

The merger of british petroleum and amoco



BP Plc founded 1909, is the parent company of BP group of companies and its business is finding, producing and marketing natural energy resources (FAME). BP PLC is the worlds largest integrated oil company and was formed in 1998 from the merger of British Petroleum and Amoco. BP is the largest oil and gas producer in the United States, and has the capacity to refine over 3 million barrels of oil per day. BP is also a major manufacturer of petrochemicals and specialty chemical and operates over 25, 000 petrol/gas stations, most being in the U. S. A. As a significant player in player in Russian oil assets with the Alfa Group and Access-Renova to great TNK-BP, Russias third largest oil company. (MINTEL, online).

BP operates in more than 80 countries and operates two segments; Exploration and Operations, Refining and Marketing. The oil and gas industry is divided into three major sectors: Upstream, Midstream and Downstream. BP operates the Upstream which include field development, oil and natural gas exploration and production, and Midstream activities include processing activities and pipeline transportation. (Datamonitor, online).

The oil and gas industry highlights increasing volatility of the global energy market that is driven by factors like demand alternative energy, demographics etc. Therefore, this analysis is to evaluate the attractiveness of the industry and competitiveness of BP, business strategy as well as its Resources and Capabilities that creates competitive advantage over its competitors or peers.

This analysis is aimed at assessing the internal and external environmental factors influencing the business activities and strategies of BP over the past

five years and will appraise the survival of BP. Also, analysis of the analysis of the resources and capabilities over the past five years demonstrating the extent to which BP has aligned such resources and capabilities effectively to gain competitive advantage over its competitors within the oil and gas industry.

1. 1. Competitive environment

The Environment is everything and everyone outside the organisation: competitors, customers, Government etc, and in order to analyse the environment, it is important to start with some basic factors surrounding the environment (Lynch R, 2006: 78, 80). These include the market share and level of intensity of competition. The environmental analysis is carried out using porter's five analysis frame work.

1. 1. 1. Market share

Oil and gas industry in the UK play an important role in supplying the company's energy needs with oil production amounting to 517million barrels an 58billion cubic metres of gas production which satisfied 94% and 68% consumption respectively in 2009. The UK is the largest producer of oil and gas in Europe after Norway and 15th largest of gas and 19th largest oil producer in 2009. 6. 4 billion pounds was paid as tax representing 20% of total corporation tax paid by all businesses to HM Revenues and custom in 2009-2010 fiscal years. (Oil and gas UK economic report, 2010).

1. 1. 2. Market position

BP PLC is a global oil and gas company, one of the six super majors in UK. BP is the third largest energy company in UK and in world rating, it's the fourth largest oil company measured by its revenues. BP has operations in approximately 80 countries worldwide and produces about 3.8 million barrels of oil equivalent per day and 22,400 service stations worldwide, with the largest division BP America (Hargreaves Lansdown)

2. 0. Porter's five forces

An examination of the factors influencing an industry is a general way to begin the industry analysis and such a study is used to develop the competitive advantage of the organisation to enable it defeat its rivals. (Lynch, 2006: 93). This is often called Porter's five analyses and it identifies five basic forces that can act on the organisation.

2. 1. Barrier's of entry

Entry barrier in the oil and gas industry is high owing to high fixed or capital cost and economics of scale; Government policies and requirements to operate in the industry. Economics of scale gives incumbent more market shares as much as possible to be profitable. The merger of Amoco and British petroleum to form BP gives BP a larger economics of in the oil industry. New entrants will have to overcome the incumbent cost advantage so as to increase the market share. Challenges from the EU and UK Government to making significant reduction in use of renewable sources of power generation makes it difficult to get licences to operate in the industry. (UK Gas Report, 2010).

2. 2. Bargaining power of Suppliers

The UK oil and gas industry is dominated by few companies amongst all oil companies (oil prices-online) and suppliers which are equipment and service providers are large, highly diversified companies; this afford them more bargaining power within the market. Some of the suppliers of the suppliers to BP include: TMK, Schlumberger, Halliburton, KCA Deutag, Catobneft, interpipe etc. (TNK-BP online). The insufficient or reduced amount of suppliers to the industry and their importance, increases supplier power (energy business daily, 2010. online). The supplier power is HIGH.

2. 3. Buyer power:

The buyer power is moderate. BP and it competitors in the oil and gas industry produce and refine oil as a commodity and not much difference in their products. Power tend to shift to buyers as they seek lower prices and better contract terms but this only applies to buyers of high volume and individual consumers tend to have very low negotiating power. Oil and gas producing companies are involved in broad scale international operations increasing the size and vertical nature which grant them power over buyers (energy business daily, 2010). The energy companies, chemical companies and manufacturing industries are major buyers of large volume, which boost their power. (Oil and gas in Europe, 2010).

2. 4. Threat of Substitute

The alternative to oil and gas are Biofuels, wind, solar, carbon capture and sequestration. BP has invested 4 billion dollars on alternative energy since

2006. (BP annual report 2009). The High operation cost required meeting the needs of renewable energy consumption and production makes its threat as alternative to oil and gas LOW

2. 5. Competitive rivalry

High exit barriers in the oil and gas industry make competition high.

