The sale of burmah castrol to bp amoco commerce essay

This case study focuses on the detailed analysis of business environment, resources of the organisation, organisational structure and corporate parenting of sale of Burmah Castrol to BP Amoco case. This case study identifies different methodology of why Burmah Castrol sells its plants to BP Amoco.

The Burmah Oil Company was founded in 1886 by Scottish entrepreneurs interested in exploiting newly found oil deposits in Burma. Burmah held a major shareholding in BP right through until the early 1970s. Indeed, after a long period operating effectively as an inter- mediate holding company for BP shares, the management of Burmah in the 1960s used the value of the shares as collateral to embark on an ambitious plan to turn Burmah into both a fully integrated oil company and a substantial conglomerate group.

This analysis will contain a layout which will examine Burmah Castrol performance and their ultimate consequences through a step by step approach. An introduction has been given on Burmah Castrol sale to BP Amoco, a detailed analysis on performance gap such as goals and objectives, leadership, culture, organisational structure, corporate parenting, business environment of the company. Under each structural reform there in an explanation on what lead Burmah to sell it plants to BP Amoco, what are the characteristics of each structure and what lead to its failure. After the critical analysis of structure I will be mentioning the critical issue at Sony.

In order to justify my argument I will be using strategic management models and theories such as, 5 forces model, GAP analysis, 7S matrix, SWOT analysis, PEST analysis, corporate parenting, value chain analysis and finally triple loop learning method. A separate segment of this report will target on answering the question is Castrol a growing company, and recommendation that have to be considered by them.

After concluding the analysis I will deliver my recommendation for BP and it will be followed by a suggestion suggested for BP Amoco to buy Burmah Castrol. Finally an action plan is developed for what has to be done by the companies where I have concentrated on three main aspects, namely, marketing, structural reforms and cost effectiveness of the company.

Critical issues

The Burmah Oil Company is a Scottish entrepreneur company founded in 1886 with interested in exploiting newly found oil deposits in Burma. On establishing success was followed by a milestone investment in an exploration concession across a substantial area of Iran acquired from the Shah. Indeed, after a long period operating effectively as an inter- mediate holding company for BP shares, the management of Burmah in the 1960s used the value of the shares as collateral to embark on an ambitious plan to turn Burmah into both a fully integrated oil company and a substantial conglomerate group.

The management ay Castrol are with skills in spotting both good managers and sound investment opportunities: the combination would enable all the Group's businesses to prosper and grow. There was sufficient similarity in terms of key factors for success between Castrol and the Chemicals businesses to enable senior management to add value across the portfolio.

At late 80s there was an uncertainty, about where the Group was headed over the medium to long run. This has led them to search for moves that might provide such balance. The opportunity arose from Foseco after taking over its management; due to its depressed share price.

There were also other issues to sort out in the Chemicals businesses where some were underperforming: work needed to be done to improve their overall operating efficiency. That was a task that was successfully set about and delivered: signi¬)cantly improved ratios were achieved through cost cutting and effective focus.

In mid 1990s Burmah Castrol consisted of Castrol, blending and marketing lubricants; and Chemicals with a residual Fuels retailing business – effectively the final relic of the past – which was in the process of being sold off. The strategic review identi¬)ed an underlying theme of industrial marketing and quality service as the core competences of the successful chemicals businesses. (Appendix 1)

Castrol's 75 per cent of its total profit came from passenger car engine oil business, faced the prospect of more efficient engines requiring longer and longer gaps between oil changes; and therefore of potential long-term volume decline. It has many strengths and weakness with is explained in appendix 2.

In 1996, they had a difficult in North America after a run of consistently good volume and pro¬)t growth; and simultaneously we started to develop worries about long-run developments in the passenger car engine oil business in Europe. A problem was that some of the areas of business were suffering because of the dominant culture of the passenger car engine oil business.

Castrol share price reached £10 in the early 1990s and hadn’t really moved from that level. It moved to £13 at one point and down to £7 at another, but these were the extremes of a dull range.

Having split out the industrial business from the passenger car engine oil business, it further highlighted, for example, that there might be more similarities between the industrial lubricants business and the foundry chemicals business than there were between. Castrol – its brand and marketing culture – would represent a great prize to a number of the major oil companies because of economies of scale and the broader coverage of the lubricants market that it would provide.

At a point they had some lack of belief internally, lack of belief externally and a possibly time-limited opportunity as a result of oil industry consolidation. In addition, one of their non-executives argued consistently at board meetings that there was indeed a time-limited opportunity to release value to shareholders. Therefore the critical issue is that Castrol should build up a model which is compatible with environmental changes in the shorter and the long run.

