

# International marketing: the royal dutch shell



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The Royal Dutch Shell group of companies is an Anglo-Dutch group. It is a Global giant within its industry, operates within the Oil and Gas sector. Shell is mainly involved in the exploration and production, refining, marketing and distribution of oil and petroleum products. It is also a major player in the production and distribution of Chemical products.

The company is composed of The Shell Transport and Trading Company PLC (UK) and Royal Dutch Petroleum Company (Netherlands). These two companies together hold the 40% and 60% of all the Shell's subsidiaries.

Below mentioned are the major subsidiaries of Shell:

Shell Petroleum NV (Netherlands)

Shell Petroleum Company Ltd. (UK)

Shell Petroleum Inc. (USA)

These subsidiaries and the subsidiaries operating under them or the operating subsidiaries are governed by Shell International.

The major operating subsidiaries can be listed as follows:

Exploration and Production.

Oil Production.

Chemicals (production and distribution combined)

Gas and Power or Electricity generation.

Other smaller subsidiaries or rather divisions are Hydrogen, Coal, Forestry and Renewables. Shell disposed off or divested the Coal, Hydrogen and Forestry business in the year 2003.

Over the years, Shell has successfully come to be seen as a company seeking to grow and expand very rapidly, and since the withdrawal from the Global Climate Coalition group in 1998, Shell has tried hard to brand itself as a caring, green company.

Shell at a Glance:

The following figures for the year 2008 summarize Shell and its place on the Global Platform.

Over 140 countries where Shell operates.

102, 000 number of employees.

It accounts for 2% of the world's oil production.

It accounts for 3% of the world's gas production.

3. 2 million Barrels of gas and oil it produces every day.

It has over 45, 000 service stations worldwide.

10 million customers buy its transport fuel each day.

Over 25 refineries and chemical plants.

In the year 2009, it ranked first in the Fortune 500 list of companies, in terms of revenue generated (\$458. 4 billion).

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## History and Controversies:

Shell was formed by brothers Marcus and Sam Samuel as 'The "Shell" Transport and Trading Company, Ltd'. Which was first registered in London in the year 1887. Now public limited company (PLC).

The 'Royal Dutch Company for Exploitation of Petroleum Wells in the Netherlands East Indies' was the company first formed and registered in The Hague, in the year 1890. They later abbreviated the name to 'Royal Dutch Petroleum Company' in the year 1949.

The Royal-Dutch and The Shell joint venture was established in the year 1903, giving rise to the formation of a new company The Asiatic Petroleum Company. In the year 1907, both the companies decided to merge all their assets on a 60-40 basis, i. e. 60% Royal-Dutch, 40% Shell. Despite this merger, both companies continued to operate as separate entities, meaning people could buy shares of either The Royal-Dutch or Shell, but not as a group.

In the year 1912, they formed the American Gasoline Company, to sell gasoline along the Pacific coastline and formed the Roxanna Petroleum to buy oil in Oklahoma. The United States operations have grown ever since. And in the year 2000, 34% of earnings through exploration and production and 4% from distribution have come from the U. S.

Shell's Chemical Business has seen a rise in its growth since the year 1928, when Shell Development Company was established to identify which chemical products could be manufactured from gasoline refineries. Since

then, it has been heavily involved in the production and distribution of such products. The Chemical Business is mainly governed by a separate, The Shell Chemical Company.

Shell pioneered the CO<sub>2</sub> injection technology in the year 1972, which is now being considered a tool or branded as a solution to climate change. This branding has considerably helped Shell portray its image as an Eco Friendly Corporate Civilian. Twenty three years after in the year 1995, Shell developed a The Shell Learning Centre, 40 min North of Houston. As Shell puts it, it is conceived to develop “ out of the box, free thinking”.

This out of the box free thinking agenda, put Shell in a spot in the year 1995, when Nigerian writer Ken Saro Wiwa, along with him eight other Ogoni were hanged by the Nigerian authorities “ for speaking out against the environmental damage to the Niger Delta caused by Shell Oil”.

Other than this, Shell also suffered when in April 1995, Greenpeace Activists occupied the Brent Spar Platform. It contained tonnes of toxic waste plus radio active bi-products, after years of unregulated dumping. Shell’s relationship with the UK Department of Trade and Industry (DTI), made sure Shell got the approval with no hassles and little or no regulation. In fact, DTI refused to accept the written protest letters from Greenpeace and the case went on for over three years.

After this case concluded in November 1998, European Countries surrounding the North Sea have developed strict regulatory norms on dumping, avoiding such a situation to arise again and to prevent the misuse of our seas.

In 2001 Phil Watts replaced Sir Mark Moody Stuart as chairman of the board of Shell transport and Trading.

Brand Name and its Significance:

Shell brand is one of the most recognised brands in the world. The version of the design was presented by Raymond Loewy and introduced in the year 1971. Known as the “ Pecten”, after the sea shell Pecten maximus, on which the current design is based.

The colours yellow and red represents its relation with Spain. Shell built an early service centre in California, which shares strong connection with Spain.

“ Royal-Dutch/Shell”, became “ Royal Dutch Shell” in the year 2004, i. e. the Slash separating the two was officially taken off, suggesting the two have now become a single legal business unit that exists to this day.