Oligopoly exist in the oil industry as it is dominated by some few super majors like shell, BP, ExxonMobil, etc. These companies have large scale operations, and reduced activities in alternative industry, as a result create a high level of rivalry (energy business daily, 2010).

The industry is attractive as the five forces are not high. $\frac{1}{2}$ Porter $\frac{1}{2}$ s argued that where all five forces are high, the industry will not be attractive as competition and pressure will be too much to allow profit $\frac{1}{2}$. (Johnson et al, 2008: 60).

3. 0. Strategic group analysis

$\frac{1}{2}$ Strategic group are organisations within an industry or sector with similar strategic or competing on similar bases $\frac{1}{2}$ (Johnson et al, 2008: 73). The oil and gas industry companies are vertically integrated in energy and technology and the existence of oligopoly in the industry makes it to be dominated by few companies that compete with similar strategy. Shell is a diverse company in oil and gas exploration and production, power generation, manufacturing, marketing and shipping of oil products and chemicals. It also has diversified its operation to renewable energy, including wind and solar power projects. Shell operates in approximately 140 countries

within the globe and operates its single brand retail network serving in more than 90 countries. Shell's fuel products include; shell V-power, V-power racing, V-power diesel and pura (FAME, online). BP's operations are highly diversified and vertically integrated, with operations in over 80 countries. Its products include Aral, Amoco, Arco and Castrol Brands. Companies like Chevron, ExxonMobil, ConocoPhillips and Total find, develop, and produce petroleum and natural gas. Manufacture and market fuel and lubricant products trade transport and distribute petroleum and products (FAME, online). Thus, BP and shell are operating with similar strategies by diversifying into BP renewable and shell solar power and are highly integrated in brands and service operating with a maximum efficiency to cut cost of operation

4. 0. BP business strategy using Porter's generic strategy

Generic business strategy gives an industry the particular structure of its competitive ground and advantage versus its competitors that result above average profitability. (Hill and Jones, 2010: 155) Porter argued that there three generic strategies open to any business: cost leader, differentiation and focus. (Lynch, 2006: 451). A cost leader represents the low cost producer in the industry who must find and exploit all sources of cost advantages (Johnson et al, 2008: 232). Differentiation occurs when the product of an industry meet the needs of certain customers in the market better than others. (Lynch, 2006: 453). BP operations are diversified, offering different oil products to the market such as bitumen and LPG (business source complete, 2010) and active gas power and solar power generation. (FAME, 2010). BP reduces its risk by diversifying its operations. BP on a

regular basis reviews its portfolio to improve resource allocation within its strategic and financial framework. This is achieved by divesting some of its business operations such as its fuel marketing units in Namibia, Botswana and Zambia to Puma energy (BP- online), BP west java subsidiary to Pertamina, Indonesia (your oil and gas news-online), and fuel marketing business in Greece to Hellenic petroleum for \$500M. BP has controlled its total cash cost of operations to a minimum by cutting jobs and cost. In 2009, Upstream 12% lower compared to 2008; downstream 15% lower and group as a whole around 60% equivalent to \$4bn. In October 2009, BP chief executive Tony Hayward, $\frac{1}{2}$ warned that “ productivity and efficiency” drives would result in “ materially higher” redundancies than the 5, 000 the company had already announced $\frac{1}{2}$ (The independent, 2009) . $\frac{1}{2}$ BP released Q309 results in October 2009, reporting replacement cost profit (RCP) of US\$4. 98bn, a 50% drop from US\$10. 03bn achieved in Q308 $\frac{1}{2}$ as a result of its cost strategy (business source complete, 2010). BP therefore operates as a low cost leader as it focuses on maximizing profit by cutting cost of operations. Though Grant, (2008) also described the situation where a firm attempts to achieve both cost leadership and differentiation strategies as $\frac{1}{2}$ stacked in the middle $\frac{1}{2}$. BP differentiated by diversifying its operations and BP is vertically integrated into Gas and petrol stations, motor oil and lubricants, which gives it significant competitive advantage in the industry. (Datamonitor, 2010).

5. 0. Resources and Capabilities

John et al (1995) defined strategic capabilities as $\frac{1}{2}$ the resources and competencies of an organisation needed for it to survive and prosper $\frac{1}{2}$. This

could be analysed using several frameworks: Resource Based View holds that firm can earn sustainable, supernormal returns if only they have superior resources and those resources are protected by some form of isolating mechanism preventing their diffusion throughout their industry (Barney, 1986); and Bieger Wengerfelt(1984) suggests that there can be firm-level differences among firms which allows them to sustain competitive advantage.

The value chain of a company links the value of its activities to its main functional parts Porter1998 cited in Lynch (2003). The primary activities are directly concerned with creation or delivery of a product or service (Johnson et al 2008). Therefore the resources and capabilities of BP are analysed below using porter's value chain analysis. BP operates in the upstream that includes exploration and production and downstream activities are refining and marketing.