Critical evaluation

In strategic analysis it is important for Castrol to identify the current environment which the oil industry operates. In mid 1990s Burmah Castrol consisted of Castrol, blending and marketing lubricants; and Chemicals with a residual Fuels retailing business – effectively the final relic of the past –

which was in the process of being sold off. The rapid fall in the sales revenue and the profitability of the Castrol due to poor management and severe competitions the management of the Castrol have been planning to restructure its business. They had a major drawback in management as they had some lack of belief internally, lack of belief externally and a possibly time-limited opportunity as a result of oil industry consolidation.

Castrol must plan to face the rivalry and threat from other competitors such as BP which is one of the main competitors to Toyota. The bargaining power of the buyers can be reduced if the supplies of Castrol product are low. So Castrol should have strategy to maintain demand since it was the time of recession. The bargaining power of suppliers can be adjusted by having competitive buying from different suppliers of good needed for oil industries. (Refer appendix 3)

During the financial year 1995-1999 the Castrol Corporation spent a massive amount to maintain its position in this competitive market spending more than 1000 million euro on restructuring of its strategy. However in 1999 the profit has decline largely comparing to previous year due to high interest payment and long term creditors to the company.

The Castrol is facing many political, economical issues and mostly threats from American and Dubai oil industry with create a major uncertainly of Castrol survival in the market. Castrol environment has been analgised using PEST (Refer appendix 4). Castrol is in an uncertainty position to maintain price stability by differentiation of its own from others. Being close to the customers has also allowed them to segment the market effectively.

Castrol adopted an organisational structure that was significantly different from a traditional approach to reflect the new business environment in the mid 1997's. Unlike the structure of many modern structure oil companies they have adapted to their traditional approach because of it convenience. The Tim Steven at the company's level holds a position as the CEO of Board of Directors, and the manager was in charge of all other functions at Castrol. All functional heads at Castrol also hold the position of party secretary at that function. These, to a great degree, facilitate the coordination between the CEO and management at Castrol, particularly at the functional level. (Refer appendix 5)

Competitor analysis

The oil industry is boiling over with changes. Deregulation, new opportunities in foreign fields and markets and environmental challenges are rushing together head-on to shape the energy and utilities business of the future. Castrol is facing threats from many foreign competitors producing vehicle oil. And whilst they have been very successful in developing world position, particularly in Asia Paci¬⁾c, that was unlikely to offer sufficient to offset the difficulties that might be going to encounter over a ¬⁾ve-year run – absent of action – in the bigger developed markets in Europe and North America. This had let to re-think what may happen to their passenger engine oil business and how competitor may take advantage over this situation.

Further the Castrol group must increase its quality control procedure to avoid competitor's defects in the production stage to avoid losses and meet competition effectively.

Managing change

The alternative which management developed, in considerable detail, involved is breaking the Group up. This acknowledged market skepticism about the coherence of the portfolio. Although the need for radical restructuring was accepted, an issue which management did not fully resolve at this point in the process concerned how the slicing should be carried out. The restructuring would not give the expected results unless the employees are satisfied with the changes. So Castrol should take measures to create confidence in the minds of the employee with regarding to changes.

The employee participation in changes will make them success. In other word it should reduce resistance and increase cooperation within organisation. The management should increase two way communications from the top to bottom level of the hierarchy in order to implement the strategic changes successfully.

Value chain analysis (Appendix6), balance score card (Appendix7) and cultural webs (Appendix8) are given in the Appendixes, which could be integrated in to Castrol organisation system to yield better results.

Financial performance of Castrol

The financial performance at Castrol during 1999 was very poor; either a lost or just break-even. This was attributed to several factors: high financial costs, low -margin product lines, poor sales, high interest rates and high procurement costs. (Gerry, n. d)

Conclusion

The case study evaluated by this report concentrates on different restructuring strategy and structure processors under taken by Castrol during the period of 1995-1999. In this analysis I have taken each structure one by one and commented on factors which led Castrol to do each restructuring process, characteristics of each structure and elements which led each structure to its failure. I have the identified the critical issue that are faced by Castrol as the lack of focus into future in making organizational structures for the corporation.

In order to evaluate this case from a strategic management perspective I have used different models such as 5 forces model, 7S matrix, SWOT analysis, PEST analysis and Cultural web. Introduction has been given to each model applied and how it can be related to Castrol Company. Future Castrol is also looking towards further development of the engine oil business, possibly restructuring its strategy or by joint venture to survive in the competitor edge.

