

An evaluation of
strategic choices for
bhp billiton
management essay



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This report explains the evaluation and business strategies pursued by BHP Billiton in order to ensure strategic growth in a cut-throat competitive market environment. This article will help in building the understanding regarding the Merger, Acquisitions and Joint ventures as the necessary tools to gain the competitive edge as well critical analysis of emerging new markets and key threats to the company. Finally the report concludes the strategies being implemented by the company for ensuring growth as well further recommendations are drawn based on the analysis and inference regarding the different strategies implemented by the company.

2. COMPANY OVERVIEW

BHP Billiton is the world's biggest mining company. It is also the biggest company in Australia by market capitalization. BHP was built-in 1885 while Billiton was also a mining company formed in 1860.

In 2001, Billiton merged with the Broken Hill Proprietary Company (BHP) to form BHP Billiton. BHP Billiton had a mysterious ability of altering and adapting to new opportunities and challenges.

BHP Billiton is engaged in the innovation, growth, manufacture and promotion of iron ore, coal, copper, oil and gas, diamonds, silver, lead, zinc and a wide variety of other natural resources. BHP Billiton is also a market leader in value-added flat steel goods.

After the merger between BHP and Billiton in 2001, Brian Gilbertson of Billiton was selected the first CEO of BHP Billiton but in 2003, just six months later, he resigned due to incompatible differences with the boards.

After Gilbertson's resignation, Chip Goodyear was elected as the new CEO.
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He worked on this post until his retirement on 30 September 2007. Marius Kloppers is the current CEO of BHP Billiton.

BHP Billiton is comprised of three main functioning businesses – minerals, petroleum and steel. BHP Billiton's headquarter is in Melbourne, Australia, while the other main offices are in

London, Perth, Johannesburg, Santiago, Singapore,

Shanghai, Houston and The Hague. BHP Billiton has around 30, 000 employees worldwide. BHP is listed in stock exchanges in Australia, UK, Germany, New Zealand, Switzerland and the US.

3. Introduction

“ According to John & Frank Strategy is about issues and perspectives on problems-there is no single, prescriptive doctrine which satisfies everyone's view” (Strategic Management, 2005). In general perspective strategy is the pathway which ensures the growth for an organisation with the help of utilization of the organization resources with the right resources as well with right surrounding helping in planning the long term objectives to gain competitive edge over the marketplace.

What is Business Strategy

For a proper functioning of a business, a right kind of strategy should be adopted and implemented. Strategy plays a vital role for any business as it formulates the plan and directions which are required to guide a firm to manage its crisis as well profitable period. It is very much necessary and crucial for a company to have a different and impactful strategy in order to outshine the competitors and to be a market leader.

A company need to implement a strategy which is useful and beneficial for its business functions for ensuring overall growth of the company. There is no point or intention for a business or production to operate if they fail to achieve their goals and or strive or struggle to reach their objectives. An example to support the strategy would be a upward sales trend figures of a company as the company is achieving its goals and objectives by implementing new strategies. To survive in industry for long the company should make strategy for long term in order to sustain the market competiton.

According to Evelina " Business strategy has been looked in by different names such as cutthroat strategy, promotion strategies, growth and development strategy, trademark strategy, , Information technology development strategies, talent development strategy, Reserve and surplus development strategy, and many more." (Christensen & Evelina, 2008).

3. 1. Mergers and Acquisition for BHP Billiton

This article will highlight how the mergers and acquisitions is being utilized and used as a growth strategy for making company position better as well to gain competitive edge by implementing different business strategies. The mergers and acquisitions are analyzed based on ansoff matrix which includes four basic strategies which are market development, market penetration, product development and diversification,(Thomson and Frank, 2005).