5. 1. Exploration and production: holds a unique position in exploration in the oil and gas industry. In 2009, BP made the Tiber discovery in the deepwater Gulf of Mexico by drilling the deepest oil and gas well (BP annual review 2009). In May 2008, BP discovered oil at block 16/23, located 230KM N/E offshore Aberdeen and the block is operated by BP(77%) alongside Eni UK(16. 67%) and petro summit investment (62. 7%)(business source complete). In 2009, Bp also discovered the ultra deep water Block 31 in Angola and the natural gas with Ellice J27 well in Canada. Bp was successful in assessing new resource opportunities in Indonesia, Iraq (Rumalia), Egypt, Jordan, and West Papua (Block land 111) (BP Annual review). Bp production in Thunder Horse field in the Gulf of Mexico has grown from 240, 000

barrels of oil equivalent per day in 2007 to above 400, 000 barrels of oil per day in 2009 (Bp Annual Review) and production in Trinidad from Savonette, Atlantis Phase 2, Dorado and King South. BP also discovered gas in Hodoa, located in West Mediterranean Deepwater, Nile delta concession off Egypt in November 2010. BP operates and holds 80% of the concession and RWE Dea holds 20% (offshore technology, 2010). Therefore, BP create value by extracting and operating globally with maximum efficiency in its extraction process and this lower cost, which leads to BP's competitive advantage.

5. 2. Marketing and Refining: Refining (operations) and marketing activity is accountable for the supply and trading, refining, manufacturing, marketing and transportation of Crude oil, and related services to wholesale and retail customers(BP 2010). In 2008, refining and marketing turned in an unexpected US\$1. 2bn profit, despite lower margins and throughput (oil and gas insight, 2008). Value is added through an innovative simulation exercise known as FVCs and IBs. Fuel Value Chains integrate activities of refining, marketing logistics, supply and trading in regional areas. The international businesses (IBs) include the manufacturing, supply and marketing of lubricants, aviation fuels and Liquefied Petroleum Gas (BP-Refining &marketing). BP's refining segment also transport Crude oil and petrochemical products and other services to customers (wholesale and retail) through the Aral, Amoco, Arco and Castrol Brands (UK finance, 2010). As part of BPs marketing strategy, it signed a contract in June 2008 to be the official fuel supplier for the 2010 FIFA World Cup. This enormous supply and distribution network create great efficiency and lowers cost for BP outbound logistics.

5. 3. Supportive activities of the $\frac{1}{2}$ value chain provide inputs that allow the primary activities to take place $\frac{1}{2}$ (hill and Jones,). BP Plc supportive activities include research and development (R&D), human resources management and BP infrastructure.

5. 4. Research and Development: – Bp is valued globally in deep waters for its innovation in research and development. Bp prioritized its research and development and technology investment. In 2009 Bp maximized new resources and 60% of its oil production was supported by Bright WaterTM and LoyalTM Technology, which pushes out oil from reservoir with water. This delivered more than 9million barrels at a development cost less than US\$6 per barrel (BP annual review, 2009). However, according to Bps vice president on technology states that Bp invests into targeted R&D which gives Bp the highest growth in the oil and gas industry. Thus, BP $\frac{1}{2}$ s focus on R&D by developing new technologies generates efficient processes and operations which make it cost effective.

5. 5. Human resource management: Human Resource planning helps an organisation to integrate key Human Resource practices to enhance and meet the performance needs of business strategy (Bratton and Gold, 2007: 199). BP acknowledge the values of HR management to employee development and in view of this was the first company to sign its HR business outsourcing in 1998 (HROA, 2009). BP also in 2008 was among eight companies that signed in the skill pledge recommended in the leitch review of skills; by committing to support employees attain a minimum level 2 qualification (personnel today, 2008)

5. 6. Government relations: The UK government in its bid to protect wild life has cut back licences of oil and gas exploration in UK (BBC online, 2010). BP has a good government relationship as this is confirmed by the award of seven offshore exploration licences on 3rd November, 2010 in UK 26th several licensing round and an award of 100% interest in the North arafura oil and gas production sharing contract in papua province of Indonesia on 26th November, 2010 (oilvoice online, 2010).

6. 0. Conclusion

This paper has analysed the business environment, strategic group, porter's generic strategy and the value chain of British petroleum within the oil and gas industry and its approach to attain competitive advantage. Currently, BP is diversifying its portfolio by adding the combination of renewable gas projects to oil and gas exploration and drilling. Despite the high level of competition in the UK oil and gas industry, this report clearly demonstrates how BP totally leverages on its achieved excellence and reputation in R&D. The application of new forms of technology has significantly reduced the cost of operation which is in connection with BP's strategy. Despite the level of competition in the industry, BP has attained success over the years and the recently awarded licences to drill in the North Sea, Indonesia and Egypt is a great opportunity for BP to increase its