Therefore I concluded that the success of most of the businesses was based on competences to do with high levels of service rooted in localized knowledge of how their product applications could meet customer need. Success was not so much based on the technical aspect of product as on industrial marketing and service on a local basis. An important exception to this pattern was that part of the passenger car lubricants business which involved sale of product through retail channels.

After critically examining the company I will be giving my recommendation for Castrol and a proposed action plan for the required period.

Recommendation

The success of these businesses was much more to do with understanding customer needs than the production of oil. Therefore moving into much greater focus on devolution of responsibility to the market-facing business units is recommended. And Castrol was using the old approach which was not going to enable them to continue to grow the business at the previous rate of strategic plan. So it’s recommended for Castrol to develop a new strategy for their business in order to compete in this environmental market.

They should also look at the other business such as the industrial lubricants business, the marine lubricants business and the commercial lubricants business which can be the key factor to survive in the market. Since their internal structure for managing the global Castrol lubricants business was no longer appropriate they have to re-structure the organisational structure if they want to optimize their position in each of the four markets.

To reach that to optimize performance over the whole business, and to achieve economies of scale, they have to move away from a geographic structure to one focusing on each of the four areas of Castrol as global businesses in their own right. The old structure had been immensely successful. It had enabled a very strong ethic of customer focus and a strong esprit de corps. So it’s recommended to fellow as overall it benefiting the company.

As an executive team they have to explore what opportunities there were for us to play a part in the process of consolidation.

It concluded that the success of most of the businesses was based on competences to do with high levels of service rooted in localized knowledge of how their product applications could meet customer need. Similar to the earlier exercise on the Chemicals businesses, the conclusion was that success was not so much based on the technical aspect of product as on industrial marketing and service on a local basis. An important exception to this pattern was that part of the passenger car lubricants business which involved sale of product through retail channels.

Justification

Castrol is well recognized engine oil manufacture in the world have established in worldwide counties. Since there was a management deficiencies, the performance of the Castrol have reduced. Therefore practicing traditional approach as it helps the Castrol it is recommended to above so in case of problem in future the company can adopt old strategy to sustain its position in the market.

As recommended above, moving into much greater focus on devolution of responsibility to the market-facing business units as the success of these businesses was much more to do with understanding customer needs than the production of oil. And Castrol was using the old approach which was not going to enable them to continue to grow the business at the previous rate of strategic plan. So it has been recommended for Castrol to develop a new strategy for their business in order to compete in this environmental market.

By having tight relationship with customer can help Castrol to perform effective and efficiently by segment its product according to the need of the customers. And also having a well defined marketing strategy would increase the market share and the revenue of the company.

Thus Castrol should make a long range plan to satisfy the needs of the two segments through increased product plan, research and development.

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Appendixes

APPENDIX 1

MC KINSEY'S 7SMATRIX

http://www. vectorstudy. com/management_theories/img/mckinsey_7s. jpg

Strategy

The strategy of the Castrol Corporation was to continue to develop as a very successful global business with an increasingly powerful brand, motivate functional managers to take part in corporate decisions making in order to improve performance and to meet competition efficiently. It is through this vision the whole organization should perform and it takes the leading role in getting other elements of the 7S matrix to follow in order to achieve those targets.

Structure

The structure of Castrol company had been a geographically based model, with four regional directors, the line managers responsible for over 50 country managers who ran their country businesses, very successfully hitherto, like individual freedoms. Traditional flat structure, where there were two way communications between the top management and the functional management. However by restructuring each department was converted into autonomous cellular structure where the C. E. O of each company was responsible for his own company.

Systems

Systems can be regarded as day today ongoing processors of the any company, thus these can vary from Human Resource procedures, accounting procedures, production lines, documentation etc. Castrol should try their best to make their systems more effective through innovations and management layouts.

Style

Castrol company had a straight span of management with most of the decision was made at the top level of management since it was vested with CEO of that company. This represented a autocratic style of leadership but under the restructuring Castrol can change its decision making style which was previously was under CEO and staffs can be encourage to make decision in critical situations.

Staff

Organizations are made up of humans and it's the people who make the real difference to the success of the organization in the increasingly dynamic knowledge-based environments. The importance of human resources has thus got the central position in the strategy of the organization. This involves the methods how businesses develop employees to shape up value to improve performance. The two way feedback introduced after the restructured programmes improved the communication between the top management and the subordinate staff.