Merger-BHP and Billiton- 29 June 2001

BHP Limited (BHP) and Billiton Plc (Billiton) today formally completed their merger, creating the world's leading diversified resources group, to be called as BHP Billiton. After the merger BHP Billiton will have \$38 billion enterprise value with the excellent asset base of low cost and elongated life operations with outstanding an countryside diversifications

According to BHP Billiton Managing Director and CEO Paul Anderson the merged Group gained monetary strength, global scope and improved skills to bring foremost expansion opportunities and significance to shareholders, clientele, and personnel after the merger took place.

Reasons & Analysis: BHP and Billiton agreed upon a merger and adopted a strategic expansion and development strategy for the sustainable cutthroat benefit for future aspects. The main reason for the merger has been the portfolio of interest of both the companies. BHP has been involved in oil and gas, aluminum, copper, nickel, iron ore, manganese, metallurgical coal and energy coal. On the contrary Billiton has been involved in petroleum, copper, and steel.

In the ray of above analysis, it can be concluded that the merger of BHP and Billiton has been an example of one of the proficient and successful management of a merger strategy aimed at growth of the firm. It has been highlighted that the key underlying reason for the merger has been to create a consolidated firm that has diversified resources that do not conflict with each other, rather strengthen each other's acquired and developed resources. The portfolio of interest of both the companies were the key

driving factors that have led to the creation of BHP Billiton a strong mining company that can withstand external environment changes and impacts of any foreseeable economic situations. It should however been noted that the merger was faced with typical issues related with corporate culture, motivation, communication and employee relations. It should be noted that the company has been able to create sustainable competitive advantage with the help of this integration of resources and competencies of the two firms.

3. 2 Acquisition-1

BHP Billiton- Athabasca Potash Inc- 23 March 2010

BHP Billiton Canada Inc. (BHP Billiton) today announced that it has completed the previously announced acquisition, pursuant to a Plan of Arrangement, of all the issued and outstanding common shares of Athabasca Potash Inc (API) for C\$8. 35 cash per common share. This acquisition provides BHP Billiton with 100 per cent control of the Burr project and various additional potash exploration properties in Saskatchewan, Canada. BHP Billiton now has access to a total of more than 14, 000 km² of prospective exploration ground in the world-class Saskatchewan potash basin.

Reason & Analysis: As said by Graham Kerr President-BHP Billiton diamonds and specialty products in a statement the reason behind this acquisition was to give a strong base to BHP Billiton's by choosing the strategy of building a strong potash resource position.

The main strategy behind this acquisition by BHP Billiton would be strong resource base as well future growth for company in different market, due to economic crisis the potash market demand increased in 2007 as well declined 2008 which led farmers to reduce fertilizer and manure usage. The market is still sheathing and recovering nevertheless it's predictable that it will considerably recover in 2010 and ensure the profit margin in this market according to BHP. From BHP point of view it would be a Market development in Canada.

(Source: <http://www.miningweekly.com/article/bhp-billiton-to-buy-canadian-potash-junior-2010-01-28>,

<http://www.canadianminingjournal.com/issues/story.aspx?aid=1000357267>).

Acquisition 2- BHP-WMC Resource, 2nd August 2005

BHP Billiton announced a US\$7.3 billion agreed bid for another mining company WMC Resources in March 2005 with cash offer of A\$7.85 per share, owners of the Olympic Dam copper, gold & uranium mine in South Australia, nickel operations in Western Australia and Queensland, and a fertilizer plant also in Queensland. The takeover achieved 90% acceptance on 17 June 2005, and 100% ownership was announced on 2 August 2005, achieved through compulsory acquisition of the last 10% of the shares.

(Source: <http://www.azom.com/news.asp?newsID=2649>)

Reason & Analysis: The reason behind this acquisition is the further step in BHP Billiton's policy or strategy of operating, mounting and to maximize the

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performance of large scale, long-life, low-cost assets. In this acquisition can be considered as Market Penetration in China as it provides additional premium long-term options to satisfy continuing demand growth in China and other high-growth economies.

