

3

4

11

Source: Researcher/Group

Entering the Fresh water Market

This strategy is suitable since it is evident that the fresh water market is a necessity. It is also feasible and acceptable for SLBt&t as they can develop in this market due to their strong financial capital and brand equity.

Venturing into the Deep Water Market Sectors

Although this is a high risk market sector there is a lot of revenue to be gain which makes this strategy suitable, however SLBt&t's customers are not venturing into this sector at present and there are no current incentives offered by the Trinidad and Tobago government in this area.

Merging with Tucker

Tucker Energy Services is a family based company and as a result their financials could not be obtained whereby hindering a proper evaluation of the feasibility and acceptability of this strategy. However since they have a large market share in the downstream market it would be suitable for SLBt&t to acquire this.

3. 4 EVALUATION AND JUSTIFICATION OF CHOSEN STRATEGIC OPTION

According to the SFA seen in figure 18, section 3. 3. 1 all four strategic options score high and are excellent strategies. However my chosen strategic direction would be to enter into the fresh water market since it achieved the highest score. (Note: all other strategies were rejected since they were being done by the other group members. This strategy is further evaluated and justified as follows:

Suitability:

Entering into the fresh water market is a highly suitable emergent strategy which will move the company from operating in a ' red ocean' to a operating in a ' blue ocean'. The strategic cost involved in logging and drilling for fresh water will also be minimal since it is similar to the company's current

operations and existing primary and secondary activities seen within the value chain (figure 7, section 2. 2. 2).

The company's core competencies of technology and innovation, research and development, knowledge workers and brand and image reputation remains the main focus within this strategic direction, as they are all necessary driving forces within this new market.

The Trinidad and Tobago government would also support this strategic venture due to the necessity of fresh water to man and the increasing scarcity of fresh ground water. These factors therefore increase the need for searching, logging and drilling for underground fresh water sources and it is an undying market.

Feasibility:

SLB currently has a market capital of approximately US\$243billion (Gould, 2009), which equips the company with a sound financial foundation to diversify into the fresh water market. SLB also has both strong tangible and intangible internal resources which is a major influential factor within the implementation of this strategy. The feasibility of this strategy is therefore high and can further be expanded throughout the Caribbean markets targeting countries such as Antigua, Dominica, Guyana etc.

Acceptability:

The acceptability of this strategy by shareholders may be initially low as it involves venturing out of SLB's focused market. However, due to the increase in revenue which would be attained by this strategic move,

<https://assignbuster.com/three-core-areas-of-corporate-strategy/>

shareholders expectations will be met and the acceptability will gear towards become high. Further to that, the strategy significantly relates to company's core competencies (section 2. 2. 6) whereby promoting low business risk.

3. 4. 1 NPV Analysis

The initial strategic cost for entering into the fresh water market is estimated at US\$1million. A 20% rate of return is expected over a five year period for a US\$4. 5M contract with WAS