Shared Values

" Shared values are what engender trust and link an organization together. Shared values are also the identity by which an organization is known throughout its business areas. These values must be stated as both corporate objectives and individual values." (Vadim Kotelnikov, nd)

All the employees of the Castrol should be encouraged to take the in the strategic implementation process.

Skills

Skills of staff member are not sufficient for Castrol since they had lack of trust internally with hindered the company performance. But after that restructuring and reconsidering strategy the company can improve its performance since present year profit have declined comparing to previous year profit.. This can be solved by training and educational programmes for the staff paradigm of operation, recruitments of young, dynamic, innovative technical staff to infuse organisational culture.

Appendix 2

SWOT Analysis

Strengths

The Burmah Oil Company was founded in 1886 by Scottish entrepreneurs.

Operates petrochemical businesses worldwide through the network of its subsidiaries and retail brands

The passenger car engine oil business, which represented 75 per cent of total profits faced the prospect of more efficient engines oil suppliersCastrol strong brand loyalty for oil

Very successful developing world position, particularly in Asia Paci¬ﬁc.

Weaknesses

Castrol had some lack of belief internally, lack of belief externally and a possibly time-limited opportunity as a result of oil industry consolidation.

Some of the areas of business were suffering because of the dominant culture of the passenger car engine oil business.

Reduce in share price of Castrol

Opportunities

The strategic review identi¬)ed an underlying theme of industrial marketing and quality service as the core competences of the successful chemicals businesses.

Extension of strategic oil and gas acquisitions in North Sea area;

Launch of more flexible price policy to compete main rivals.

Threats

Environmentally unsound policies due to oil and toxic spills;

Possibilities for rendering the Chemicals portfolio as a whole more substantial and therefore more able to sit comfortably alongside Castrol

Ceasing operations in a number of potential locations with their further re-branding (Conoco);

Sale of corporate-owned stations;

Share price was sliced down to £7 which was the extremes of a dull range.

Since the passenger car engine oil business, which represented 75 per cent of total pro¬ts, faced the prospect of more efficient engines requiring longer and longer gaps between oil changes; and therefore of potential long-term volume decline.

Further lawsuits considering the company’s ecological activities.

Appendix 3

Industrial Environment analysis of Castrol by using Porter’s Five Forces model

The strongest competitive force or forces determine the profitability of an industry and become the most important to strategy formulation (Porter . M, 2008). Analysis by Porter’s five forces can be said that threat of new entrants is low due to huge capital and cutting-edge technology. Suppliers are weak because they are spread all over the world and cannot easily forward integrate. Buyers are weak due to low demand for non-consumer goods and high switching costs; moreover, buyers are not able to backward integrate. Substitutes are moderately strong due to different and less-expensive transportation facilities. On the other hand, intensity of rivalry is strong because of major players are dominant in the market by nearly same technology and manufacturing processes, suppliers relationship and distribution systems.

Treat from New entrance

Bargaining

Power of Buyers

Bargaining

Power of Suppliers

Revelry among

Competitors

Treat from Substitutes

Threat of New Entrants- The expansion of foreign competitors began to decrease the market of car companies. As the world is experiencing economic downturn there is a great opportunity for the low cost customers to enter into the market. The conference of customers towards the brand is the only barrier to entry the market.

Power of Suppliers – A lot of suppliers depend on a certain oil companies to buy a majority of their products. If Castrol decided to change suppliers it could be the end of the supplier’s business. Consequently, suppliers have little power. Castrol should have a tightly bound network of suppliers, and partly to hedge against the loss of key suppliers.

Threat from substitutes- There are oil companies such as BP, Shell, reliance etc which are the major competitor in the oil business market. Switching cost, change in buyer’s preferences and qualities of supply all create threat to Castrol Company.

Power of buyers – Castrol bargaining power of buyers, is quiet weak for Castrol and the entire automobile industry with a large number of alternative suppliers, hence, the aggressive pricing strategy.

The five forces analysis gives an improved understanding of the degree of competition within the business environment. The analysis shows that the automotive industry is highly competitive, with buyers possessing and exerting a very powerful influence to the large number of substitute brands available to them.

Appendix 4

PEST Analysis

POLITICAL

World energy markets are becoming more volatile due to the threat of geopolitical instability.

Greater climate destabilisations from CO_2 emissions are leading governments to encourage more sustainable forms of energy.