3.3 Joint Ventures

Joint Venture 1- Rio Tinto and BHP Billiton, Western Australian Iron Ore Production Joint Venture, 5 June 2009

Rio Tinto and BHP Billiton signed a non-binding agreement to set up or establish a production joint venture covering the whole and entirety of both companies' Western Australian iron ore assets. The joint venture will encompass all current and future Western Australian iron ore assets and liabilities and will be owned 50: 50 by BHP Billiton and Rio Tinto. The joint venture is expected to unlock significant value from the companies' overlapping, world-class resources. Both companies believe the net present value of these unique production and development synergies will be in excess of US\$10 billion (100 per cent basis). These substantial synergies are anticipated to come from mixing and combining contiguous mines into sole activity or operations, reduction in cost through smaller rail hauls and port capacity effective and efficient location. BHP Billiton will pay Rio Tinto US\$5.8 billion for equity type interests at financial close to take its interest in the joint venture from 45 per cent to 50 per cent.

Reason & Analysis: The strategy behind this joint venture is to bring together world-class iron ore resources, infrastructure and people, unlocks large synergies and is an outstanding outcome for all stakeholders and to be able

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to serve growing international markets with unparalleled efficiency.”. It can be well thought-out as Market Penetration in International Markets by strengthening its position with the help of Rio tinto Joint Venture as well growth strategy to be a market leader by Blending opportunities which will maximize product recovery and provide further operating efficiencies, Optimizing future growth opportunities through the development of consolidated, larger and more capital efficient expansion projects, Combining the management, procurement and general overhead activities into a single entity.

BHP Billiton Announces New Iron Ore Joint Venture and US\$9 Billion Sales Contracts with China

1 March 2004

Under the Wheelara joint venture, the four mills, Wuhan Iron and Steel Corp, Maanshan Iron and Steel Company, Jiangsu Shagang Group and Tangshan Iron and Steel (group) Co, will take a 40 per cent stake in a sublease of BHP Billiton’s Jimblebar mine near Newman under an undisclosed commercial arrangement. The sublease covers about 175 million tonnes of the Jimblebar resource known as Wheelara. BHP Billiton’s existing Japanese partners in the Newman joint venture, CI Minerals Australia and Mitsui, will take 4. 8 per cent and 4. 2 per cent of the sublease respectively, leaving BHP Billiton with a controlling 51 per cent.

Reason & analysis: The main strategy behind this joint venture is to provide long-term security of supply for our partners and is an important step in BHP Billiton’s strategy to maintain global iron ore market share and ensure we are a continuing part of China’s extraordinary growth and development over <https://assignbuster.com/an-evaluation-of-strategic-choices-for-bhp-billiton-management-essay/>

the long term. It could be considered again Market Development as BHP Billiton is moving to Chinese market to capitalize on soaring Chinese demand of Australian mineral commodities i, e Iron Ore.

3. Key Threats to BHP Billiton

The mainstream to facilitate emphasis with regards to key threats of BHP Billiton is the Environmental Issues as well global financial crisis and economic conditions. The worldwide financial system plays an vital role on the status of any universal, worldwide, or confined production markets, mainly on the subject matter of business fiscal report. Additionally, a ferocious antagonism and challenge in the midst of related businesses can be a power of risk to the firm. Furthermore, the local financial and marketplace policies can be a threat to a firms craving of venturing and exploring into business industry especially to countries whose economy is not open for business ventures. The global financial crisis also creates a threat to the company as it evaluates the company's current positions in terms of financial stability, resources and as well scalability of the production. This article highlights as well analyse the key threat faced by BHP Billiton and its impact over the company position.