Business:

Shell is the Europe’s largest and a major player globally in terms of the petrochemical industry.

Shell has five core businesses

Exploration and Production (the “ upstream”)

Gas and power

Refining and Marketing (the “ downstream”)

Chemicals (the “ downstream”)

Trading and Shipping.

Shell's primary business is management of its oil company. Ensure technical and commercial expertise in every phase of its operation. From the exploration, transportation, refining, distributing and marketing channels. Every stage of development requires a level of competence and should be handled with the highest standards.

These are the core competencies on which the oil industry is based. Similar such competencies are employed for natural gas as well, which has now become one of the most important business in which Shell is involved, contributing a significant proportion of the companies profits.

Shell is a Vertically Integrated Business unit. This type of business model provides a significant amount of economies of scale and a very high barrier to entry. The only down fall is that there is not much correlation between separate business units. Each unit functions as a separate business, generating its own profits and with little or no communication with the other counterparts. And here lies a risk of the company being split into individual smaller companies.

Major Projects:

Being a global giant and to meet Asia's growing oil demand, Shell is currently involved in these projects.

Athabasca Oil Sands Project - Canada: The Athabasca Oil Sands Project (AOSP) extracts bitumen from oil sands and converts it to synthetic crude oil.

Gumusut-Kakap: Shell's first deepwater opportunity in Malaysia.

Port Arthur Refinery: Expanding to become one of the largest US refineries.

### **Diversification:**

Shell over the years has sought out to diversify away from its core business and invest in projects other than oil and gas. These diversifications have been short-lived ventures however, Shell remains optimistic about its approach towards innovation and growth.

Nuclear power (a short-lived and costly joint venture with Gulf Oil in the USA)

Coal (Shell Coal was for a time a significant player in mining and marketing);

metals (Shell acquired the Dutch metals-mining company Billiton in 1970)

Electricity generation (a joint venture with Bechtel called Intergen).

All these diversifications have now been divested. Currently Shell is involved in large-scale hydrogen projects. HydrogenForecast.com describes Shell's approach as "baby steps", but with an underlying message of "extreme optimism".

Financial Performance:

Ranked First in the Fortune 500 list of companies, in terms of revenue generated \$458.4 billion.

Royal Dutch Shell's first quarter 2009 earnings, on a current cost of supplies (CCS) basis, were \$3.3 billion compared to \$7.8 billion a year ago. Basic



CCS earnings per share decreased by 57% versus the same quarter a year ago.

Cash flow from operating activities for the first quarter 2009 was \$7.6 billion. Net capital investment for the quarter was \$6.9 billion.

Total cash returned to shareholders in the form of dividends was \$2.4 billion.

A first quarter 2009 dividend has been announced of \$0.42 per share, an increase of 5% over the US dollar dividend for the same period in 2008.

Royal Dutch Shell Chief Executive Jeroen van der Veer commented:

“ First quarter 2009 performance was affected by the weaker global economy, with a

challenging Upstream and Downstream business environment. As we announced

previously, our dividend for first quarter 2009 will be \$0.42 per share, an increase of

5%. We continue to make significant investments in the company for future profitability. Industry conditions remain challenging, and our focus is on capital

discipline and costs. We are taking a prudent approach to this downturn, focused on

sustaining a strong position in the energy landscape. Shell people, operational

excellence, good investments and technology are our cornerstones for the future.”

Major Competitors and Market Share (2007):

Marketing Strategy:

Shell is one of the biggest players in the fuel industry, so it's only fair it teams up with the biggest fuel guzzling giants.

Shell and Ferrari:

Shell's expertise in fuel and oil development has helped Ferrari get 12 FIA, (Formula One Drivers' titles and 10 Constructors' titles). The developments and learning are taken directly from the race track and transferred directly to products for every customer's car.

Shell and NASCAR, Shell and Ducati:

Shell's expertise in fuel and oil development has helped NASCAR and Ducati drivers achieve the maximum efficiency from their engines, enable overdrive and considerably reduce accidents caused due to engine failure.

Such partnerships ensure the brand name Shell is maintained and both partners gain from each others legacy.

Research and Development:

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Shell employs 30, 000 technical staff in centers across 11 countries.

Shell's capital investment in research and development for the year 2008 was over \$1. 2 Billion, more than any other major oil company. Shell has always been known to diversify; this is visible from the recent past. It has also suffered heavy losses because of such tendencies. However, it realizes the fact that research and development is the need for the day, which will give it the edge it needs over its competitors and will help brand itself as an Eco friendly corporate citizen.

It is due to its research programs that Shell has managed to lower its Greenhouse emissions by 30% in the year 2008. And it predicts that by the year 2100, Greenhouse emissions could be lowered up to 55%, by capturing and storing CO2 underground.

Conclusion and Recommendations:

Although Shell recorded highest revenues in the year 2009, its profit was far lower when compared to its closest competitor Exxon Mobile. Exxon Mobile also employs staff capacity less than Shell and is still able to reap in more profit figures.

Thus, what we conclude from this is that,

Shell lacks efficiency when comparing its key performance indicators with its competitors.

Shell group should undertake a holistic review of its overall strategy as to how to improve performance so as to avoid the problem of strategic drift.

An effective benchmarking on its close competitors could help to improve performance in the areas of profitability, efficiency and alternative energy.