Chevron oil industry analysis

Business

http://factsanddetails. com/world. php? itemid= 1541&catid= 51⊂catid= 326 Chevron: Industry Analysis Threat of New Entrants The threat of new entrants is extremely low due to several factors. First, the oil industry which consists of thousands of oil and oil service companies throughout the world is an extremely large market. “ According to the Department of Energy (DOE), Fossil fuels which include coal, oil, and natural gas make up more than 85% of the energy consumed in the U.

S. as of 2008″ (investopia). The fact that it is such a large market, make it very competitive for new entrants.

Also, the oil industry is already in the mature stage, dominated by many major players including Chevron that has been around for a long period of time with various locations worldwide. This shows that they have an established reputation that is hard to compete with. Also, there are several barriers to entry which make it a very competitive market.

These challenges include high capital cost, economies of scale, distribution channels, technology, environmental and governmental regulation as well as high levels of industry expertise.

According to the Turnkey Analyst, “ it is very difficult to build sustainable competitive advantages in the energy industry where oil’s commodity nature inhibits pricing power within the industry. Market participants are constantly required to invest capital to maintain cash flows and market share. ” Therefore, these barriers to entry make it hard for new players to enter the market. http://turnkeyanalyst.

com/2012/06/turnkey-research-note-chevron-corporation-nyse-cvx/ Rivalry among Existing Firms The oil industry is different from other due to the high demand for oil.

Despite being a national company, Chevron has many competitors including regional as well as independent companies. Chevron is among the second largest oil companies in the world. Its competitors are Exxon, Royal Dutch Shell and BP. (chevron).

Since oil is a commodity, the rivalry among existing firms is low. This is because there is not much of a differentiation. Threat of Substitute Products The threat of substitute is low. Substitutes for the oil industry would be alternative energy such as solar power, wind power, hydroelectricity or perhaps nuclear energy.

However, due to factors such as “ government regulations and environmental issues, nuclear and hydroelectric energy sources are not a threat within the next. Further, photovoltaic sources are limited by technological issues and geothermal sources are limited by geographic availability” (Miller).

These might be a potential threat in the future due to emerging technologies and innovation that may lead to less consumption of oil-based fuel. An example would be hybrid cars that will result in less dependency on oil services.

However, this shift in a more sustainable supply chain seems to be in the long term due to certain barriers such as high costs such as investments in new facilities. According to Chevron, “ fossil fuels will continue to have a prominent role in the world’s economy for decades to come in both transportation and electricity generation. According to the International Energy Agency, renewable energy will account for less than 20 percent of the energy mix in 2035.

” They believe that there will always be a demand for their products due to growth of the global economy and alternative energy sources do not seem to be a serious threat.

Another factor that shows that alternative energy is not a serious threat is the fact that there is not enough support from the government. “ Even though governments throughout the world are vowing to expand to green energy, they continue to give far more subsidies to fossil fuel than renewable – 10 to 12 times more, according to recent reports” (Wood). http://www. chevron.

com/documents/pdf/ChevronApproachtoAssessingClimateRegulationImpacts.

pdf http://www. renewableenergyworld. com/rea/news/article/2010/12/oil-and-renewables-slicing-up-the-subsidy-pie Bargaining Power of Suppliers

Within the global industry exist many companies but is dominated by a few major players. Due to large capital investment in these companies, they “ Supplier power is high because OPEC controls 40% of world’s supply of oil and, thus, has a strong influence on the price of oil” (Miller). Inspite of its size and scope, the oil industry is one of the most powerful in the world. Large companies such as Chevron control each aspect of the supply chain such as producing, refining, and drilling.

Due to capital investments, it allow for these oil companies to acquire and own each part of their supply chain.

The fact that they are their own customers give them more power allowing them to be more efficient. With all the their capital assets, they are able to obtain the resources such as operating their own macturing facilities, distribution channel giving them more control in this aspect. This shows that they have a high bargaining power. Their only supplier would be the oil reserves from oil producing countries.

Bargaining Power of Buyers The bargaining power of buyers (individual) is low because oil is a commodity. Despite rise in prices, people will continue to buy it in order to fulfill their needs such as driving.

With the lack of substitutes for oil, it gives little power to buyers who rely heavily on this resource. The cost of switching to another energy source is too high. Therefore, there is a high demand for oil which determines the market price. Industrial buyer power is also low because their supply can be limited by upstream suppliers.

(Miller) To conclude, the overall attractiveness of the oil industry is high because there is low threat of new entry as well as buyer power and threat of substitutes. Also, the fact that supplier power is high is a favorable since the few major players in the industry are both suppliers and buyers.