Impact of Key threat over BHP Billiton- Environmental Issues

BHP Billiton is one of the foremost and leading manufacturers of energy-oriented goods and products such as gas, uranium, liquefied natural gas oil and energy coal. Energy is also a vital contribution in the collection and assembling of processing and mining operations. Contribution towards Global warming, climate change and green house effects is consumed by fossil fuel-

based energy from the emission of Carbon dioxide (CO₂). The regulatory changes have been implemented and introduced in order to tackle the impact of climatic changes by many government authorities. Kyoto Protocol of December 1997 recognized a set of greenhouse gas emanation and emission targets for urbanized countries that have endorsed or approved the protocol. In January 2005 “ The European Union Emissions Trading System (EU ETS)” which came as a result, had a collision or impact over greenhouse gas and energy-intensive businesses and industries situated in the European Union (EU). BHP Billiton’s gasoline and petroleum assets in the UK are currently subject to the EU ETS. To address environmental and climatic change, the introduction of national emissions trading scheme by 2010 has been announced by Australian Government and an obligatory and mandatory renewable energy target of twenty percent (20%) by the year 2020 has been implemented. Due to impact of Environmental threat, the recent and up-and-coming, emerging environmental change regulation have affected the demand and margins for carbon intensive products in the other regions for the company. The agreement and compliance costs and in some cases remedial costs could increase the firms’ equipped and operational costs which in turn could affect and influence its operating margins and limitations. As a result, these regulatory and dogmatic mechanisms could adversely crash the cost, scalability of production and financial performance of the BHP Billiton company operations. (source: [www. datamonitor. com](http://www.datamonitor.com), 2010)

Hence in the light of above analysis it can be analyzed that the key threat has a major impact over BHP Billiton which could in turn affect the company

financial performance. One of a important key threat is also economic downturn or global financial crisis due to which BHP Billiton closed the nickel mine at Ravensthorpe, Western Australia, as well closure of Pinto Valley mine in the United States which also resulted in laying off over six thousand employees as well restricting or scaling back few projects.

4. Emerging New International Markets

BHP Billiton can trace its origins back into the 19th century as a mineral explorer and mining company in Australia and Europe. Up until the 1970's, the company had focused its operations within Australia – a politically stable democracy governed by the rule of law. However the very nature of natural resources and mineral deposits means that they are often located in remote locations or close enough to urban centres at prevents exploitation. Natural resources that are in easily accessible locations have largely been discovered and exploited and it is these driving reasons which prompted BHP Billiton to begin to look at opportunities globally from the 1970's. This was done by a combination of acquisitions and mergers, joint ventures and grass roots exploration projects mainly in the US and Chile and represented expansion into then emerging and foreign markets. Today the company still views this strategy as a key component within its business model and actively looks for opportunities around the globe as represented by its presence in more than 100 countries.

Today, however the task is even more difficult as more and more companies are looking for and extracting more and more mineral deposits pushing the frontiers of mineral exploration further and further into countries and

locations that would not normally be seen as attractive investment opportunities. Today's emerging markets like China, India, Brazil, Russia all consume large amounts of natural resources and BHP Billiton's products have been sold to these countries for many years without necessarily operating there. However for a mineral deposit to be financially viable, one of the largest overheads in the operations is transporting to the goods to market and so to remain competitive, new resources need to be located as close to these markets as possible forcing exploration activities into these areas.

Operating in countries that have a less robust government system or who have a history of instability or even war poses many challenges to companies accustomed to working in the 1st world. One major area of concern is long term political instability in countries when the life cycle of a project of the size to interest a company like BHP is typically 50 years +. The Mozal Aluminium smelter in Mozambique is one example where a previously unstable and war torn African country was chosen as the location for long term, high expenditure project, the initial phase of the project being valued at US\$1. 34 billion. The country is looking to rebuild itself after independence and civil war and has embraced a more open market attitude since the collapse of communism. Aluminium is supplied from BHP's aluminium projects in Australia and in October 2007 reached 3, 000, 000 tonnes of aluminium sales.

In Cambodia however, BHP projects looking for bauxite (aluminium ore) encountered problems with allegations of bribery and corruption, In countries where bribery is normal business practice completely at odds to the ways <https://assignbuster.com/an-evaluation-of-strategic-choices-for-bhp-billiton-management-essay/>

and practices of large multi national companies, getting work done on a day to day basis can prove extremely difficult and frustrating and the temptation to “ grease the wheels” can be high. The Cambodian case alleged that numerous payments were made to local officials totalling up to \$US3. 5 million. Fraud investigations from the UK commenced and countries such as the US, Australia and the EU have strict laws against this practice.