World energy markets are becoming more volatile due to the growing oil requirements of a buoyant Chinese economy, creating tension between nations

ECONOMIC

Economy is underpinned by its energy

Energy markets will see demand increasing by almost 60 percent, with fossil fuels meeting most of this, and nuclear and renewable energy markets having limited relative contribution

Alternative energy sources as a percentage of total energy supply are increasing and are expected to continue to do so.

SOCIAL

Kyoto Agreement, signed in 1992, has led to carbon funds (World Bank,) and emission trading in Europe and around the world, which is becoming a legal requirement.

People's worldview is starting to change to a concern over the sustainability of the future, although this is not expected to change dramatically to justify widespread changes to energy use for some time.

TECHNOLOGY

The International Energy Agency states that alternative energy markets will be underpinned by technological breakthroughs.

Research shows technology is the key to competitiveness in the alternative energy industry; whilst alternative energy technologies are underpinned by 48 critical success factors across technological, commercial, socio-political and organisational categories.

Appendix 5

Organisational structure

Castrol adopted an organisational structure that was significantly different from a traditional approach to reflect the new business environment in the mid 1997's. Unlike the structure of many modern structure oil companies they have adapted to their tradional approach because of it convenience. The Tim Steven at the company's level holds a position as the CEO of Board of Directors, and the manager was in charge of all other functions at Castrol. All functional heads at Castrol also hold the position of party secretary at that function. These, to a great degree, facilitate the coordination between the CEO and management at Castrol, particularly at the functional level.

The organisational structure that created for Castrol is shown in this figure,

CEO

Vice President (Production)

Vice President (Technology)

Vice President (Equipment)

oil making

oil rolling

Production office

Technology

Automation

Quality inspection

Equipment

Maintenance

Planning & Accounting

Materials Supply

Personnel

Chairman

Board of directors

50 country managers

Line manager

Regional director

Regional director

sident

Regional director

Regional director

Appendix 6

Value Chain analysis

Firm Infrastructure

(Administration, Salaries and Wages, Assets of BMW, After sale services)

Technology Development

(New models, Development of new technological programs)

Human Resource Management

(Recruitment and selection of qualified engineers and general managers, continuous training and development/ supervision)

Procurement

(Increase output of new models such as mini and Road rover)

Inbound Logistic

Getting contact with new supplier for back up and production of new models to attract different groups of customers

Operation

Carrying out activities such as acquiring technology and employing skill workers

Outbound Logistic

consumer loyalty created by quality

Marketing and Sales

Marketing is done by providing a Effective branding and establishes emotional contacts to the customers of Toyota

Appendix 7

Balance score card of Castrol

FINANCIAL PERFORMANCE

How should we appear to our shareholders?

Vision and strategy

LEARNING AND GROWTH PERPECTIVE:

To achieve our vision how should we sustain our ability to challenge improve?

CUSTOMER FOCUS:

How should we appear to our customers?

OPERATINGPERFORMANCE:

What business processes must we excel at?

The balanced scorecard is a performance measurement and management tool which is gaining in popularity and which is particularly useful for the implementation and assessment of strategy. The balanced scorecard is a comprehensive framework that translates an organization’s vision into a coherent set of strategic initiatives and performance measures.

Financial perspective

Burmah Castrol is in fact very much more than one homogenous business and indeed the Castrol Lubes business extends across a number of segments, each quite different in nature. Each business group is run independently from the others in Burmah Castrol and we have a strong tradition of local operating unit autonomy. Indeed, it is fair to say that we never operate as a centralized business and the size of our operating units runs right across the spectrum from the very small to the very large, as this chart of annual turnover illustrates. It have got 109 units, with an annual turnover of less than £5m and then move down the scale; 26 less than £10m; 20 at less than £15m; etc. And then go right up the scale and there is what we would see as mega units: 1 at £100m; 1 in the £200m range; and 2 in the £300m range.

Customer perspective

Castrol Consumer is world leader in the supply of car and motorcycle lubricants and services, marketing to workshops and retail chains, auto accessory stores and petrol stations. Principal products are engine oils, e. g. GTX, transmission ¬, uids and brake ¬, uids. To establish in today's market it's vital for every company to establish a strong relationship between customer and the company. Complete customer satisfaction is what is needed to achieve this relationship. Castrol should build a strong relationship that reflects their values as individuals and members of the society. And they always try to build relationships with customers based on mutual trust and loyalty.

Internal business process perspective

Castrol Commercial provides products and services principally to on and off-road vehicle ¬, eets. Off-road business includes vehi