Natural resources involves extracting materials from the land which can have a very personal and deep seated feeling for the local communities, many of which, given the locations of the deposits can be tradition, indigenous tribes people. This is another area where potential problems can arise if any issues that arise are dealt with quickly. On a Phillipine island, BHP were exploring for nickel but encountered significant kick back from the local population who felt as though they were not kept update or even told the full details regarding the mining of the deposit. Such feelings arise when the local population have physiological and or psychological ownership of the land and such require a relevant share of the revenue generated. In addition to this, again there were allegations of bribery and corruption as well as environmental concerns over the extraction process.

In general, BHP has been successful in entering new markets. The nature of the industry indicates that the company cannot simply choose emerging markets in which to develop resources if the right type of resources do not exist in those areas, however strategic location of projects close to emerging markets, good transportation links and power supplies can and have been used to make management decisions on where to operate and focus

resources. It is, more importantly the decision as to which commodities to
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development and which commodities are likely to be consumed by emerging markets which are more important than operating within these countries themselves. Developing countries like China consume very large quantities of iron in the building of infrastructure, cities and so focusing on iron exploration in order to capture market share in this of vital importance. On the contrary, exploring for ilmenite, which is primarily used in the pigmentation of white paints tends to come into demand further down the development process of a country when cities have become more established, wealthy and money can be spent on more cosmetic goods. Hence the reasons why certain BHP projects like the ilmenite Corridor Sands project in Mozambique is of a lower priority than iron or aluminium projects.

6. Conclusive Remarks

In the ray of above analysis and inferences drawn, it can be concluded that the merger of BHP and Billiton has been an example of one of the effective and efficient management of a merger strategy aimed at growth of the firm. The article also highlights the key essential and underlying reason for the mergers, acquisitions and Joint Ventures which have been created for a consolidated and merged firm that has wide-spread as well diversified funds and resources that do not clash or conflict with each other, rather reinforce each other's acquired and urbanized or developed resources.

We can also conclude that the financial, asset and bid strategy of BHP Billiton is mainly emphasized and characterized by acquisition especially the return-focus of the acquiring company. It is also obvious that BHP only wanted to gain or acquire the profits streams and asset and benefit potential of their targets such as WMC Acquisitions. On the other hand, in the merger <https://assignbuster.com/an-evaluation-of-strategic-choices-for-bhp-billiton-management-essay/>

deal between BHP and Billiton was more appropriate and calm with the pact because the influential members of BHP were stepping or going down and Billiton wanted to reduce or minimise its financial and economic risks.

Finally we can conclude by entering into potential emerging markets specially in china BHP Billiton have gained market share in mining industry as well become market leader in its field of business.

Recommendations

The mineral examination and development business is a very risky endeavor whether the company is huge as BHP Billiton or even it is supported by the government. Oil spill can costs indefinite litigation fees and clearing costs while change in customer demands affects commodity prices which makes the income streams of BHP very volatile. As a result, acquiring quality assets in a diversified portfolio and geographically separated areas will not only provide stable returns and growth potential to BHP but more importantly hedge its business and financial risks in the ambiguous future of the industry. Their tenet is to invest in asset and capital when commodity prices and industry events are positive, so that comes an adverse situation, they can easily get out of danger through a diversified portfolio by implementing various strategies in form of mergers, acquisitions and joint venture and even by rectifying the key threats t the company as well entering into emerging markets and reduce its operational cost and increase in its productivity.

Finally in this cut throat market competition in today's world now BHP will

have to look into the current issues and threats to company and make <https://assignbuster.com/an-evaluation-of-strategic-choices-for-bhp-billiton-management-essay/>

strategies which will help them grow more as well create more value to their company as well help them deal with the financial down turn